

WEX Inc.  
Form 10-Q  
October 31, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 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

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WEX INC.

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

01-0526993  
(I.R.S. Employer  
Identification No.)

97 Darling Avenue, South Portland, Maine  
(Address of principal executive offices)  
(207) 773-8171

04106  
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

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

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

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| Class                                    | Outstanding at October 24, 2013 |
|--|---------------------------------|
| Common Stock, \$0.01 par value per share | 38,875,635 shares               |

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SIGNATURE

## 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)

|   | September 30,<br>2013 | December 31,<br>2012<br>(As Adjusted) |
|---|-----------------------|---------------------------------------|
| Assets  |                       |                                       |
| Cash and cash equivalents   | \$391,171             | \$197,662                             |
| Accounts receivable (less reserve for credit losses of \$8,954 in 2013 and \$11,709 in 2012)  | 1,913,614             | 1,556,275                             |
| Available-for-sale securities   | 16,208                | 16,350                                |
| Fuel price derivatives, at fair value   | 488                   | —                                     |
| Property, equipment and capitalized software (net of accumulated depreciation of \$139,684 in 2013 and \$125,659 in 2012)                                       | 70,097                | 60,097                                |
| Deferred income taxes, net  | 92,693                | 121,007                               |
| Goodwill  | 824,307               | 847,986                               |
| Other intangible assets, net  | 209,074               | 241,950                               |
| Other assets  | 139,805               | 90,538                                |
| Total assets  | \$3,657,457           | \$3,131,865                           |
| Liabilities and Stockholders' Equity  |                       |                                       |
| Accounts payable  | \$706,927             | \$527,838                             |
| Accrued expenses  | 79,754                | 67,419                                |
| Income taxes payable  | 14,228                | 10,038                                |
| Deposits  | 1,158,196             | 890,345                               |
| Borrowed federal funds  | —                     | 48,400                                |
| Revolving line-of-credit facilities and term loan   | 288,750               | 621,000                               |
| Deferred income taxes, net  | 11,464                | 18,407                                |
| Notes outstanding   | 400,000               | —                                     |
| Amounts due under tax receivable agreement  | 79,705                | 86,550                                |
| Fuel price derivatives, at fair value   | 983                   | 1,729                                 |
| Other liabilities   | 15,822                | 20,546                                |
| Total liabilities   | 2,755,829             | 2,292,272                             |
| Commitments and contingencies (Note 14)   |                       |                                       |
| Redeemable noncontrolling interest (Note 11)  | 19,762                | 21,662                                |
| Stockholders' Equity  |                       |                                       |
| Common stock \$0.01 par value; 175,000 shares authorized; 42,897 in 2013 and 42,586 in 2012 shares issued; 38,982 in 2013 and 38,908 in 2012 shares outstanding | 429                   | 426                                   |
| Additional paid-in capital  | 166,615               | 162,470                               |
| Retained earnings   | 845,051               | 730,311                               |
| Accumulated other comprehensive income  | 337                   | 37,379                                |
| Less treasury stock at cost; 4,007 shares in 2013 and 3,766 in 2012   | (130,566)             | (112,655)                             |
| Total stockholders' equity  | 881,866               | 817,931                               |
| Total liabilities and stockholders' equity  | \$3,657,457           | \$3,131,865                           |
| 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<br>September 30, |            | Nine months ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2013                                | 2012       | 2013                               | 2012       |
| Revenues  |                                     |            |                                    |            |
| Fleet payment solutions   | \$136,874                           | \$117,877  | \$393,953                          | \$341,709  |
| Other payment solutions   | 54,651                              | 43,090     | 141,227                            | 112,444    |
| Total revenues  | 191,525                             | 160,967    | 535,180                            | 454,153    |
| Expenses  |                                     |            |                                    |            |
| Salary and other personnel  | 41,469                              | 28,823     | 122,193                            | 87,501     |
| Service fees  | 29,352                              | 28,968     | 79,765                             | 74,046     |
| Provision for credit losses   | 5,015                               | 5,647      | 13,686                             | 14,874     |
| Technology leasing and support  | 6,799                               | 4,577      | 18,712                             | 13,718     |
| Occupancy and equipment   | 3,822                               | 3,032      | 11,818                             | 9,062      |
| Depreciation, amortization and impairment                                       | 14,160                              | 27,877     | 43,268                             | 50,591     |
| Operating interest expense  | 976                                 | 1,243      | 3,205                              | 3,430      |
| Cost of hardware and equipment sold   | 1,055                               | 759        | 3,266                              | 2,270      |
| Other   | 10,984                              | 8,764      | 33,763                             | 26,541     |
| Total operating expenses  | 113,632                             | 109,690    | 329,676                            | 282,033    |
| Operating income  | 77,893                              | 51,277     | 205,504                            | 172,120    |
| Financing interest expense  | (7,369)                             | ) (2,302)  | ) (22,077)                         | ) (6,877)  |
| Gain (loss) on foreign currency transactions                                    | 2,968                               | 180        | 1,708                              | (312)      |
| Net realized and unrealized loss on fuel price derivatives                      | (3,640)                             | ) (14,026) | ) (2,781)                          | ) (12,046) |
| Decrease in tax refund due to former shareholders of RD Card Holdings Australia | —                                   | —          | —                                  | 9,750      |
| Decrease in amount due under tax receivable agreement                           | 150                                 | —          | 150                                | —          |
| Income before income taxes  | 70,002                              | 35,129     | 182,504                            | 162,635    |
| Income taxes  | 26,224                              | 20,845     | 68,097                             | 94,780     |
| Net income  | 43,778                              | 14,284     | 114,407                            | 67,855     |
| Less: Net loss from noncontrolling interest                                     | (60)                                | ) (14)     | ) (333)                            | ) (14)     |
| Net earnings attributable to WEX Inc.   | \$43,838                            | \$14,298   | \$114,740                          | \$67,869   |
| Net earnings attributable to WEX Inc. per share:                                |                                     |            |                                    |            |
| Basic   | \$1.12                              | \$0.37     | \$2.95                             | \$1.75     |
| Diluted   | \$1.12                              | \$0.37     | \$2.93                             | \$1.74     |
| Weighted average common shares outstanding:                                     |                                     |            |                                    |            |
| Basic   | 38,978                              | 38,793     | 38,934                             | 38,832     |
| Diluted   | 39,081                              | 38,995     | 39,102                             | 39,084     |
| 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<br>September 30, |          | Nine months ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2013                                | 2012     | 2013                               | 2012     |
| Net income   | \$43,778                            | \$14,284 | \$114,407                          | \$67,855 |
| Changes in available-for-sale securities, net of tax effect<br>of \$(43) and \$(289) in 2013 and \$27 and \$68 in 2012 | (73                                 | ) 44     | (492                               | ) 114    |
| Changes in interest rate swap, net of tax effect of \$35 for<br>the nine months ended 2012                             | —                                   | —        | —                                  | 60       |
| Foreign currency translation   | 7,856                               | 9,229    | (38,117                            | ) 7,412  |
| Comprehensive income   | 51,561                              | 23,557   | 75,798                             | 75,441   |
| Less: comprehensive income (loss) attributable to<br>noncontrolling interest   | 112                                 | 209      | (1,900                             | ) 209    |
| Comprehensive income attributable to WEX Inc.  | \$51,449                            | \$23,348 | \$77,698                           | \$75,232 |
| 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 |                  |                               | Accumulated                             | Treasury    | Retained  | Total                   |
|---|--------------|------------------|-------------------------------|---|-------------|-----------|-------------------------|
|   | Shares       | Amount<br>at par | Additional<br>Paid-in Capital | Other<br>Comprehensive<br>Income (Loss) | Stock       | Earnings  | Stockholders'<br>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                      | 136          | 1                | 1,862                         | —                                       | —           | —         | 1,863                   |
| Tax benefit from employees' stock option and restricted stock units     | —            | —                | 3,049                         | —                                       | —           | —         | 3,049                   |
| Stock issued to employees for vesting of restricted stock units         | 100          | 1                | —                             | —                                       | —           | —         | 1                       |
| Stock-based compensation, net of share repurchases for tax withholdings | —            | —                | 5,865                         | —                                       | —           | —         | 5,865                   |
| Purchase of shares of treasury stock                                    | —            | —                | —                             | —                                       | (11,288 )   | —         | (11,288 )               |
| Changes in available-for-sale securities, net of tax effect of \$68     | —            | —                | —                             | 114                                     | —           | —         | 114                     |
| Changes in interest rate swaps, net of tax effect of \$35               | —            | —                | —                             | 60                                      | —           | —         | 60                      |
| Foreign currency translation  | —            | —                | —                             | 7,189                                   | —           | —         | 7,189                   |
| Net earnings attributable to WEX Inc.                                   | —            | —                | —                             | —                                       | —           | 67,869    | 67,869                  |
| Balance at September 30, 2012   | 42,488       | \$ 425           | \$ 157,058                    | \$ 37,951                               | \$(112,655) | \$701,258 | \$ 784,037              |
| 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                      | 70           | 1                | 1,671                         | —                                       | —           | —         | 1,672                   |
| Tax benefit from employees' stock option and restricted stock units     | —            | —                | 6,509                         | —                                       | —           | —         | 6,509                   |
| Stock issued to employees for vesting of restricted stock units         | 241          | 2                | (2 )                          | —                                       | —           | —         | —                       |
| Stock-based compensation, net of share repurchases for tax withholdings | —            | —                | (4,033 )                      | —                                       | —           | —         | (4,033 )                |
| Purchase of shares of treasury stock                                    | —            | —                | —                             | —                                       | (17,911 )   | —         | (17,911 )               |
| Changes in available-for-sale securities, net of tax effect of \$(289)  | —            | —                | —                             | (492 )                                  | —           | —         | (492 )                  |
| Foreign currency translation  | —            | —                | —                             | (36,550 )                               | —           | —         | (36,550 )               |
| Net earnings attributable to WEX Inc.                                   | —            | —                | —                             | —                                       | —           | 114,740   | 114,740                 |
| Balance at September 30, 2013   | 42,897       | \$ 429           | \$ 166,615                    | \$ 337                                  | \$(130,566) | \$845,051 | \$ 881,866              |

See notes to unaudited condensed consolidated financial statements.

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## WEX INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|  | Nine months ended<br>September 30, |            |
|--|------------------------------------|------------|
|  | 2013                               | 2012       |
| Cash flows from operating activities   |                                    |            |
| Net income   | \$ 114,407                         | \$ 67,855  |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                                    |            |
| Fair value change of fuel price derivatives  | (1,234                             | ) 1,841    |
| Stock-based compensation   | 6,882                              | 8,806      |
| Depreciation, amortization and impairment  | 45,021                             | 35,604     |
| Goodwill impairment  | —                                  | 16,171     |
| Deferred taxes   | 23,207                             | 35,392     |
| Provision for credit losses  | 13,686                             | 14,874     |
| Loss on disposal of property, equipment and capitalized software                             | 637                                | —          |
| Changes in operating assets and liabilities, net of effects of acquisition:                  |                                    |            |
| Accounts receivable  | (384,715                           | ) (306,350 |
| Other assets   | (39,289                            | ) (55,572  |
| Accounts payable   | 185,284                            | 163,203    |
| Accrued expenses   | 13,030                             | (5,755     |
| Income taxes   | 5,463                              | 16,904     |
| Other liabilities  | (826                               | ) (12,034  |
| Amounts due under tax receivable agreement   | (6,841                             | ) (6,245   |
| Net cash used for operating activities   | (25,288                            | ) (25,306  |
| Cash flows from investing activities   |                                    |            |
| Purchases of property, equipment and capitalized software                                    | (30,122                            | ) (21,796  |
| Purchases of available-for-sale securities   | (1,704                             | ) (224     |
| Maturities of available-for-sale securities  | 1,065                              | 1,228      |
| Acquisitions, net of cash  | —                                  | (26,217    |
| Net cash used for investing activities   | (30,761                            | ) (47,009  |
| Cash flows from financing activities   |                                    |            |
| Excess tax benefits from equity instrument share-based payment arrangements                  | 6,509                              | 3,049      |
| Repurchase of share-based awards to satisfy tax withholdings                                 | (10,917                            | ) (2,941   |
| Proceeds from stock option exercises   | 1,671                              | 1,862      |
| Net change in deposits   | 267,859                            | 512,456    |
| Net change in borrowed federal funds   | (48,400                            | ) (6,900   |
| Other financing debt   | (3,003                             | ) (19,560  |
| Loan origination fee   | (12,023                            | ) —        |
| Borrowings on notes outstanding  | 400,000                            | —          |
| Net activity on 2011 revolving line-of-credit  | (438,500                           | ) 12,200   |
| Net activity on 2011 term loan   | (182,500                           | ) (7,500   |
| Net activity on 2013 term loan   | 288,750                            | —          |
| Purchase of shares of treasury stock   | (17,911                            | ) (11,288  |
| Net cash provided by financing activities  | 251,535                            | 481,378    |
| Effect of exchange rate changes on cash and cash equivalents                                 | (1,977                             | ) 449      |

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|  |           |           |
|--|-----------|-----------|
| Net change in cash and cash equivalents        | 193,509   | 409,512   |
| Cash and cash equivalents, beginning of period | 197,662   | 25,791    |
| Cash and cash equivalents, end of period       | \$391,171 | \$435,303 |
| Supplemental cash flow information             |           |           |
| Interest paid                                  | \$20,291  | \$9,676   |
| Income taxes paid                              | \$33,013  | \$39,455  |
| Significant non-cash transactions              |           |           |
| Reduction of rapid! – estimated earn out       | \$—       | \$839     |
| Acquisition of UNIK - estimated earn out       | \$—       | \$991     |
| Increase in UNIK – estimated earn out          | \$198     | \$—       |

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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 nine months ended September 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 Company adjusted the balance sheet amounts at December 31, 2012, where appropriate, to account for the measurement period adjustments related to the CorporatePay, UNIK and Fleet One purchase price allocations discussed in Note 3, Business Acquisitions, below.

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 flows 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 condensed consolidated balance sheet.

The notes outstanding as of September 30, 2013, have a carrying value of \$400,000 and fair value of \$360,000. The fair value is based on market rates for the issuance of debt.

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 a net operating loss ("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 when adopted in 2014.

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.

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

## 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 GBP17,000 (US\$27,783 at the time of the acquisition), net of cash acquired. The Company purchased CorporatePay to expand its Other Payment Solutions 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 obtained information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the CorporatePay acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2012 comparative information resulting in an increase in accounts receivable of \$508, a decrease in deferred taxes of \$32, an increase in intangible assets of \$140, a decrease in goodwill of \$247, and an increase in accrued expenses of \$369. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The valuations of all assets and liabilities have been finalized.

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

|  |          |
|--|----------|
| Consideration paid (net of cash)         | \$27,783 |
| Less:                                    |          |
| Accounts receivable                      | 1,585    |
| Accounts payable                         | (629)    |
| Other tangible liabilities, net          | (4,040)  |
| Acquired software <sup>(a)</sup>         | 8,233    |
| Customer relationships <sup>(b)</sup>    | 1,614    |
| Trademarks and trade name <sup>(c)</sup> | 1,453    |
| Recorded goodwill                        | \$19,567 |

(a) Weighted average life – 6.2 years.

(b) Weighted average life – 6.3 years.

(c) Weighted average life – 5.3 years.

## 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 Solutions 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 September 30, 2013, UNIK has approximately US\$6,764 of financing debt, classified in other liabilities on the Company’s condensed 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. 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

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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noncontrolling shareholders and is presented in the mezzanine section on the Company's condensed consolidated balance sheets. During the third quarter of 2013, the Company obtained information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the UNIK acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2012 comparative information resulting in an increase in deferred taxes of \$2,243, an increase in goodwill of \$4,355, and an increase in accrued expenses of \$6,598. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The valuations of all assets and liabilities have been finalized.

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

|   |          |   |
|---|----------|---|
| 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                             | (36,866) | ) |
| Acquired software <sup>(a)</sup>                            | 14,193   |   |
| Customer relationships <sup>(b)</sup>                       | 15,171   |   |
| Trademarks and trade name <sup>(c)</sup>                    | 1,272    |   |
| Recorded goodwill   | \$28,375 |   |

<sup>(a)</sup> Weighted average life – 6.2 years.

<sup>(b)</sup> Weighted average life – 5.9 years.

<sup>(c)</sup> Weighted average life – 5.5 years.

## 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. During the third quarter of 2013, the Company obtained information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the Fleet One acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2012 comparative information resulting in an decrease in accounts receivable of \$47, an increase in deferred taxes of \$261, a decrease in goodwill of \$407, a decrease in taxes payable of \$113 and a decrease in accrued expenses of \$80. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The valuations of all assets and liabilities have been finalized.

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

|  |           |   |
|--|-----------|---|
| Consideration paid (net of cash)         | \$376,258 |   |
| Less:                                    |           |   |
| Accounts receivable                      | 152,527   |   |
| Accounts payable                         | (151,647) | ) |
| Other tangible liabilities, net          | (693)     | ) |
| Acquired software <sup>(a)</sup>         | 35,000    |   |
| Customer relationships <sup>(b)</sup>    | 74,000    |   |
| Trademarks and trade name <sup>(c)</sup> | 4,000     |   |

Recorded goodwill

\$263,071

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(a) Weighted average life – 6.7 years.

(b) Weighted average life – 5.5 years.

(c) Weighted average life – 5.5 years.

## 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<br>as of September 30, 2013, and September 30, 2012 |  |                        |                        |   |             |
|---|--|------------------------|------------------------|---|-------------|
|   | Current<br>and Less<br>Than 30<br>Days Past<br>Due | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Greater<br>Than<br>90 Days<br>Past<br>Due | Total       |
| 2013  |  |                        |                        |   |             |
| Accounts receivable, trade  | \$1,852,563  | \$50,691               | \$10,718               | \$8,596                                   | \$1,922,568 |
| Percent of total  | 96.4   | % 2.6                  | % 0.6                  | % 0.4                                     | %           |
| 2012  |  |                        |                        |   |             |
| Accounts receivable, trade  | \$1,595,483  | \$32,031               | \$6,123                | \$7,130                                   | \$1,640,767 |
| Percent of total  | 97.2   | % 2.0                  | % 0.4                  | % 0.4                                     | %           |

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

| Nine months ended<br>September 30,           |          |          |
|--|----------|----------|
|  | 2013     | 2012     |
| Balance, beginning of period                 | \$11,709 | \$11,526 |
| Provision for credit losses                  | 13,686   | 14,874   |
| Charge-offs                                  | (21,150) | (20,397) |
| Recoveries of amounts previously charged-off | 5,031    | 4,065    |
| Currency translation                         | (322)    | —        |
| Balance, end of period                       | \$8,954  | \$10,068 |

## 5. Goodwill and Other Intangible Assets

## Goodwill

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

|  | Fleet Payment<br>Solutions<br>Segment | Other<br>Payment<br>Solutions<br>Segment | Total     |
|--|---------------------------------------|--|-----------|
| Gross goodwill, January 1, 2013, as adjusted | \$779,654                             | \$85,840                                 | \$865,494 |
| Impact of foreign currency translation       | (21,123)                              | (2,556)                                  | (23,679)  |
| Gross goodwill, September 30, 2013           | 758,531                               | 83,284                                   | 841,815   |

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|  |           |           |           |   |
|--|-----------|-----------|-----------|---|
| Accumulated impairment, September 30, 2013 | (1,337    | ) (16,171 | ) (17,508 | ) |
| Net goodwill, September 30, 2013           | \$757,194 | \$67,113  | \$824,307 |   |

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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The Company had no impairments to goodwill during the nine months ended September 30, 2013.

## Other Intangible Assets

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

|                                    | Net<br>Carrying<br>Amount,<br>January 1,<br>2013<br>(As adjusted) | Transfer from<br>indefinite-lived<br>intangible assets<br>to definite-lived<br>intangible assets | Amortization | Impact of<br>foreign<br>currency<br>translation | Net Carrying<br>Amount,<br>September 30,<br>2013 |
|------------------------------------|---|--|--------------|---|--|
| Definite-lived intangible assets   |   |  |              |   |  |
| Acquired software                  | \$71,343  | \$—  | \$(6,350)    | \$(1,584)                                       | \$63,409   |
| Customer relationships             | 150,290   | —  | (17,264)     | (5,819)   | 127,207  |
| Patent                             | 2,365   | —  | (341)        | (176)   | 1,848  |
| Trade names                        | 7,407   | 2,421  | (609)        | (116)   | 9,103  |
| Indefinite-lived intangible assets |   |  |              |   | —  |
| Trademarks and trade names         | 10,545  | (2,421)  | —            | (617)   | 7,507  |
| Total                              | \$241,950   | \$—  | \$(24,564)   | \$(8,312)                                       | \$209,074  |

The Company adjusted the balance sheet amount for goodwill and intangible assets at December 31, 2012, to account for the measurement period adjustments related to the CorporatePay, UNIK and Fleet One purchase price allocations. During the third quarter of 2013, the Company determined that the intangible asset recorded for the trade name associated with Wright Express Corporation should be reclassified from an indefinite-lived intangible asset to a definite-lived intangible asset due to the current re-branding efforts of changing from the Wright Express brand to the WEX brand initiated domestically and abroad. The Company determined a 10 year life would be appropriate in conjunction with the re-branding strategy initiated during the third quarter of this year.

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 | \$8,188  |
| 2014           | \$31,541 |
| 2015           | \$28,918 |
| 2016           | \$25,360 |
| 2017           | \$21,625 |
| 2018           | \$18,606 |

Other intangible assets consist of the following:

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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|                                    | September 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                  | \$84,023              | \$(20,614)               | \$ 63,409           | \$86,527              | \$(15,184)               | \$ 71,343           |
| Non-compete agreement              | 100                   | (100)                    | —                   | 100                   | (100)                    | —                   |
| Customer relationships             | 192,846               | (65,639)                 | 127,207             | 202,061               | (51,771)                 | 150,290             |
| Patent                             | 3,083                 | (1,235)                  | 1,848               | 3,430                 | (1,065)                  | 2,365               |
| Trademarks and trade names         | 10,137                | (1,034)                  | 9,103               | 7,827                 | (420)                    | 7,407               |
|                                    | \$290,189             | \$(88,622)               | 201,567             | \$299,945             | \$(68,540)               | 231,405             |
| Indefinite-lived intangible assets |                       |                          |                     |                       |                          |                     |
| Trademarks and trade names         |                       |                          | 7,507               |                       |                          | 10,545              |
| Total                              |                       |                          | \$ 209,074          |                       |                          | \$ 241,950          |

## 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 nine months ended September 30, 2013 and 2012:

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2013                                | 2012     | 2013                               | 2012     |
| Net earnings attributable to WEX Inc. available for common stockholders – Basic and Diluted | \$43,838                            | \$14,298 | \$114,740                          | \$67,869 |
| Weighted average common shares outstanding – Basic  | 38,978                              | 38,793   | 38,934                             | 38,832   |
| Unvested restricted stock units   | 74                                  | 96       | 125                                | 130      |
| Stock options   | 29                                  | 106      | 43                                 | 122      |
| Weighted average common shares outstanding – Diluted  | 39,081                              | 38,995   | 39,102                             | 39,084   |

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 risk managed by using derivative instruments is commodity price risk. The Company 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. In 2010, the Company entered into an interest rate swap arrangement designed as a cash flow hedge to reduce a portion of the variability of the interest payments under the existing credit agreement borrowings. The interest rate swap agreement expired in March of 2012.

Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company designates interest rate swap arrangements as cash flow hedges of the forecasted interest payments on a portion of its variable-rate credit agreement. The Company's fuel price derivative instruments do not qualify for hedge accounting treatment under current guidance, and therefore, no such hedging designation has been made. Because the derivatives are either accounting or economic hedges of operational exposures, cash flows from the settlement of such contracts are included in "Cash flows from operating activities" on the condensed consolidated statements of cash flows.

Cash Flow Hedges

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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 September 30, 2013, the Company had no outstanding cash flow hedges.

**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 September 30, 2013, the Company had the following put and call option contracts which settle on a monthly basis:

|   | Aggregate<br>Notional<br>Amount<br>(gallons) <sup>(a)</sup> |
|---|---|
| Fuel price derivative instruments – unleaded fuel   |   |
| Option contracts settling October 2013 – March 2015 | 36,953  |
| Fuel price derivative instruments – diesel          |   |
| Option contracts settling October 2013 – March 2015 | 17,402  |
| Total fuel price derivative instruments             | 54,355  |

The settlement of the put and call option contracts is based upon the New York Mercantile Exchange's New York

<sup>(a)</sup> 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.

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

|   | Derivatives Classified as Assets      |       |                                       |       | Derivatives Classified as Liabilities |       |                                       |         |
|---|---------------------------------------|-------|---------------------------------------|-------|---------------------------------------|-------|---------------------------------------|---------|
|   | September 30, 2013                    |       | December 31, 2012                     |       | September 30, 2013                    |       | December 31, 2012                     |         |
|   | Balance                               | Fair  | Balance                               | Fair  | Balance                               | Fair  | Balance                               | Fair    |
|   | Sheet                                 | Value | Sheet                                 | Value | Sheet                                 | Value | Sheet                                 | Value   |
|   | Location                              |       | Location                              |       | Location                              |       | Location                              |         |
| Derivatives Not Designated as Hedging Instruments |                                       |       |                                       |       |                                       |       |                                       |         |
| Commodity contracts                               | Fuel price derivatives, at fair value | \$488 | Fuel price derivatives, at fair value | —     | Fuel price derivatives, at fair value | \$983 | 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 condensed consolidated statements of income:

|   | Location of Gain or (Loss)<br>Recognized in<br>Income on Derivative | Amount of Gain or (Loss)<br>Recognized in<br>Income on Derivative<br>Three months ended |
|---|---|---|
| Derivatives Not Designated as Hedging Instruments |   | September 30, 2013      2012  |
| Commodity contracts                               | Net realized and unrealized loss on fuel price derivatives          | \$(3,640)      \$(14,026)   |



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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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|  | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) <sup>(a)</sup> |       | 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) Nine months ended September 30, 2013 2012 |           | Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) <sup>(b)</sup> | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Nine months ended September 30, 2013 2012 |      |
|--|---|-------|--|--|-----------|---|--|------|
|  | 2013  | 2012  |  | 2013   | 2012      |   | 2013   | 2012 |
| Derivatives in Cash Flow Hedging Relationships |   |       |  |  |           |   |  |      |
| Interest rate contracts                        | \$ —  | \$ 60 | Financing interest expense   | \$ —   | \$ (109 ) | Financing interest expense  | \$ —   | \$ — |

| Derivatives Not Designated as Hedging Instruments | Amount of Gain or (Loss) Recognized in Income on Derivative |      | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |             |
|---|---|------|---|---|-------------|
|   | 2013  | 2012 |   | 2013  | 2012        |
| Commodity contracts                               |   |      | Net realized and unrealized loss on fuel price derivatives    | \$(2,781 )  | \$(12,046 ) |

<sup>(a)</sup> The amount of gain or (loss) recognized in other comprehensive income ("OCI") on the Company's interest rate swap arrangements has been recorded net of tax impact of \$35 in 2012.

<sup>(b)</sup> 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, described below.

## \$400 Million Note Offering

On January 18, 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 18, 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 18, 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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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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 up to 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 up to 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.

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.

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

Level 1 – Quoted prices for identical instruments in active markets.

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

Level 3 – Instruments whose significant value drivers are unobservable.

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

|   | September<br>30, 2013 | Fair Value Measurements<br>at Reporting Date Using<br>Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|-----------------------|---|---|--|
| <b>Assets:</b>  |                       |   |   |  |
| Mortgage-backed securities                                | \$867                 | \$—   | \$867   | \$—  |
| Asset-backed securities                                   | 1,490                 | —   | 1,490   | —  |
| Municipal bonds   | 535                   | —   | 535   | —  |
| Equity securities   | 13,316                | 13,316  | —   | —  |
| Total available-for-sale securities                       | \$16,208              | \$13,316  | \$2,892   | \$—  |
| Executive deferred compensation plan trust <sup>(a)</sup> | \$4,048               | \$4,048   | \$—   | \$—  |
| Fuel price derivatives – unleaded fuel <sup>(b)</sup>     | \$22                  | \$—   | \$22  | \$—  |
| <b>Liabilities:</b>                                       |                       |   |   |  |
| Fuel price derivatives – diesel <sup>(b)</sup>            | 517                   | —   | —   | 517  |

<sup>(a)</sup> The fair value of these instruments is recorded in other assets.

<sup>(b)</sup> The balance sheet presentation combines unleaded fuel and diesel fuel positions.

The Notes outstanding at September 30, 2013, have a carrying value of \$400,000 and fair value of \$360,000. The fair value is based on market rates for the issuance of debt.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

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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:

|   | December<br>31, 2012 | Fair Value Measurements<br>at Reporting Date Using<br>Quoted Prices Significant<br>in Active Markets for<br>Identical Assets<br>(Level 1) |  |         | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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 <sup>(a)</sup> | \$2,921              | \$2,921   |  | \$—     |  | \$—  |
| Liabilities:  |                      |   |  |         |  |  |
| Fuel price derivatives – unleaded fuel <sup>(b)</sup>     | \$1,622              | \$—   |  | \$1,622 |  | \$—  |
| Fuel price derivatives – diesel <sup>(b)</sup>            | 107                  | —   |  | —       |  | 107  |
| Total fuel price derivatives                              | \$1,729              | \$—   |  | \$1,622 |  | \$107  |
| Contingent consideration <sup>(c)</sup>                   | \$313                | —   |  | —       |  | \$313  |

<sup>(a)</sup> The fair value of these instruments is recorded in other assets.

<sup>(b)</sup> The balance sheet presentation combines unleaded fuel and diesel fuel positions.

<sup>(c)</sup> 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 value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended:

|  | September 30,<br>2013                 |   | September 30, 2012          |   |                                       |   |
|--|---------------------------------------|---|-----------------------------|---|---------------------------------------|---|
|  | Fuel Price<br>Derivatives –<br>Diesel |   | Contingent<br>Consideration |   | Fuel Price<br>Derivatives –<br>Diesel |   |
| Beginning balance                              | \$498                                 |   | \$—                         |   | \$3,398                               |   |
| Total (losses) and gains – realized/unrealized |                                       |   |                             |   |                                       |   |
| Included in earnings <sup>(a)</sup>            | (1,015                                | ) | —                           |   | (3,812                                | ) |
| Included in other comprehensive income         | —                                     |   | —                           |   | —                                     |   |
| Purchases, issuances and settlements           | —                                     |   | (991                        | ) | —                                     |   |
| Transfers (in)/out of Level 3                  | —                                     |   | —                           |   | —                                     |   |
| Ending balance                                 | \$(517                                | ) | \$(991                      | ) | \$(414                                | ) |

Gains and losses (realized and unrealized), associated with fuel price derivatives, included in earnings for the three months ended September 30, 2013 and 2012, are reported in net realized and unrealized losses on fuel price

<sup>(a)</sup> derivatives on the unaudited condensed consolidated statements of income. Gains associated with contingent consideration, included in earnings for the three months ended September 30, 2012, are reported in other expenses and loss of foreign currency transactions on the unaudited condensed consolidated statements of income.





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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

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

|  | September 30, 2013          |                                       | September 30, 2012          |                                       |
|--|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|
|  | Contingent<br>Consideration | Fuel Price<br>Derivatives –<br>Diesel | Contingent<br>Consideration | Fuel Price<br>Derivatives –<br>Diesel |
| Beginning balance                              | \$(313 )                    | \$(107 )                              | \$(9,325 )                  | \$(25 )                               |
| Total (losses) and gains – realized/unrealized |                             |                                       |                             |                                       |
| Included in earnings <sup>(a)</sup>            | (198 )                      | (410 )                                | 839                         | (389 )                                |
| Included in other comprehensive income         | —                           | —                                     | —                           | —                                     |
| Purchases, issuances and settlements           | —                           | —                                     | (991 )                      | —                                     |
| Transfers (in)/out of Level 3                  | 511                         | —                                     | 8,486                       | —                                     |
| Ending balance                                 | \$—                         | \$(517 )                              | \$(991 )                    | \$(414 )                              |

Gains and losses (realized and unrealized), associated with fuel price derivatives, included in earnings for the nine months ended September 30, 2013 and 2012, are reported in net realized and unrealized losses on fuel price

<sup>(a)</sup> derivatives on the unaudited condensed consolidated statements of income. Gains associated with contingent consideration, included in earnings for the nine months ended September 30, 2013 and 2012, are reported in other expenses and loss of foreign currency transactions on the unaudited condensed consolidated statements of income.

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

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

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

Fuel price derivatives and interest rate swap arrangements

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

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

Fuel price derivatives – diesel. The assumptions used in the valuation of the diesel fuel price derivatives use both observable and unobservable inputs. There is a lack of price transparency with respect to forward prices for diesel fuel. Such unobservable inputs are significant to the diesel fuel derivative contract valuation methodology.

Quantitative Information About Level 3 Fair Value Measurements. The significant unobservable inputs used in the fair value measurement of the Company's diesel fuel price derivative instruments designated as Level 3 as of September 30, 2013, are as follows:

|                                 | Fair Value at<br>September 30, 2013 | Valuation<br>Technique | Unobservable Input | Range<br>\$ per gallon |
|---------------------------------|-------------------------------------|------------------------|--------------------|------------------------|
| Fuel price derivatives – diesel | \$ (517 )                           | Option model           |                    | \$3.71 – 3.94          |

Future retail price  
of diesel fuel after  
September 30,  
2013

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

Sensitivity to Changes in Significant Unobservable Inputs. As presented in the table above, the significant unobservable inputs used in the fair value measurement of the Company's diesel fuel price derivative instruments are the future retail price of diesel fuel from the fourth quarter of 2013 through the first quarter of 2015. Significant changes in these unobservable inputs in isolation would result in a significant change in the fair value measurement.

## Contingent consideration

The Company had classified its liability for contingent consideration related to its acquisition of UNIK within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include the projected revenues of UNIK over a four month period. These assumptions included assessing the probability of meeting certain milestones required to earn the contingent consideration.

During the second quarter of 2013, the Company determined a final payment of contingent consideration and increased the liability by \$201. On June 30, 2013, the amount due was determined to be \$511 and was paid on July 1, 2013.

The Company classified its liability for contingent consideration related to its acquisition of rapid! PayCard within Level 3 of the fair value hierarchy because the fair value was determined using significant unobservable inputs, which include the revenues of rapid! PayCard over a twelve month period ending on March 31, 2012. On March 31, 2012, the amount due was determined to be \$8,486 and was paid on April 30, 2012.

## 10. Comprehensive Income

A reconciliation of comprehensive income for the three month period ended September 30, 2013 and 2012, is as follows:

|                                   | 2013       |             | 2012       |          |
|-----------------------------------|------------|-------------|------------|----------|
|                                   | Unrealized | Foreign     | Unrealized | Foreign  |
|                                   | Gains and  | Currency    | Gains and  | Currency |
|                                   | Losses on  | Items       | Losses on  | Items    |
|                                   | Available- |             | Available- |          |
|                                   | for-Sale   |             | for-Sale   |          |
|                                   | Securities |             | Securities |          |
| Beginning balance                 | \$(222)    | ) \$(7,052) | ) \$270    | \$28,631 |
| Other comprehensive (loss) income | (73)       | ) 7,684     | 44         | 9,006    |
| Ending balance                    | \$(295)    | ) \$632     | \$314      | \$37,637 |

No amounts were reclassified from accumulated other comprehensive income in the periods presented.

A reconciliation of comprehensive income for the nine month period ended September 30, 2013 and 2012, is as follows:

|                                   | 2013       |            | 2012       |          |
|-----------------------------------|------------|------------|------------|----------|
|                                   | Unrealized | Foreign    | Unrealized | Foreign  |
|                                   | Gains and  | Currency   | Gains and  | Currency |
|                                   | Losses on  | Items      | Losses on  | Items    |
|                                   | Available- |            | Available- |          |
|                                   | for-Sale   |            | for-Sale   |          |
|                                   | Securities |            | Securities |          |
| Beginning balance                 | \$197      | \$37,182   | \$200      | \$30,448 |
| Other comprehensive (loss) income | (492)      | ) (36,550) | ) 114      | 7,189    |
| Ending balance                    | \$(295)    | ) \$632    | \$314      | \$37,637 |

No amounts were reclassified from accumulated other comprehensive income in the periods presented.

11. Redeemable noncontrolling interest

On August 30, 2012, the Company acquired a 51 percent ownership interest in UNIK, a provider of payroll cards in Brazil. Redeemable noncontrolling interest is measured at fair value at the date of acquisition. The redeemable noncontrolling interest is reported on the Company's condensed consolidated balance sheets as "Redeemable noncontrolling interest."

A reconciliation of redeemable noncontrolling interest for the three and nine month periods ended September 30, 2013 and September 30, 2012, is as follows:

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

|  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2013                                | 2012   | 2013                               | 2012   |
| Balance, beginning of period                     | \$ 19,650                           | —      | 21,662                             | —      |
| Acquisition of subsidiary at fair value          | —                                   | 21,904 | —                                  | 21,904 |
| Net loss attributable to noncontrolling interest | (60                                 | ) (14  | ) (333                             | ) (14  |
| Currency translation adjustment                  | 172                                 | 223    | (1,567                             | ) 223  |
| Ending balance                                   | \$ 19,762                           | 22,113 | 19,762                             | 22,113 |

## 12. Stock-Based Compensation

During the first quarter of 2013, the Company awarded restricted stock units and performance-based restricted stock units to employees under the 2010 Equity and Incentive Plan. Expense associated with the performance-based restricted stock units may increase or decrease due to changes in the probability of the Company achieving pre-established performance metrics. For the nine months ended September 30, 2013, total stock-based compensation expense recognized was approximately \$6,882. As of September 30, 2013, total unrecognized compensation cost related to non-vested restricted stock units, and performance-based restricted stock units was approximately \$10,606 to be recognized over the remaining vesting periods of these awards.

## 13. Income Taxes

On June 29, 2012, tax legislation was enacted in Australia that affected the tax deductibility of certain intangible assets. A tax charge of \$31,083 was recorded in June of 2012 to reflect these tax legislation changes. The Company wrote-off an associated refund claim payable to the former shareholder of RD Card Holding Australia for \$9,750, included in non-operating income. This payable was contingent on the receipt of the tax refunds generated by tax deductions associated with the amortization of the above mentioned intangible assets.

Undistributed earnings of certain foreign subsidiaries of the Company amounted to \$2,507 at September 30, 2013, and \$1,756 at December 31, 2012. These earnings are considered to be indefinitely reinvested, and accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. The Company has determined that the amount of taxes attributable to these undistributed earnings is not practicably determinable.

## 14. Commitments and Contingencies

## Litigation

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

## 15. Segment Information

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

The Company's chief operating decision maker evaluates the operating results of the Company's reportable segments based upon revenues and "adjusted net income," which is defined by the Company as net income adjusted for fair value

changes of derivative instruments, the amortization of purchased intangibles, the net impact of tax rate changes on the Company's deferred tax asset and related changes in the tax-receivable agreement, deferred loan costs associated with the extinguishment of debt, certain non-cash asset impairment charges, the gains on the extinguishment of a portion of the tax

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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

receivable agreement and adjustments attributable to noncontrolling interest. These adjustments are reflected net of the tax impact.

The Company operates in two reportable segments, Fleet Payment Solutions and Other Payment Solutions. The Fleet Payment Solutions segment provides customers with payment and transaction processing services specifically designed for the needs of vehicle fleet customers. This segment also provides information management services to those fleet customers. The Other Payment Solutions segment provides customers with a payment processing solution for their corporate purchasing and transaction monitoring needs. Revenue in this segment is derived from the Company's corporate purchase cards, virtual and prepaid card products. The corporate purchase card products are used by businesses to facilitate purchases of products and to utilize the Company's information management capabilities. Financing interest expense through the Company's corporate debt, including the term loan and bond issuance, and net realized and unrealized losses on derivative instruments are allocated to the Fleet Payment Solutions segment in the computation of segment results for internal evaluation purposes. Total assets are not allocated to the segments.

The following table presents the Company's reportable segment results on an adjusted net income basis for the three months ended September 30, 2013 and 2012:

|                                       | Total<br>Revenues | Operating<br>Interest<br>Expense | Depreciation<br>and<br>Amortization | Provision for<br>Income Taxes | Adjusted Net<br>Income |
|---------------------------------------|-------------------|----------------------------------|-------------------------------------|-------------------------------|------------------------|
| Three months ended September 30, 2013 |                   |                                  |                                     |                               |                        |
| Fleet payment solutions               | \$ 136,874        | \$ 427                           | \$ 5,767                            | \$ 21,726                     | 35,119                 |
| Other payment solutions               | 54,651            | 549                              | 342                                 | 7,577                         | 15,303                 |
| Total                                 | \$ 191,525        | \$ 976                           | \$ 6,109                            | \$ 29,303                     | 50,422                 |
| Three months ended September 30, 2012 |                   |                                  |                                     |                               |                        |
| Fleet payment solutions               | \$ 117,877        | \$ 838                           | \$ 5,856                            | \$ 21,874                     | \$ 33,641              |
| Other payment solutions               | 43,090            | 404                              | 441                                 | 5,589                         | 8,394                  |
| Total                                 | \$ 160,967        | \$ 1,242                         | \$ 6,297                            | \$ 27,463                     | \$ 42,035              |

The following table presents the Company's reportable segment results on an adjusted net income basis for the nine months ended September 30, 2013 and 2012:

|                                      | Total<br>Revenues | Operating<br>Interest<br>Expense | Depreciation<br>and<br>Amortization | Provision for<br>Income Taxes | Adjusted Net<br>Income |
|--------------------------------------|-------------------|----------------------------------|-------------------------------------|-------------------------------|------------------------|
| Nine months ended September 30, 2013 |                   |                                  |                                     |                               |                        |
| Fleet payment solutions              | \$ 393,953        | \$ 1,392                         | \$ 17,358                           | \$ 58,474                     | 99,950                 |
| Other payment solutions              | 141,227           | 1,813                            | 1,346                               | 17,128                        | 29,840                 |
| Total                                | \$ 535,180        | \$ 3,205                         | \$ 18,704                           | \$ 75,602                     | 129,790                |
| Nine months ended September 30, 2012 |                   |                                  |                                     |                               |                        |
| Fleet payment solutions              | \$ 341,709        | \$ 2,685                         | \$ 17,699                           | \$ 56,027                     | \$ 94,169              |
| Other payment solutions              | 112,444           | 744                              | 1,241                               | 13,607                        | 22,512                 |
| Total                                | \$ 454,153        | \$ 3,429                         | \$ 18,940                           | \$ 69,634                     | \$ 116,681             |



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WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

The following table reconciles adjusted net income to net income:

|  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2013                                | 2012      | 2013                               | 2012      |
| Adjusted net income WEX Inc.   | \$50,422                            | \$42,035  | \$129,790                          | \$116,681 |
| Unrealized (loss) gains on fuel price derivatives                            | (2,733 )                            | (12,849 ) | 1,234                              | (1,841 )  |
| Amortization of acquired intangible assets                                   | (8,051 )                            | (5,411 )  | (24,564 )                          | (15,481 ) |
| Goodwill impairment  | —                                   | (16,171 ) | —                                  | (16,171 ) |
| Deferred loan costs associated with the extinguishment of debt               | —                                   | —         | (1,004 )                           | —         |
| Non-cash adjustments related to tax receivable agreement                     | 150                                 | —         | 150                                | —         |
| Change in tax refund due to former shareholders of RD Card Holding Australia | —                                   | —         | —                                  | 9,750     |
| Other adjustments related to Fleet One acquisition                           | 658                                 | —         | 658                                | —         |
| ANI adjustments attributable to noncontrolling interest                      | 313                                 | 77        | 971                                | 77        |
| Tax impact   | 3,079                               | 6,617     | 7,505                              | (25,146 ) |
| Net earnings attributable to WEX Inc.  | \$43,838                            | \$14,298  | \$114,740                          | \$67,869  |

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

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

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting estimates affect our financial statements. The discussion also provides information about the financial results of the two segments of our business to provide a better understanding of how those segments and their results affect our financial condition and results of operations as a whole. This discussion should be read in conjunction with our audited consolidated financial statements as of December 31, 2012, the notes accompanying those financial statements and management's discussion and analysis as contained in our Annual Report on Form 10-K filed with the SEC on March 1, 2013 and in conjunction with the unaudited condensed consolidated financial statements and notes in Item 1 of Part I of this report.

#### Overview

WEX Inc. ("WEX") is a leading provider of corporate card payment solutions. From our roots as a pioneer in fleet card payments in 1983, WEX has expanded the scope of our business into a multi-channel provider of corporate payment solutions. We currently operate in two business segments: Fleet Payment Solutions and Other Payment Solutions. Our business model enables us to provide exceptional payment security and control across a spectrum of payment sectors. The Fleet Payment Solutions segment provides customers with fleet vehicle payment processing services specifically designed for the needs of commercial and government fleets. Fleet Payment Solutions revenue is earned primarily from payment processing, account servicing and transaction processing, with the majority of revenue generated by payment processing. Management estimates that WEX fleet cards are accepted at over 90 percent of fuel locations in each of the United States and Australia. The Other Payment Solutions segment provides customers with payment processing solutions for their corporate purchasing and transaction monitoring needs through our payment products. Other Payment Solutions revenue is earned primarily from payment processing revenue with operations in North and South America, Europe and Australia.

The Company's U.S. operations include WEX, and our wholly-owned subsidiaries Fleet One, WEX Bank, rapid! PayCard, and Pacific Pride. Our international operations include our wholly-owned subsidiaries Wright Express Fuel Cards Australia, Wright Express Prepaid Cards Australia, Wright Express New Zealand, and CorporatePay Limited, located in England, and a majority equity position in UNIK S.A. ("UNIK"), a Brazil based company.

#### Summary

Below are selected items from the third quarter of 2013:

- Corporate charge card purchase volume grew by approximately \$771.5 million to \$4.0 billion for the third quarter of 2013, an increase of 24% over the same period in the prior year.
- Average number of vehicles serviced increased 9.5 percent from the third quarter of 2012 to approximately 7.6 million for the third quarter of 2013, primarily due to the acquisition of Fleet One during the fourth quarter of 2012.
- Total fuel transactions processed increased 12.7 percent from the third quarter of 2012 to 96.7 million for the third quarter of 2013. Total payment processing transactions increased 15.8 percent to 76.6 million for the third quarter of 2013 as compared to the same quarter in 2012. Approximately half the growth was due to the acquisition of FleetOne and the remainder was due to organic growth. Transaction processing transactions increased 2.5 percent to 20.1 million for the third quarter of 2013, over the same period in the prior year.
- Average expenditure per payment processing transaction increased 16 percent to \$85.43 for the third quarter of 2013, from \$73.59 for the same period in the prior year. This increase was driven by our Fleet One acquisition. Fleet One services large trucking customers who spend more dollars per transaction. The average U.S. fuel price per gallon during the third quarter of 2013, was \$3.70 for North America, a 1 percent decrease over the same period in the prior year. The average Australian fuel price per gallon during the third quarter of 2013, was US\$5.30, a 2 percent decrease as compared to the same period in the prior year.
- Credit loss expense in the Fleet Payment Solutions segment was \$5.0 million during the third quarter of 2013, as compared to \$5.4 million during the third quarter of 2012. While volume increased 34 percent in the third quarter of

2013, as compared to the same quarter last year, our credit losses were 7.6 basis points of fuel expenditures for the third quarter of 2013, as compared to 11.1 basis points of fuel expenditures for the same period last year. Realized losses on our fuel price derivatives during the third quarter of 2013 were \$0.9 million as compared to realized losses of \$1.2 million for the same period in the prior year.

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During the third quarter, we announced that our Board of Directors has authorized a new share repurchase program under which up to \$150 million worth of our common stock may be repurchased from time to time until September 30, 2017.

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## Results of Operations

## Fleet Payment Solutions

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

| (in thousands, except per transaction and per gallon data)                                 | Three months ended September 30, |           | Increase (decrease) |         |   | Nine months ended September 30, |           | Increase (decrease) |         |   |
|--|----------------------------------|-----------|---------------------|---------|---|---------------------------------|-----------|---------------------|---------|---|
|  | 2013                             | 2012      | Amount              | Percent |   | 2013                            | 2012      | Amount              | Percent |   |
| <b>Revenues</b>  |                                  |           |                     |         |   |                                 |           |                     |         |   |
| Payment processing revenue   | \$91,273                         | \$78,803  | \$12,470            | 16      | % | \$262,889                       | \$231,109 | \$31,780            | 14      | % |
| Transaction processing revenue   | 5,044                            | 4,097     | 947                 | 23      | % | 14,551                          | 12,235    | 2,316               | 19      | % |
| Account servicing revenue  | 19,069                           | 17,657    | 1,412               | 8       | % | 56,247                          | 48,592    | 7,655               | 16      | % |
| Finance fees   | 15,688                           | 12,604    | 3,084               | 24      | % | 42,669                          | 35,422    | 7,247               | 20      | % |
| Other  | 5,800                            | 4,716     | 1,084               | 23      | % | 17,597                          | 14,351    | 3,246               | 23      | % |
| Total revenues   | 136,874                          | 117,877   | 18,997              | 16      | % | 393,953                         | 341,709   | 52,244              | 15      | % |
| Total operating expenses   | 78,483                           | 62,964    | 15,519              | 25      | % | 230,956                         | 186,329   | 44,627              | 24      | % |
| Operating income   | 58,391                           | 54,913    | 3,478               | 6       | % | 162,997                         | 155,380   | 7,617               | 5       | % |
| Gain (loss) on foreign currency transactions   | 558                              | (33 )     | 591                 | NM      |   | 442                             | (410 )    | 852                 | NM      |   |
| Financing interest expense (a)   | (7,369 )                         | (2,302 )  | (5,067 )            | 220     | % | (22,076 )                       | (6,877 )  | (15,199 )           | 221     | % |
| Increase (decrease) in tax refund due to former shareholders of RD Card Holdings Australia | —                                | —         | —                   | —       |   | —                               | 6,968     | (6,968 )            | (100 )  | % |
| Net realized and unrealized (losses) gains on derivative instruments (a)                   | (3,640 )                         | (14,026 ) | 10,386              | (74 )   | % | (2,781 )                        | (12,046 ) | 9,265               | (77 )   | % |
| Decrease in amount due under tax receivable agreement                                      | 150                              | —         | 150                 | NM      |   | 150                             | —         | 150                 | NM      |   |
| Income before income taxes   | 48,090                           | 38,552    | 9,538               | 25      | % | 138,732                         | 143,015   | (4,283 )            | (3 )    | % |
| Income taxes   | 18,367                           | 15,652    | 2,715               | 17      | % | 52,002                          | 77,387    | (25,385 )           | (33 )   | % |
| Net income   | \$29,723                         | \$22,900  | \$6,823             | 30      | % | \$86,730                        | \$65,628  | \$21,102            | 32      | % |
| (in thousands, except per transaction and per gallon data)                                 |                                  |           |                     |         |   |                                 |           |                     |         |   |
| <b>Key operating statistics</b>  |                                  |           |                     |         |   |                                 |           |                     |         |   |
| <b>Payment processing revenue:</b>   |                                  |           |                     |         |   |                                 |           |                     |         |   |
| Payment processing transactions  | 76,578                           | 66,155    | 10,423              | 16      | % | 219,117                         | 190,624   | 28,493              | 15      | % |
| Average expenditure per payment processing transaction                                     | \$85.43                          | \$73.59   | \$11.84             | 16      | % | \$86.18                         | \$74.47   | \$11.71             | 16      | % |
| Average price per gallon of fuel   |                                  |           |                     |         |   |                                 |           |                     |         |   |

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|                                     |        |        |           |       |        |        |           |       |
|-------------------------------------|--------|--------|-----------|-------|--------|--------|-----------|-------|
| - Domestic – (\$/gal)               | \$3.70 | \$3.74 | \$(0.04 ) | (1 )% | \$3.72 | \$3.75 | \$(0.03 ) | (1 )% |
| - Australia – (\$USD/gal)           | \$5.30 | \$5.42 | \$(0.12 ) | (2 )% | \$5.42 | \$5.60 | \$(0.18 ) | (3 )% |
| Transaction processing revenue:     |        |        |           |       |        |        |           |       |
| Transaction processing transactions | 20,081 | 19,591 | 490       | 3 %   | 58,554 | 57,687 | 867       | 2 %   |
| Account servicing revenue:          |        |        |           |       |        |        |           |       |
| Average number of vehicles serviced | 7,560  | 6,902  | 658       | 10 %  | 7,490  | 6,775  | 715       | 11 %  |

(a) Financing interest expense through our Corporate debt including the term loan and bond issuance, as well as net realized and unrealized gains and losses on derivative instruments are allocated solely to the Fleet Payment Solutions segment.

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NM Not meaningful

#### Revenues

Payment processing revenue increased \$12.5 million for the third quarter of 2013 as compared to the third quarter of 2012 and \$31.8 million for the first nine months of 2013 as compared to the same period in the prior year. These increases are due to the organic growth from our domestic fleet business and the acquisition of Fleet One during the fourth quarter of 2012, partially offset by a reduction in fuel prices as compared to the same periods in the prior year. Our account servicing revenue increased \$1.4 million for the third quarter of 2013 as compared to the same period in 2012 and increased \$7.7 million for the first nine months of 2013, as compared to the same periods in the prior year. These increases for the third quarter and the first nine months of 2013 as compared to the same periods in the prior year were due to the acquisition of Fleet One during the fourth quarter of 2012 as well as an increase in WEXSmart unit service revenue and were partially offset by a contract renewal in Australia that altered the timing of revenue recognition.

Our finance fees revenue increased \$3.1 million for the third quarter of 2013 as compared to the same period in 2012 and increased \$7.2 million for the first nine months of 2013, as compared to the same period in 2012. These increases are primarily due to the acquisition of Fleet One during the fourth quarter of 2012, as well as an increase from late fees charged to customers for overdue balances. Payments for customer receivables are due within thirty days or less. Late fee revenue is earned when a customer's receivable balance becomes delinquent. The late fee is calculated using a stated late fee rate based on the outstanding balance. The absolute amount of such outstanding balances can be attributed to (i) changes in fuel prices; (ii) customer specific transaction volume; and (iii) customer specific delinquencies. Late fee revenue can also be impacted by changes in (i) late fee rates and (ii) increases or decreases in the number of customers with overdue balances. The increases in late fees is primarily due to an increase in the minimum late fee payment during the third quarter of 2013 and higher accounts receivable balances, as a result of higher transaction volume, not due to deterioration in customer payment behavior.

#### Operating Expenses

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

| (in thousands)                            | 2013     | 2012     | Increase (decrease) |         |   |
|---|----------|----------|---------------------|---------|---|
|   |          |          | Amount              | Percent |   |
| Expense                                   |          |          |                     |         |   |
| Salary and other personnel                | \$35,134 | \$24,458 | \$10,676            | 44      | % |
| Provision for credit losses               | \$4,973  | \$5,420  | \$(447)             | (8)     | % |
| Technology leasing and support            | \$4,536  | \$2,728  | \$1,808             | 66      | % |
| Depreciation, amortization and impairment | \$12,599 | \$9,966  | \$2,633             | 26      | % |

Changes in operating expenses for the third quarter of 2013, as compared to the same period in the prior year, include the following:

Salary and other personnel expenses increased \$10.7 million for the third quarter of 2013 as compared to the same period last year. The increase is primarily due to the acquisition of Fleet One during the fourth quarter of 2012 as well as an increase in headcount as we expand our sales and support personnel.

We generally measure our credit loss performance by calculating credit losses as a percentage of total fuel expenditures on payment processing transactions ("fuel expenditures"). This metric for credit losses was 7.6 basis points of fuel expenditures for the third quarter of 2013, compared to 11.1 basis points of fuel expenditures for the same period last year. We use a roll rate methodology to calculate the amount necessary for our ending receivable reserve balance. This methodology considers total receivable balances, recent charge off experience, recoveries on previously charged off accounts, and the dollars that are delinquent to calculate the total reserve. In addition, management undertakes a detailed evaluation of the receivable balances to help ensure further overall reserve adequacy. The expense we recognized in the quarter is the amount necessary to bring the reserve to its required level after net charge offs.

Technology leasing and support expenses increased \$1.8 million for the third quarter of 2013 as compared to the same period in the prior year. The increase is primarily the result of additional software maintenance costs associated with new license agreements.

Depreciation and amortization expenses increased \$2.6 million for the third quarter of 2013 as compared to the same period in the prior year. This increase is primarily due to the acquisition of Fleet One during the fourth quarter of 2012, most of which is due to the amortization of intangible assets.



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

| (in thousands)                            | 2013      | 2012     | Increase (decrease) |         |   |
|---|-----------|----------|---------------------|---------|---|
|   |           |          | Amount              | Percent |   |
| Expense                                   |           |          |                     |         |   |
| Salary and other personnel                | \$102,254 | \$76,057 | \$26,197            | 34      | % |
| Service fees                              | \$22,063  | \$20,920 | \$1,143             | 5       | % |
| Provision for credit losses               | \$13,679  | \$13,234 | \$445               | 3       | % |
| Technology leasing and support            | \$12,116  | \$8,568  | \$3,548             | 41      | % |
| Occupancy and equipment                   | \$9,916   | \$8,390  | \$1,526             | 18      | % |
| Depreciation, amortization and impairment | \$38,090  | \$30,004 | \$8,086             | 27      | % |

Changes in operating expenses for the first nine months of 2013, as compared to the corresponding period in the prior year, include the following:

Salary and other personnel expenses increased \$26.2 million for the first nine months of 2013 as compared to the same period last year. The increase is primarily due to the acquisition of Fleet One during the fourth quarter of 2012, which contributed approximately \$17.2 million in salary and other personnel expense. The remaining increase in salary and other personnel expense for the first nine months of 2013, as compared to the same period in the prior year, is primarily due to increases in headcount as we expand our sales and support personnel.

Service fees increased \$1.1 million for the first nine months of 2013 as compared to the same period last year. The increase is primarily due to the acquisition of Fleet One during the fourth quarter of 2012.

Credit losses were 7.2 basis points of Fuel Expenditures for the first nine months of 2013 as compared to 9.3 basis points of Fuel Expenditures for the same period last year. While overall spend volume increased 33 percent as compared to the same period in the prior year, the expense for credit loss increased only slightly, due to improvements in credit quality and a reduction of charge offs during the first nine months of 2013, as compared to same period in the prior year.

Technology leasing and support expenses increased \$3.5 million for the first nine months of 2013 as compared to the same period in the prior year. The increase is primarily the result of additional software maintenance costs associated with new license agreements.

Occupancy and equipment expenses increased \$1.5 million for the first nine months of 2013 as compared to the same period in the prior year. The increase is primarily the result of additional costs associated with investment in a new data processing center.

Depreciation and amortization expenses increased \$8.1 million for the first nine months of 2013 as compared to the same period in the prior year. The increase is primarily due to the acquisition of Fleet One during the fourth quarter of 2012, primarily from the amortization of intangible assets.

#### Fuel price derivatives

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

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|  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| (in thousands, except per gallon data)                     | 2013                                | 2012      | 2013                               | 2012      |
| Fuel price derivatives, at fair value, beginning of period | \$2,238                             | \$11,003  | \$(1,729)                          | \$(5)     |
| Net change in fair value                                   | (3,640)                             | (14,026)  | (2,781)                            | (12,046)  |
| Cash payments on settlement                                | 907                                 | 1,177     | 4,015                              | 10,205    |
| Fuel price derivatives, at fair value, end of period       | \$(495)                             | \$(1,846) | \$(495)                            | \$(1,846) |
| Collar range:  |                                     |           |                                    |           |
| Floor  | \$3.47                              | \$3.45    | \$3.44                             | \$3.29    |
| Ceiling  | \$3.53                              | \$3.51    | \$3.50                             | \$3.35    |
| Domestic average fuel price, beginning of period           | \$3.61                              | \$3.47    | \$3.49                             | \$3.45    |
| Domestic average fuel price, end of period                 | \$3.66                              | \$3.89    | \$3.66                             | \$3.89    |

Changes in fuel price derivatives for the three and nine months ended September 30, 2013, as compared to the corresponding periods a year ago are attributable to the movements in fuel prices in the corresponding periods. As of September 30, 2013, the projected future price of fuel is above the average future floor price of our derivatives, resulting in a net liability on our balance sheet. Losses that are realized on these derivatives are offset by higher payment processing revenue we receive because such revenues are dependent, in part, on the current price of fuel. Conversely, realized gains are offset by lower payment processing revenue.

We expect that our fuel price derivatives program will continue to be important to our business model going forward, and we expect to purchase derivatives in the future. The Company currently does not plan to hedge our fuel price risk exposure for Wright Express Australia as the earnings exposure to fuel price movements in Australia is typically more limited than it is domestically.

#### Financing interest expense

Financing interest expense increased \$5.1 million for the third quarter of 2013 as compared to the third quarter of the prior year and increased \$15.2 million for the first nine months of 2013, as compared to the corresponding periods in the prior year. This increase is primarily the result of higher interest rates associated with our \$400 million 4.75% fixed rate on notes outstanding issued on January 30, 2013, (the "Notes"). The proceeds of these Notes were primarily used to pay down borrowings under our existing credit agreement, which had a variable interest rate that was lower at the time of repayment. Financing interest expense for the first quarter of 2013 includes a \$1 million write-off of deferred loan fees associated with the extinguishment of debt.

#### Effective tax rates

Our effective tax rate for our Fleet Payment Solutions segment is 38.2 percent for the third quarter of 2013 and 40.6 percent for the third quarter of 2012. Our effective tax rate is 37.5 percent for the first nine months of 2013 and 54.1 percent for the first nine months of 2012. During the second quarter of 2012, we recorded a charge of approximately \$26.3 million due to the impact of tax legislation enacted on June 29, 2012, in Australia. This legislation affected our ability to take future tax deductions related to certain amortizable intangibles.



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## Other Payment Solutions

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

|  | Three months ended<br>September 30, |           | Increase (decrease) |         |    | Nine months ended<br>September 30, |          | Increase (decrease) |         |    |
|--|-------------------------------------|-----------|---------------------|---------|----|------------------------------------|----------|---------------------|---------|----|
|  | 2013                                | 2012      | Amount              | Percent |    | 2013                               | 2012     | Amount              | Percent |    |
| (in thousands, except corporate charge card purchase volume in millions) |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Revenues   |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Payment processing revenue   | \$39,314                            | \$29,653  | \$9,661             | 33      | %  | \$99,941                           | \$75,731 | \$24,210            | 32      | %  |
| Transaction processing revenue   | 1,000                               | 1,531     | (531)               | (35)    | %) | 3,763                              | 5,128    | (1,365)             | (27)    | %) |
| Account servicing revenue  | 3,092                               | 1,627     | 1,465               | 90      | %  | 8,383                              | 3,891    | 4,492               | 115     | %  |
| Finance fees   | 1,618                               | 521       | 1,097               | 211     | %  | 4,777                              | 840      | 3,937               | 469     | %  |
| Other  | 9,627                               | 9,758     | (131)               | (1)     | %) | 24,363                             | 26,854   | (2,491)             | (9)     | %) |
| Total revenues   | 54,651                              | 43,090    | 11,561              | 27      | %  | 141,227                            | 112,444  | 28,783              | 26      | %  |
| Total operating expenses   | 35,149                              | 46,726    | (11,577)            | (25)    | %) | 98,720                             | 95,704   | 3,016               | 3       | %  |
| Operating income   | 19,502                              | (3,636)   | 23,138              | (636)   | %) | 42,507                             | 16,740   | 25,767              | 154     | %  |
| Gain on foreign currency transactions                                    | 2,410                               | 213       | 2,197               | NM      |    | 1,266                              | 98       | 1,168               | NM      |    |
| Financing interest expense   | —                                   | —         | —                   | —       |    | (1)                                | —        | (1)                 | —       | %  |
| Decrease in tax refund due to former shareholders of RD                  | —                                   | —         | —                   | —       |    | —                                  | 2,782    | (2,782)             | (100)   | %) |
| Card Holdings  |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Australia  |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Income before income taxes   | 21,912                              | (3,423)   | 25,335              | (740)   | %) | 43,772                             | 19,620   | 24,152              | 123     | %  |
| Income taxes   | 7,857                               | 5,193     | 2,664               | 51      | %  | 16,095                             | 17,393   | (1,298)             | (7)     | %) |
| Net income   | 14,055                              | \$(8,616) | \$22,671            | (263)   | %) | \$27,677                           | \$2,227  | \$25,450            | 1,143   | %  |
| Less: Net loss from noncontrolling interest                              | (60)                                | (14)      | (46)                | NM      |    | (333)                              | (14)     | (319)               | NM      |    |
| Net earnings attributable to WEX Inc.                                    | \$14,115                            | \$(8,602) | \$22,717            | (264)   | %) | \$28,010                           | \$2,241  | \$25,769            | 1,150   | %  |
| (in thousands)   |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Key operating statistics   |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Payment processing revenue:  |                                     |           |                     |         |    |                                    |          |                     |         |    |
| Worldwide corporate charge card purchase volume                          | \$3,954                             | \$3,182   | \$772               | 24      | %  | \$9,771                            | \$8,194  | \$1,577             | 19      | %  |

NM Not meaningful

Revenues

Payment processing revenue increased \$9.7 million for the third quarter of 2013 as compared to the same period in the prior year, and increased \$24.2 million for the first nine months of 2013 as compared to the same period in the prior year. The primary driver of the increase in the third quarter of 2013 as compared to the third quarter of 2012 is higher corporate charge card purchase volume from our virtual product. Additionally, we experienced an increase in the charge card net interchange rate of 5 basis points for the third quarter of 2013 as compared to the same quarter in the prior year, primarily due to customer specific incentives from our network provider. These increases also drove the increase in payment processing revenues for the first nine months of 2013 as compared to the same period in 2012.

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Account servicing revenue increased \$1.5 million for the third quarter of 2013 as compared to the same period in the prior year and increased \$4.5 million for the first nine months of 2013 as compared to the same period in the prior year. The increases are primarily due to the acquisition of UNIK during the third quarter of 2012.

Finance fee revenue increased \$1.1 million for the third quarter of 2013 as compared to the same period in the prior year and increased \$3.9 million for the first nine months of 2013 as compared to the same period in the prior year. The increases are primarily due to the acquisition of UNIK during the third quarter of 2012.

Other revenue for the third quarter of 2013, decreased approximately \$0.1 million as compared to the same period in the prior year, and decreased \$2.5 million for the first nine months of 2013 as compared to the same period in the prior year. These decreases are primarily due to decreased fees related to cross border charges.

On November 9, 2012, the U.S District Court granted preliminary approval to the MasterCard/VISA merchant interchange settlement. Under the terms of this settlement, the domestic interchange rate for our branded credit card transactions will be reduced by 10 basis points for a period of 8 months, beginning on July 29, 2013. This resulted in a revenue reduction of approximately \$1.6 million in the third quarter of 2013.

**Operating Expenses**

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

| (in thousands)  | 2013     | 2012     | Increase (decrease) |         |    |
|---|----------|----------|---------------------|---------|----|
|   |          |          | Amount              | Percent |    |
| Expense   |          |          |                     |         |    |
| Salary and other personnel                              | \$6,335  | \$4,365  | \$1,970             | 45      | %  |
| Service fees  | \$21,434 | \$20,634 | \$800               | 4       | %  |
| Technology leasing, support and occupancy and equipment | \$2,763  | \$2,139  | \$624               | 29      | %  |
| Depreciation, amortization and impairment               | \$1,561  | \$17,912 | \$(16,351)          | (91)    | )% |

Salary and other personnel expenses increased \$2.0 million for the third quarter of 2013 as compared to the same period last year. The increase is primarily due to the acquisition of UNIK during the third quarter of 2012 and to additional headcount as we expand our sales personnel.

Service fees increased \$0.8 million during the third quarter of 2013 as compared to the same period in the prior year primarily due to our acquisition of UNIK in the third quarter of 2012.

The increase in expenses of \$0.6 million for technology leasing and support and occupancy and equipment during the third quarter of 2013 as compared to the same period last year is primarily due to additional volume associated with our virtual card product.

Depreciation and amortization expense decreased \$16.4 million for the third quarter of 2013 as compared to the same period in the prior year. This decrease is primarily due to the \$16.2 million goodwill impairment loss related to the purchase of Wright Express Prepaid Australia that was recorded in the third quarter of 2012.

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

| (in thousands)  | 2013     | 2012     | Increase (decrease) |         |    |
|---|----------|----------|---------------------|---------|----|
|   |          |          | Amount              | Percent |    |
| Expense   |          |          |                     |         |    |
| Salary and other personnel                              | \$19,939 | \$11,444 | \$8,495             | 74      | %  |
| Service fees  | \$57,702 | \$53,126 | \$4,576             | 9       | %  |
| Provision for credit losses                             | \$7      | \$1,640  | \$(1,633)           | (100)   | )% |
| Technology leasing, support and occupancy and equipment | \$8,498  | \$5,822  | \$2,676             | 46      | %  |
| Depreciation, amortization and impairment               | \$5,178  | \$20,587 | \$(15,409)          | (75)    | )% |
| Other   | \$5,539  | \$2,240  | \$3,299             | 147     | %  |

Salary and other personnel expenses increased \$8.5 million for the first nine months of 2013 as compared to the same period last year. The increase is primarily due to the acquisition of CorporatePay during the second quarter of 2012 and UNIK during the third quarter of 2012, which contributed approximately \$6.6 million in salary and other

personnel expense. The remaining increase is primarily due to additional headcount as we expand our sales personnel.

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Service fees increased \$4.6 million during the first nine months of 2013 as compared to the same period in the prior year. The increase is primarily due to the acquisitions of CorporatePay during the second quarter of 2012 and UNIK during the third quarter of 2012, which contributed approximately \$3.7 million in service fees expense during the first nine months of 2013. The remaining increase is due to higher spend volumes as compared to the same period in the prior year partially offset by lower crossborder fees.

The provision for credit losses decreased \$1.6 million during the first nine months of 2013 as compared to the same period in the prior year primarily due to a \$0.9 million bankruptcy of a single customer during the first quarter of 2012.

The increase in expenses of \$2.7 million for technology leasing and support and occupancy and equipment during the first nine months of 2013 as compared to the same period last year is primarily due to additional volume associated with our virtual card product.

Depreciation and amortization expense decreased \$15.4 million for the first nine months of 2013 as compared to the same period in the prior year. This decrease is primarily due to the \$16.2 million goodwill impairment loss associated with our Wright Express Prepaid Australia operations during the third quarter of 2012.

Other expenses increased \$3.3 million during the first nine months of 2013 as compared to the same period in the prior year. This change is primarily due to the acquisitions of CorporatePay during the second quarter of 2012 and UNIK during the third quarter of 2012. The remaining increase is due to the impact of an \$0.8 million reduction in our estimated liability for earn out payments related to the rapid! Paycard acquisition. This adjustment was recorded as a reduction to other expense during the first quarter of 2012.

### Gain on foreign currency translations

During 2013, in order to reduce expenses resulting from crossborder fees, WEX Bank established cash accounts outside of the United States and settled certain transactions in foreign currencies. Changes in these foreign currencies due to exchange rates result in gains or losses which are reflected in our statements of income. Changes in exchange rates resulted in a \$2.4 million gain for the third quarter of 2013 and a \$1.3 million gain for the first nine months of 2013.

### Effective tax rates

Our effective tax rate for our Other Payment Solutions segment was 35.9 percent for the third quarter of 2013. Our effective tax rate was 36.8 percent for the first nine months of 2013 and 88.6 percent for the first nine months of 2012. During the second quarter of 2012, we recorded a charge of approximately \$4.7 million due to the impact of tax legislation enacted on June 29, 2012, in Australia. This legislation affected our ability to take future tax deductions related to certain amortizable intangibles.

### Liquidity, Capital Resources and Cash Flows

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

Our GAAP operating activities cash flow provided approximately \$25.3 million of outflows in the first nine months of 2013, and management operating cash provided approximately \$194.2 million of inflows in the first nine months of 2013. While GAAP operating activities cash flows showed a use of \$25.3 million in the first nine months of 2012, management operating cash moved in the opposite direction providing approximately \$480.3 million of inflows. The



increase in deposits for the nine months ended September 30, 2012, is a result of the implementation of the Higher One Program during 2012.

In addition to the \$194.2 million of management operating cash we generated during the first nine months of 2013, we increased our overall financing debt by \$67.8 million as we completed a \$400 million note offering and increased the outstanding amount of our term note. We used funds generated from the note offering and the increase in term note to pay down the balance of our revolving credit facility. We also purchased \$17.9 million in treasury shares during the first quarter of 2013.

Management Operating Cash

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The table below reconciles net cash used for operating activities to change in management operating cash:

|  | Nine months ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2013                               | 2012         |
| Net cash used for operating activities | \$ (25,288 )                       | \$ (25,306 ) |
| Net change in deposits                 | 267,859                            | 512,456      |
| Net change in borrowed federal funds   | (48,400 )                          | (6,900 )     |
| Change in management operating cash    | \$ 194,171                         | \$ 480,250   |

WEX Bank utilizes Brokered Deposits, NOW deposits and borrowed federal funds to finance our accounts receivable. WEX Bank issued certificates of deposit in various maturities ranging between four weeks and two years and with fixed interest rates ranging from 0.35 percent to 0.75 percent as of September 30, 2013. As of September 30, 2013, we had approximately \$232.6 million of certificates of deposit outstanding, compared to \$391.6 million of certificates of deposits outstanding as of September 30, 2012. Certificates of deposit are subject to regulatory capital requirements.

As of September 30, 2013, we had approximately \$222.1 million of interest-bearing money market deposits at a weighted average rate of 0.26 percent, compared to \$123.5 million of interest-bearing money market deposits at September 30, 2012, at a weighted average rate of 0.42 percent. WEX Bank also has non-interest bearing NOW account deposits. As of September 30, 2013, we had \$685.1 million of non-interest bearing NOW account deposits and \$18.4 million on non-interest bearing customer deposits outstanding. As of September 30, 2012, we had \$678.8 million of non-interest bearing NOW account deposits and \$12.3 million on non-interest bearing customer deposits outstanding. Deposits are subject to regulatory capital requirements.

At both September 30, 2013 and 2012, we had no outstanding balance on our federal funds line of credit and approximately \$140.0 million of available credit.

#### Liquidity

We continue to have access to short-term borrowing instruments to fund our accounts receivable. Our cash balance for the first nine months of 2013 increased by approximately \$193.5 million, as deposits and borrowed federal funds increased approximately \$219.5 million and our financing debt increased approximately \$67.8 million. Our accounts receivable increased approximately \$384.7 million and our accounts payable increased approximately \$185.3 million, primarily due to volume increases. During the first quarter of 2013, we purchased approximately \$17.9 million in treasury shares.

In general, our trade receivables provide for payment terms of 30 days or less. We do not extend revolving credit to our customers with respect to these receivables. Receivables not paid within the terms of the customer agreement are generally subject to late fees based upon the outstanding customer receivable balance. At September 30, 2013, approximately 96.4 percent of the outstanding balance of \$1,923 million, was less than 30 days past due and approximately 99.0 percent of the outstanding balance was less than 60 days past due. At December 31, 2012, approximately 96.0 percent of the outstanding balance of \$1,568 million, was less than 30 days past due and approximately 99.0 percent of the outstanding balance was less than 60 days past due.

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 million term loan facility, and a five-year \$800 million secured revolving credit facility with a \$150 million 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 issues more than \$300 million 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 million.

The 2013 Credit Agreement replaced the 2011 Credit Agreement, dated as of May 23, 2011. The 2013 Credit Agreement increases the outstanding amount of the term loan from \$185 million to \$300 million and increased the amount of the revolving loan from \$700 million to \$800 million. On January 30, 2013, the Company completed a

\$400 million offering in aggregate principal amount of 4.75 percent senior notes due 2023 at an issue price of 100.0 percent of the principal amount, plus accrued interest, if any, 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, 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 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee. The Notes will mature on February 1, 2023, and interest will accrue 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. As a result, on January 30, 2013, the revolving loan commitment under the 2013 Credit Agreement was reduced to \$700 million.

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As of September 30, 2013, we have approximately 4.25 years left on our \$700 million revolving credit facility and have no borrowings against it. Outstanding debt under our amortizing term loan arrangement which expires in January of 2018, totaled \$289 million at September 30, 2013. As of September 30, 2013, amounts outstanding under the amortizing term loan bear interest at a rate of LIBOR plus 175 basis points. The revolving credit facility currently bears interest at a rate equal to, at our option, (a) LIBOR plus 175 basis points or (b) the prime rate plus 75 basis points.

We increased our overall financing debt (2013 Credit Agreement and Notes) by \$67.8 million during the first nine months of 2013 with a balance outstanding of \$688.8 million.

Our credit agreement contains various financial covenants requiring us to maintain certain financial ratios. In addition to the financial covenants, the credit agreement contains various customary restrictive covenants including restrictions in certain situations on the payment of dividends. WEX Bank is not subject to certain of these restrictions. We have been, and expect to continue to be, in compliance with all material covenants and restrictions. (See Item 1 - Note 8. Financing Debt)

Undistributed earnings of certain foreign subsidiaries of the Company amounted to \$2.5 million as of September 30, 2013. If we were to distribute such earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. The Company's primary tax jurisdictions are the United States and Australia.

Earnings outside of the United States are accompanied by certain financial risks, such as changes in foreign currency exchange rates. Changes in foreign currency exchange rates may reduce the reported value of our foreign currency revenues, net of expenses, and cash flows. We cannot predict changes in currency exchange rates, the impact of exchange rate changes, nor the degree to which we will be able to manage the impact of currency exchange rate changes.

On September 23, 2013, our Board of Directors authorized a new share repurchase program under which up to \$150 million worth of our common stock may be repurchased from time to time until September 30, 2017, through open market purchases.

As of September 30, 2013, we have approximately \$32.1 million in cash located in our foreign entities, outside of the United States.

We expect our capital expenditures for the full year to be in the range of \$40 million to \$45 million, which includes approximately \$15 million related to the consolidation of data centers.

Management believes that we can adequately fund our cash needs for at least the next 12 months.

Off-balance Sheet Arrangements

Letters of credit. At September 30, 2013, we had posted letters of credit totaling \$5.2 million as collateral under the terms of our lease agreement for our corporate offices and other corporate matters.

Contractual Obligations

The table below summarizes the change in contractual obligations, as presented in our Annual Report on Form 10-K for the year ended December 31, 2012, as of September 30, 2013.

| (in thousands)                           | Remaining<br>2013 | 2014     | 2015     | 2016     | 2017 and<br>Thereafter | Total     |
|--|-------------------|----------|----------|----------|------------------------|-----------|
| Revolving line-of-credit                 | \$—               | \$—      | \$—      | \$—      | \$—                    | \$—       |
| Term Loan                                | 3,750             | 15,000   | 15,000   | 15,000   | 240,000                | 288,750   |
| Interest payments on term loan           | 1,442             | 5,498    | 5,201    | 4,918    | 4,828                  | 21,887    |
| Loan origination fees on credit facility | 420               | 1,648    | 1,633    | 1,630    | 1,710                  | 7,041     |
| \$400 million notes offering             | —                 | —        | —        | —        | 400,000                | 400,000   |
| Interest on \$400 million notes offering | 4,750             | 19,000   | 19,000   | 19,000   | 115,582                | 177,332   |
| Loan origination fees on notes offering  | 182               | 734      | 734      | 734      | 4,408                  | 6,792     |
|  | \$10,544          | \$41,880 | \$41,568 | \$41,282 | \$766,528              | \$901,802 |

Purchase of Treasury Shares

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The following table presents stock repurchase program activity for the 3 and 9 months ended September 30, 2013, and September 30, 2012:

| (in thousands)           | Three months ended September 30, |      |        |      | Nine months ended September 30, |          |        |          |
|--------------------------|----------------------------------|------|--------|------|---------------------------------|----------|--------|----------|
|                          | 2013                             |      | 2012   |      | 2013                            |          | 2012   |          |
|                          | Shares                           | Cost | Shares | Cost | Shares                          | Cost     | Shares | Cost     |
| Treasury stock purchased | —                                | \$—  | —      | \$—  | 240.3                           | \$17,911 | 200.8  | \$11,288 |

#### Critical Accounting Policies and Estimates

We have no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Recently Adopted Accounting Standards

See Note 2 to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

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

We have no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Item 4. Controls and Procedures.

##### Evaluation of Disclosure Controls and Procedures

The principal executive officer and principal financial officer of WEX Inc. evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. "Disclosure controls and procedures" are controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms, is recorded, processed, summarized and reported, and is accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, the principal executive officer and principal financial officer of WEX Inc. concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

##### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2013, our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II

Item 1. Legal Proceedings.

As of the date of this filing, we are not involved in any material legal proceedings. We also were not involved in any material legal proceedings that were terminated during the third quarter of 2013. However, we are subject to other legal proceedings and claims in the ordinary course of business, none of which we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. In addition to the risks identified in the 10-K, the Company revised the following risk during the second quarter of 2013:

We are exposed to risks associated with operations outside of the United States, which could harm both our U.S. and international operations.

We conduct operations in North America, South America, Asia Pacific and Europe. As part of our business strategy and growth plan, we plan to further expand internationally. Expansion of our international operations could impose substantial burdens on our resources, divert management’s attention from U.S. operations and otherwise harm our business. In addition, there are many barriers to competing successfully in the international market, including:

- changes in the relations between the United States and foreign countries;
- actions of foreign or United States governmental authorities affecting trade and foreign investment;
- regulations on repatriation of funds;
- increased infrastructure costs including complex legal, tax, accounting and information technology laws and treaties;
- interpretation and application of local laws and regulations including, among others, those impacting anti-money laundering, bribery, financial transaction reporting and positive balance or prepaid cards;
- enforceability of intellectual property and contract rights;
- potentially adverse tax consequences due to, but not limited to, the repatriation of cash and negative consequences from changes in or interpretations of tax laws;
- local labor conditions and regulations; and
- fluctuation in foreign currencies.

We cannot assure you that our investments outside the United States will produce desired levels of revenue or costs, or that one or more of the factors listed above will not harm our business.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On February 7, 2007, we announced a share repurchase program authorizing the purchase of up to \$75 million of our common stock over a 24 month period. In July 2008, our Board of Directors approved an increase of \$75 million to the share repurchase authorization. In addition, our Board of Directors then extended the share repurchase program through July 25, 2013. We were authorized to purchase, in total, up to \$150 million of our common stock. Share repurchases were to be made on the open market and could be commenced or suspended at any time. This extended share repurchase program expired on July 25, 2013. On September 23, 2013, we announced a new share repurchase program authorizing the purchase of up to \$150.0 million worth of our common stock from time to time until September 30, 2017.

We did not purchase shares of our common stock during the third quarter of 2013. The approximate dollar value of shares that were available to be purchased under the plans or programs was \$150.0 million as of September 30, 2013.





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## Item 6. Exhibits.

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Certificate of Incorporation (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)  |
| 3.2         | Certificate of Ownership and Merger merging WEX Transitory Corporation with and into Wright Express Corporation (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on October 30, 2012, File No. 001-32426)                            |
| 3.3         | Amended and Restated By-Laws of WEX Inc. (incorporated by reference to Exhibit No. 3.1 to our Current Report on Form 8-K filed with the SEC on October 30, 2012, File No. 001-32426)   |
| 4.1         | Rights Agreement dated as of February 16, 2005, by and between Wright Express Corporation and Wachovia Bank, National Association (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on March 1, 2005, File No. 001-32426)             |
| 4.2         | Indenture, dated as of January 30, 2013, among WEX Inc., the Guarantors named therein, and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit No. 4.1 to our Current Report on Form 8-K filed with the SEC on February 1, 2013, File No. 001-32426) |
| * 31.1      | Certification of Chief Executive Officer of WEX INC. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended  |
| * 31.2      | Certification of Chief Financial Officer of WEX INC. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended  |
| * 32.1      | Certification of Chief Executive Officer of WEX INC. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code  |
| * 32.2      | Certification of Chief Financial Officer of WEX INC. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code  |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase Document  |
| 101.LAB     | XBRL Taxonomy Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Presentation Linkbase Document   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |

\* These exhibits have been filed with this Quarterly Report on Form 10-Q.

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SIGNATURE

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

WEX INC.

October 31, 2013

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

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