

FLEETCOR TECHNOLOGIES INC

Form 10-Q

August 09, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

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: 001-35004

**FleetCor Technologies, Inc.**

(Exact name of registrant as specified in its charter)

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|                                                                                                     |                                                                            |
|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| <p><b>Delaware</b><br/>(State or other jurisdiction of<br/><br/>incorporation or organization)</p>  | <p><b>72-1074903</b><br/>(I.R.S. Employer<br/><br/>Identification No.)</p> |
| <p><b>5445 Triangle Parkway, Norcross, Georgia</b><br/>(Address of principal executive offices)</p> | <p><b>30092</b><br/>(Zip Code)</p>                                         |
| <p><b>Registrant's telephone number, including area code: (770) 449-0479</b></p>                    |                                                                            |

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 (§232.405 of this chapter) 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 the 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"/> (Do not check if a smaller reporting company) | 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.

|                                 |                                     |
|---------------------------------|-------------------------------------|
| <b>Class</b>                    | <b>Outstanding at July 30, 2012</b> |
| Common Stock, \$0.001 par value | 83,630,729                          |

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**FLEETCOR TECHNOLOGIES, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**For the Quarterly Period Ended June 30, 2012**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FleetCor Technologies, Inc. and Subsidiaries****Consolidated Balance Sheets***(In Thousands, Except Share and Par Value Amounts)*

|                                                                                                                                                                                                                | <b>June 30,<br/>2012<br/>(Unaudited)</b> | <b>December 31,<br/>2011</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                                                                                                  |                                          |                              |
| Current assets:                                                                                                                                                                                                |                                          |                              |
| Cash and cash equivalents                                                                                                                                                                                      | \$ 255,579                               | \$ 285,159                   |
| Restricted cash                                                                                                                                                                                                | 50,127                                   | 55,762                       |
| Accounts receivable (less allowance for doubtful accounts of \$17,959 and \$15,315, respectively)                                                                                                              | 545,796                                  | 481,791                      |
| Securitized accounts receivable restricted for securitization investors                                                                                                                                        | 325,000                                  | 280,000                      |
| Prepaid expenses and other current assets                                                                                                                                                                      | 17,505                                   | 15,416                       |
| Deferred income taxes                                                                                                                                                                                          | 4,310                                    | 4,797                        |
| <b>Total current assets</b>                                                                                                                                                                                    | <b>1,198,317</b>                         | <b>1,122,925</b>             |
| Property and equipment                                                                                                                                                                                         | 101,875                                  | 93,380                       |
| Less accumulated depreciation and amortization                                                                                                                                                                 | (66,198)                                 | (60,656)                     |
| Net property and equipment                                                                                                                                                                                     | 35,677                                   | 32,724                       |
| Goodwill                                                                                                                                                                                                       | 775,749                                  | 760,872                      |
| Other intangibles, net                                                                                                                                                                                         | 408,731                                  | 379,907                      |
| Other assets                                                                                                                                                                                                   | 86,215                                   | 45,834                       |
| <b>Total assets</b>                                                                                                                                                                                            | <b>\$ 2,504,689</b>                      | <b>\$ 2,342,262</b>          |
| <b>Liabilities and stockholders' equity</b>                                                                                                                                                                    |                                          |                              |
| Current liabilities:                                                                                                                                                                                           |                                          |                              |
| Accounts payable                                                                                                                                                                                               | \$ 474,837                               | \$ 478,882                   |
| Accrued expenses                                                                                                                                                                                               | 34,857                                   | 41,565                       |
| Customer deposits                                                                                                                                                                                              | 170,640                                  | 180,269                      |
| Securitization facility                                                                                                                                                                                        | 325,000                                  | 280,000                      |
| Current portion of notes payable and other obligations                                                                                                                                                         | 129,873                                  | 140,354                      |
| <b>Total current liabilities</b>                                                                                                                                                                               | <b>1,135,207</b>                         | <b>1,121,070</b>             |
| Notes payable and other obligations, less current portion                                                                                                                                                      | 285,950                                  | 278,429                      |
| Deferred income taxes                                                                                                                                                                                          | 141,612                                  | 131,327                      |
| <b>Total noncurrent liabilities</b>                                                                                                                                                                            | <b>427,562</b>                           | <b>409,756</b>               |
| Commitments and contingencies                                                                                                                                                                                  |                                          |                              |
| Stockholders' equity:                                                                                                                                                                                          |                                          |                              |
| Common stock, \$0.001 par value; 475,000,000 shares authorized, 115,390,487 shares issued and 83,508,817 shares outstanding at June 30, 2012; and 475,000,000 shares authorized, 113,741,883 shares issued and | 115                                      | 114                          |

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81,860,213 shares outstanding at December 31, 2011

|                                                                                |           |           |
|--------------------------------------------------------------------------------|-----------|-----------|
| Additional paid-in capital                                                     | 500,331   | 466,203   |
| Retained earnings                                                              | 630,978   | 534,498   |
| Accumulated other comprehensive loss                                           | (13,841)  | (13,716)  |
| Less treasury stock (31,881,670 shares at June 30, 2012 and December 31, 2011) | (175,663) | (175,663) |

|                            |         |         |
|----------------------------|---------|---------|
| Total stockholders' equity | 941,920 | 811,436 |
|----------------------------|---------|---------|

|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 2,504,689 | \$ 2,342,262 |
|--------------------------------------------|--------------|--------------|

*See accompanying notes to unaudited consolidated financial statements.*

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### FleetCor Technologies, Inc. and Subsidiaries

#### Unaudited Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

|                                             | Three months ended June 30, |            | Six months ended June 30, |            |
|---------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                             | 2012                        | 2011       | 2012                      | 2011       |
| Revenues, net                               | \$ 171,820                  | \$ 134,213 | \$ 317,985                | \$ 245,218 |
| Expenses:                                   |                             |            |                           |            |
| Merchant commissions                        | 17,651                      | 14,881     | 28,044                    | 23,158     |
| Processing                                  | 27,014                      | 19,775     | 52,593                    | 37,707     |
| Selling                                     | 10,274                      | 9,003      | 20,449                    | 16,790     |
| General and administrative                  | 23,824                      | 22,074     | 47,647                    | 39,989     |
| Depreciation and amortization               | 11,609                      | 8,588      | 23,329                    | 17,195     |
| Operating income                            | 81,448                      | 59,892     | 145,923                   | 110,379    |
| Other (income) expense, net                 | (66)                        | (56)       | 522                       | (90)       |
| Interest expense, net                       | 2,818                       | 3,451      | 6,381                     | 6,814      |
| Loss on early extinguishment of debt        |                             | 2,669      |                           | 2,669      |
| Total other expense                         | 2,752                       | 6,064      | 6,903                     | 9,393      |
| Income before taxes                         | 78,696                      | 53,828     | 139,020                   | 100,986    |
| Provision for income taxes                  | 24,295                      | 17,113     | 42,540                    | 31,937     |
| Net income                                  | \$ 54,401                   | \$ 36,715  | \$ 96,480                 | \$ 69,049  |
| Earnings per share:                         |                             |            |                           |            |
| Basic earnings per share                    | \$ 0.65                     | \$ 0.46    | \$ 1.16                   | \$ 0.86    |
| Diluted earnings per share                  | \$ 0.63                     | \$ 0.44    | \$ 1.13                   | \$ 0.83    |
| Weighted average shares outstanding:        |                             |            |                           |            |
| Basic weighted average shares outstanding   | 83,294                      | 80,151     | 82,929                    | 80,044     |
| Diluted weighted average shares outstanding | 85,737                      | 83,548     | 85,451                    | 83,464     |

See accompanying notes to unaudited consolidated financial statements.

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**FleetCor Technologies, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

*(In Thousands)*

|                                                                 | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-----------------------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                                 | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                      | <b>2011</b> |
| Net income                                                      | \$ 54,401                          | \$ 36,715   | \$ 96,480                        | \$ 69,049   |
| Other comprehensive income:                                     |                                    |             |                                  |             |
| Foreign currency translation adjustment gain (loss), net of tax | (9,197)                            | 368         | (125)                            | 4,340       |
| Total other comprehensive income (loss)                         | (9,197)                            | 368         | (125)                            | 4,340       |
| Total comprehensive income                                      | \$ 45,204                          | \$ 37,083   | \$ 96,355                        | \$ 73,389   |

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents****FleetCor Technologies, Inc. and Subsidiaries****Unaudited Consolidated Statements of Cash Flows***(In Thousands)*

|                                                                                             | <b>Six months ended June 30,</b> |             |
|---------------------------------------------------------------------------------------------|----------------------------------|-------------|
|                                                                                             | <b>2012</b>                      | <b>2011</b> |
| <b>Operating activities</b>                                                                 |                                  |             |
| Net income                                                                                  | \$ 96,480                        | \$ 69,049   |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                  |             |
| Depreciation                                                                                | 6,288                            | 5,531       |
| Stock-based compensation                                                                    | 7,793                            | 11,983      |
| Provision for losses on accounts receivable                                                 | 10,953                           | 8,771       |
| Amortization of deferred financing costs                                                    | 1,051                            | 843         |
| Amortization of intangible assets                                                           | 14,357                           | 9,187       |
| Amortization of premium on receivables                                                      | 1,633                            | 1,634       |
| Deferred income taxes                                                                       | (167)                            | (765)       |
| Loss on early extinguishment of debt                                                        |                                  | 2,669       |
| Changes in operating assets and liabilities (net of acquisitions):                          |                                  |             |
| Restricted cash                                                                             | 5,635                            | (667)       |
| Accounts receivable                                                                         | (117,325)                        | (154,408)   |
| Prepaid expenses and other current assets                                                   | 2,808                            | (4,608)     |
| Other assets                                                                                | (42,268)                         | (1,114)     |
| Excess tax benefits related to stock-based compensation                                     | (14,750)                         | (1,821)     |
| Accounts payable, accrued expenses and customer deposits                                    | (9,286)                          | 56,170      |
| Net cash (used in) provided by operating activities                                         | (36,798)                         | 2,454       |
| <b>Investing activities</b>                                                                 |                                  |             |
| Acquisitions, net of cash acquired                                                          | (35,490)                         | (785)       |
| Purchases of property and equipment                                                         | (8,431)                          | (5,916)     |
| Net cash used in investing activities                                                       | (43,921)                         | (6,701)     |
| <b>Financing activities</b>                                                                 |                                  |             |
| Excess tax benefits related to stock-based compensation                                     | 14,750                           | 1,821       |
| Borrowings on securitization facility, net                                                  | 45,000                           | 18,000      |
| Deferred financing costs paid                                                               | (795)                            | (7,736)     |
| Proceeds from issuance of common stock                                                      | 11,584                           | 855         |
| Principal payments on notes payable                                                         | (7,500)                          | (331,465)   |
| Borrowings on notes payable                                                                 |                                  | 300,000     |
| Principal payments on revolver                                                              | (185,000)                        |             |
| Borrowings from revolver                                                                    | 145,000                          |             |
| Borrowings (payments) on swing line of credit, net                                          | 26,862                           |             |
| Other                                                                                       |                                  | (179)       |
| Net cash provided by (used in) financing activities                                         | 49,901                           | (18,704)    |
| Effect of foreign currency exchange rates on cash                                           | 1,238                            | 9,347       |
| Net decrease in cash and cash equivalents                                                   | (29,580)                         | (13,604)    |
| Cash and cash equivalents, beginning of period                                              | 285,159                          | 114,804     |

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|                                           |            |            |
|-------------------------------------------|------------|------------|
| Cash and cash equivalents, end of period  | \$ 255,579 | \$ 101,200 |
| <b>Supplemental cash flow information</b> |            |            |
| Cash paid for interest                    | \$ 7,209   | \$ 4,335   |
| Cash paid for income taxes                | \$ 24,164  | \$ 20,284  |

*See accompanying notes to unaudited consolidated financial statements.*

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### **FleetCor Technologies, Inc. and Subsidiaries**

### **Notes to Unaudited Consolidated Financial Statements**

**June 30, 2012**

## **1. Summary of Significant Accounting Policies**

### **Basis of Presentation**

Throughout this report, the terms *our*, *we*, *us*, and the *Company* refers to FleetCor Technologies, Inc. and its subsidiaries. The Company prepared the accompanying interim consolidated financial statements in accordance with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ( *GAAP* ). The unaudited consolidated financial statements reflect all adjustments considered necessary for fair presentation. These adjustments consist primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may differ from these estimates. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

### **Foreign Currency Translation**

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the rates of exchange in effect at period-end. The related translation adjustments recorded directly to accumulated other comprehensive income. Income and expenses are translated at the average monthly rates of exchange in effect during the period. Gains and losses from foreign currency transactions of these subsidiaries are included in net income. The Company recognized foreign exchange gains of \$168,000 and \$90,000 for the three months ended June 30, 2012 and June 30, 2011, respectively. The Company recognized a foreign exchange loss of \$6,000 for the six months ended June 30, 2012 and a foreign exchange gain of \$127,000 for the six months ended June 30, 2011, which are classified within other income, net in the Unaudited Consolidated Statements of Income.

### **Comprehensive Income**

Comprehensive income is defined as the total of net income and all other changes in equity that result from transactions and other economic events of a reporting period other than transactions with owners. The Company discloses comprehensive income in the Consolidated Statements of Comprehensive Income.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. The December 31, 2011 consolidated balance sheet has been recasted to reflect adjustments to the provisional opening balance sheet amounts as discussed further in Note 5.

### **Adoption of New Accounting Standards**

#### *Fair Value Measurement and Disclosure Requirements*

In May 2011, the Financial Accounting Standards Board ( *FASB* ) issued Accounting Standards Update ( *ASU* ) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which amends Accounting Standards Codification ( *ASC* ) 820, *Fair Value Measurement* to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments were effective for and adopted by the Company on January 1, 2012 and are required to be applied prospectively. Since ASU 2011-04 is a disclosure-only standard, the Company's adoption of this ASU did not affect the Company's results of operations, financial condition, or cash flows.

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### *Other Comprehensive Income Reclassifications*

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which supersedes certain pending paragraphs in ASU 2011-05. ASU 2011-12 defers the requirement of ASU 2011-05 requiring entities to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 was effective for and adopted by the Company beginning January 1, 2012. The Company's adoption of this ASU did not affect the Company's results of operations, financial condition, or cash flows.

**Table of Contents***Qualitative Impairment Test for Indefinite-Lived Intangibles*

In July 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other*, which gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. The proposed guidance is similar to ASU 2011-08 for goodwill. Companies would consider relevant events and circumstances that may affect the significant inputs used in determining the fair value of an indefinite-lived intangible asset. A company that concludes that it is more likely than not that the fair value of such an asset exceeds its carrying amount would not need to calculate the fair value of the asset in the current year. However, if a company concludes that it is more likely than not that the asset is impaired, it must calculate the fair value of the asset and compare that value with its carrying amount, as is required by current guidance. ASU 2012-02 would be applied prospectively for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company's adoption of this ASU is not expected to affect the Company's results of operations, financial condition, or cash flows.

**2. Accounts Receivable**

The Company maintains a \$500 million revolving trade accounts receivable Securitization Facility. Pursuant to the terms of the Securitization Facility, the Company transfers certain of its domestic receivables, on a revolving basis, to FleetCor Funding LLC (Funding) a wholly-owned bankruptcy remote subsidiary. In turn, Funding sells, without recourse, on a revolving basis, up to \$500 million of undivided ownership interests in this pool of accounts receivable to a multi-seller, asset-backed commercial paper conduit (Conduit). Funding maintains a subordinated interest, in the form of over-collateralization, in a portion of the receivables sold to the Conduit. Purchases by the Conduit are financed with the sale of highly-rated commercial paper.

The Company utilizes proceeds from the sale of its accounts receivable as an alternative to other forms of debt, effectively reducing its overall borrowing costs. The Company has agreed to continue servicing the sold receivables for the financial institution at market rates, which approximates the Company's cost of servicing. The Company retains a residual interest in the accounts receivable sold as a form of credit enhancement. The residual interest's fair value approximates carrying value due to its short-term nature. Funding determines the level of funding achieved by the sale of trade accounts receivable, subject to a maximum amount.

On February 6, 2012, the Company extended the term of its asset Securitization Facility to February 4, 2013. The Company capitalized \$0.6 million in deferred financing fees in connection with this extension.

The Company's accounts receivable and securitized accounts receivable include the following at June 30, 2012 and December 31, 2011 (in thousands):

|                                                      | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------------------------------|--------------------------|------------------------------|
| Gross domestic accounts receivable                   | \$ 96,029                | \$ 84,087                    |
| Gross securitized accounts receivable                | 325,000                  | 280,000                      |
| Gross foreign receivables                            | 467,726                  | 413,019                      |
| <br>Total gross receivables                          | <br>888,755              | <br>777,106                  |
| Less allowance for doubtful accounts                 | (17,959)                 | (15,315)                     |
| <br>Net accounts and securitized accounts receivable | <br>\$ 870,796           | <br>\$ 761,791               |

A rollforward of the Company's allowance for doubtful accounts related to accounts receivable for six months ended June 30 is as follows (in thousands):

|                                                     | <b>2012</b> | <b>2011</b> |
|-----------------------------------------------------|-------------|-------------|
| Allowance for doubtful accounts beginning of period | \$ 15,315   | \$ 14,256   |
| Add:                                                |             |             |
| Provision for bad debts                             | 10,953      | 8,771       |

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|                                               |           |           |
|-----------------------------------------------|-----------|-----------|
| Less:                                         |           |           |
| Write-offs                                    | (8,309)   | (6,682)   |
| Allowance for doubtful accounts end of period | \$ 17,959 | \$ 16,345 |

All foreign receivables are Company owned receivables and are not included in the Company's accounts receivable securitization program. At June 30, 2012 and December 31, 2011, there was \$325 million and \$280 million, respectively, of short-term debt outstanding under the Company's accounts receivable Securitization Facility.

**Table of Contents****3. Fair Value Measurements**

There were no financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 or December 31, 2011. The carrying value of the Company's debt obligations approximates fair value as the interest rates on the debt are variable market based interest rates.

The Company's nonfinancial assets which are measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. As necessary, the Company generally uses projected cash flows, discounted as necessary, to estimate the fair values of the assets using key inputs such as management's projections of cash flows on a held-and-used basis (if applicable), management's projections of cash flows upon disposition and discount rates. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy. These assets and certain liabilities are measured at fair value on a nonrecurring basis as part of the Company's annual impairment assessments and as circumstances require.

Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

As the basis for evaluating such inputs, a three-tier value hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

**4. Share Based Compensation**

The Company has Stock Incentive Plans (the Plans) pursuant to which the Company's board of directors may grant stock options or restricted stock to employees. The Company is authorized to issue grants of restricted stock and stock options to purchase up to 26,963,150 shares as of June 30, 2012 and December 31, 2011. There were 1,839,349 additional shares remaining available for grant under the Plans at June 30, 2012.

The table below summarizes the expense recognized related to share-based payments recognized for the three and six month periods ended June 30 (in thousands):

|                          | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|--------------------------|-----------------------------|----------|---------------------------|-----------|
|                          | 2012                        | 2011     | 2012                      | 2011      |
| Stock options            | \$ 2,349                    | \$ 2,594 | \$ 4,626                  | \$ 5,054  |
| Restricted stock         | 1,611                       | 5,248    | 3,167                     | 6,929     |
| Stock-based compensation | \$ 3,960                    | \$ 7,842 | \$ 7,793                  | \$ 11,983 |

The tax benefits recorded on stock based compensation were \$1.2 million and \$3.4 million for the three month periods ended June 30, 2012 and 2011, respectively. The tax benefits recorded on stock based compensation were \$2.4 million and \$4.1 million for the six month periods ended June 30, 2012 and 2011, respectively.

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The following table summarizes the Company's total unrecognized compensation cost related to stock-based compensation as of June 30, 2012 (in thousands):

|                  | <b>Unrecognized<br/>Compensation<br/>Cost</b> | <b>Weighted Average<br/>Period of Expense<br/>Recognition<br/>(in Years)</b> |
|------------------|-----------------------------------------------|------------------------------------------------------------------------------|
| Stock options    | \$ 23,674                                     | 2.26                                                                         |
| Restricted stock | 10,095                                        | 1.51                                                                         |
| <b>Total</b>     | <b>\$ 33,769</b>                              |                                                                              |

**Table of Contents****Stock Options**

Stock options are granted with an exercise price estimated to be equal to the fair market value on the date of grant as authorized by the Company's board of directors. Options granted have vesting provisions ranging from one to six years. Stock option grants are generally subject to forfeiture if employment terminates prior to vesting.

The following summarizes the changes in the number of shares of common stock under option for the six month period ended June 30, 2012 (shares and aggregate intrinsic value in thousands):

|                                      | Shares  | Weighted<br>Average<br>Exercise<br>Price | Options<br>Exercisable<br>at End of<br>Period | Weighted<br>Average<br>Exercise<br>Price of<br>Exercisable<br>Options | Weighted<br>Average Fair<br>Value of<br>Options<br>Granted During<br>the Period | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|---------|------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2011     | 8,341   | \$ 15.51                                 | 4,394                                         | \$ 10.13                                                              |                                                                                 | \$ 119,802                      |
| Granted                              | 235     | 40.65                                    |                                               |                                                                       |                                                                                 |                                 |
| Exercised                            | (1,584) | 7.50                                     |                                               |                                                                       |                                                                                 | 43,596                          |
| Forfeited                            | (30)    | 10.00                                    |                                               |                                                                       |                                                                                 |                                 |
| Outstanding at June 30, 2012         | 6,962   | \$ 18.20                                 | 3,339                                         | \$ 11.83                                                              |                                                                                 | \$ 117,228                      |
| Expected to vest as of June 30, 2012 | 6,962   | \$ 18.20                                 |                                               |                                                                       |                                                                                 |                                 |

The fair value of stock option awards granted was estimated using the Black-Scholes option pricing model during the six months ended June 30, 2012 and 2011, with the following weighted-average assumptions for grants during the period.

|                          | Six Months Ended June 30, |        |
|--------------------------|---------------------------|--------|
|                          | 2012                      | 2011   |
| Risk-free interest rate  | 0.64%                     | 1.78%  |
| Dividend yield           |                           |        |
| Expected volatility      | 34.31%                    | 39.27% |
| Expected life (in years) | 4.0                       | 4.0    |

The Company considered the retirement and forfeiture provisions of the options and utilized its historical experience to estimate the expected life of the options.

The risk-free interest rate is based on the yield of a zero coupon U.S. Treasury security with a maturity equal to the expected life of the option from the date of the grant. The Company estimates the volatility of the share price of the Company's common stock by considering the historical volatility of the stock of similar public entities. In determining the appropriateness of the public entities included in the volatility assumption the Company considered a number of factors, including the entity's life cycle stage, size, financial leverage, and products offered. In periods subsequent to June 30, 2012, the Company will utilize the volatility of the share price of the Company's common stock to estimate the volatility assumption for the Black-Scholes option pricing model.

The weighted-average remaining contractual life for options outstanding was 7.05 and 7.00 years at June 30, 2012 and December 31, 2011, respectively.

**Restricted Stock**

Awards of restricted stock and restricted stock units are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to vesting. The vesting of the shares granted in 2012 and 2011 are generally based on the passage of time, performance or market conditions. Shares vesting based on the passage of time have vesting provisions ranging from one to six years.

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There were no restricted stock shares granted which included market conditions during the six months ended June 30, 2012. The fair value of restricted stock shares granted which included market conditions during the six months ended June 30, 2011 was estimated using the Monte Carlo option pricing model at the grant date, with the following assumptions.

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|                          | Six Months Ended<br>June 30, 2011 |
|--------------------------|-----------------------------------|
| Risk-free interest rate  | 1.25%                             |
| Dividend yield           |                                   |
| Expected volatility      | 37.00%                            |
| Expected life (in years) | 0.63                              |

The risk-free interest rate and volatility assumptions were calculated consistently with those applied in the Black-Scholes options pricing model utilized in determining the fair value of the stock option awards.

The following table summarizes the changes in the number of shares of restricted stock and restricted stock units for the six months ended June 30, 2012 (shares in thousands):

|                               | Shares | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|-------------------------------|--------|-------------------------------------------------------|
| Unvested at December 31, 2011 | 840    | \$ 23.15                                              |
| Granted                       | 66     | 36.76                                                 |
| Vested                        | (47)   | 29.80                                                 |
| Unvested at June 30, 2012     | 859    | \$ 23.91                                              |

**5. Acquisitions****2012 Acquisitions**

During the six months ended June 30, 2012 the Company completed acquisitions with an aggregate purchase price of \$51.6 million, net of cash acquired, which includes a deferred payment of \$11.3 million and a contingent earn-out payment of \$4.9 million.

**Russian Fuel Card Company**

On June 15, 2012, the Company acquired all of the outstanding stock of a leading Russian fuel card company. The consideration for the transaction was paid using the Company's existing cash and credit facilities. In connection with the transaction, a final payment of \$11.25 million is due December 15, 2013. This deferred payment is included in notes payable and other obligations, less current portion, within the consolidated balance sheet. The acquired company is the Russian leader in fuel card systems, and serves major oil clients, and hundreds of independent fuel card issuers. Its technology allows issuers to share their retail network, thereby expanding the reach of their networks. Results from the acquired Russian business are reported in the Company's International segment since the date of acquisition. The purpose of this acquisition was to further expand the Company's presence in the Russian fuel card marketplace. This business acquisition was not material to the Company's consolidated financial statements. The goodwill acquired with this business is not deductible for tax purposes.

**CTF Technologies, Inc.**

On July 3, 2012, the Company acquired all of the outstanding stock of CTF Technologies, Inc. (CTF), a British Columbia organization, for \$180 million. The consideration for the transaction was paid using the Company's existing cash and credit facilities. CTF Technologies Do Brasil Ltda and certain of the Company's other subsidiaries are wholly-owned entities of CTF. The acquisition was carried out pursuant to a plan of arrangement under the Business Corporations Act (British Columbia) and was approved by final order of the Supreme Court of British Columbia. The purpose of the transaction was to establish the Company's presence in the Brazilian marketplace.

CTF provides fuel payment processing services for over-the-road fleets, ships, mining equipment, and railroads in Brazil. CTF's payment platform links together fleet operators, banks, and oil companies. CTF earns revenue primarily from a recurring transaction fee paid by the oil companies who purchase services for their fleet customers under multi-year customer contracts. Due to the timing of the CTF acquisition, the Company has not yet completed a preliminary allocation of purchase price or valuation of the intangible assets acquired. The goodwill acquired

with this business is not deductible for tax purposes.

#### **2011 Acquisitions**

During 2011, the Company completed two foreign acquisitions with an aggregate purchase price of \$333.8 million, net of cash acquired, the largest of which was Allstar Business Solutions Limited.

**Table of Contents****Allstar Business Solutions Limited**

On December 13, 2011, the Company acquired all of the outstanding stock of Allstar Business Solutions Limited (Allstar) in the United Kingdom. The purpose of the transaction was to expand the Company's European commercial fleet card offerings. The results of Allstar are included in the Company's consolidated financial statements from the date of the acquisition. The total consideration for this acquisition was £200 million or approximately \$312 million, including amounts applied at the closing to the repayment of Allstar's debt. The consideration for the transaction was paid using the Company's existing cash and credit facilities.

The following table summarizes the preliminary allocation of the purchase price for Allstar (in thousands):

|                                     |                |
|-------------------------------------|----------------|
| Trade and other receivables         | \$ 253,628     |
| Prepaid expenses and other          | 139            |
| Property and equipment              | 601            |
| Goodwill                            | 110,553        |
| Other intangible assets             | 162,500        |
| Notes and other liabilities assumed | (176,327)      |
| Deferred tax liabilities            | (38,931)       |
| <br>Purchase price                  | <br>\$ 312,163 |

Intangible assets allocated in connection with the purchase price allocations consisted of the following (in thousands):

|                                       | Weighted<br>Average<br>Useful Lives<br>(in Years) | Value      |
|---------------------------------------|---------------------------------------------------|------------|
| Customer relationships                | 10                                                | \$ 135,400 |
| Trade names and trademarks indefinite | N/A                                               | 18,900     |
| Merchant network                      | 10                                                | 8,200      |
|                                       |                                                   | \$ 162,500 |

During the six months ended June 30, 2012, after the December 31, 2011 financial statements were issued, the Company completed a preliminary valuation utilizing a third-party valuation firm of the goodwill and intangible assets of Allstar, where the Company identified additional intangible assets and deferred tax liabilities acquired as of the acquisition date. Based on the third party valuation, the Company has estimated the fair values of the customer-related intangible assets, trade names and trademark assets and merchant network assets acquired as part of the acquisition of Allstar are \$135.4 million, \$18.9 million and \$8.2 million, respectively. As a result, the carrying amount of the customer-related intangible assets, trade names and trademark assets and merchant network assets were increased by an aggregate \$80.4 million during the six months ended June 30, 2012, due to the identification of this information that existed at the acquisition date, with a corresponding decrease to goodwill of \$62.0 million and increase to deferred tax liabilities of \$18.4 million. In addition, the Company reduced accrued liabilities acquired by \$0.7 million, with a corresponding increase to goodwill during the six months ended June 30, 2012, due to the identification of this information that existed at the acquisition date subsequent to the issuance of the December 31, 2011 financial statements. The Company has recasted the December 31, 2011 consolidated balance sheet for the impact of these purchase accounting adjustments. Due to the acquisition of the Allstar business occurring during December 2011, the preliminary purchase accounting adjustments recorded during the six months ended June 30, 2012 did not have a significant impact on the consolidated income statement or consolidated statement of cash flows, thus the Company has not recasted these financial statements.

The allocation of purchase price is preliminary for the Allstar acquisition as the Company has not yet finalized the valuation of assets acquired and liabilities assumed. Goodwill recognized is comprised primarily of expected synergies from combining the operations of the Company and Allstar. The goodwill acquired with this business is not deductible for tax purposes.



**Table of Contents****6. Goodwill and Other Intangible Assets**

A summary of changes in the Company's goodwill by reportable business segment is as follows (in thousands):

| Segment       | December 31,<br>2011 | Acquisitions | Purchase<br>Accounting<br>Adjustments | Foreign<br>Currency | June 30,<br>2012 |
|---------------|----------------------|--------------|---------------------------------------|---------------------|------------------|
| North America | \$ 276,714           | \$           | \$                                    | \$                  | \$ 276,714       |
| International | 484,158              | 14,482       | 333                                   | 62                  | 499,035          |
|               | \$ 760,872           | \$ 14,482    | \$ 333                                | \$ 62               | \$ 775,749       |

As of June 30, 2012 and December 31, 2011 other intangible assets consisted of the following (in thousands):

|                                                | Useful<br>Lives<br>(Years) | Gross<br>Carrying<br>Amounts | June 30, 2012<br>Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amounts | December 31, 2011<br>Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|------------------------------------------------|----------------------------|------------------------------|----------------------------------------------|---------------------------|------------------------------|--------------------------------------------------|---------------------------|
| Customer and vendor agreements                 | 5 to 20                    | \$ 441,567                   | \$ (74,694)                                  | \$ 366,873                | \$ 398,386                   | \$ (61,110)                                      | \$ 337,276                |
| Trade names and trademarks<br>indefinite lived | N/A                        | 37,526                       |                                              | 37,526                    | 37,526                       |                                                  | 37,526                    |
| Trade names and trademarks<br>other            | 3 to 15                    | 3,160                        | (1,310)                                      | 1,850                     | 3,160                        | (1,200)                                          | 1,960                     |
| Software                                       | 3 to 10                    | 5,530                        | (3,853)                                      | 1,677                     | 5,530                        | (3,383)                                          | 2,147                     |
| Non-compete agreements                         | 2 to 5                     | 2,471                        | (1,666)                                      | 805                       | 2,471                        | (1,473)                                          | 998                       |
| Total other intangibles                        |                            | \$ 490,254                   | \$ (81,523)                                  | \$ 408,731                | \$ 447,073                   | \$ (67,166)                                      | \$ 379,907                |

Purchase accounting adjustments recorded during the six months ended June 30, 2012 relate to an additional payment due to final working capital adjustments. Amortization expense related to intangible assets for the six month periods ended June 30, 2012 and 2011 was \$14.4 million and \$9.2 million, respectively.

**7. Debt**

The Company's debt instruments are as follows (in thousands):

|                                                                    | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------------------------------------------|------------------|----------------------|
| Term note payable - domestic(a)                                    | \$ 285,000       | \$ 292,500           |
| Revolving line of credit - domestic(a)                             | 85,000           | 125,000              |
| Swing line of credit - foreign (a)                                 | 28,111           |                      |
| Other debt (c)                                                     | 17,712           | 1,283                |
| Total notes payable and other obligations                          | 415,823          | 418,783              |
| Securitization facility(b)                                         | 325,000          | 280,000              |
| Total notes payable, credit agreements and Securitization Facility | \$ 740,823       | \$ 698,783           |

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|                                                                        |                |                |
|------------------------------------------------------------------------|----------------|----------------|
| Current portion                                                        | \$ 454,873     | \$ 420,354     |
| Long-term portion                                                      | 285,950        | 278,429        |
| <br>Total notes payable, credit agreements and Securitization Facility | <br>\$ 740,823 | <br>\$ 698,783 |

- (a) The Company entered into a \$300 million term loan and a \$600 million revolving line of credit on June 22, 2011. The revolving line of credit contains a \$20 million sublimit for letters of credit, a \$20 million sublimit for swing line loans and a sublimit for multicurrency borrowings in Euros, Sterling and Japanese Yen. Proceeds from this new credit facility were used to retire the Company's indebtedness under its 2005 Credit Facility and CCS Credit Facility, as described below. On March 13, 2012, the Company entered into the first amendment to the Credit Agreement. This Amendment added two United Kingdom entities as designated borrowers and added a \$110 million foreign currency swing line of credit sub facility under the existing revolver, which allows for alternate currency borrowing on the swing line. Interest ranges from the sum of the Base Rate plus 0.25% to 1.25% or the Eurodollar Rate plus 1.25% to 2.25%. The term note is payable in quarterly installments and is due on the last

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business day of each March, June, September, and December with the final principal payment due in June 2016. Borrowings on the revolving line of credit are repayable at our option of one, two, three or six months after borrowing, depending on the term of the borrowing on the facility. Borrowings on the foreign swing line of credit are due no later than ten business days after such loan is made. This facility is referred to as the Credit Facility. Principal payments of \$7.5 million were made on the term loan during the six months ended June 30, 2012.

- (b) The Company is party to a receivables purchase agreement (Securitization Facility) that was amended and restated for the fourth time as of October 29, 2007 and which has been amended seven times since then to add or remove purchasers, extend the facility termination date and remove all financial covenants. The current purchase limit under the Securitization Facility is \$500 million. The Securitization Facility was amended for the seventh time on February 6, 2012 to add a new purchaser and extend the facility termination date to February 4, 2013. There is a program fee equal to the Commercial Paper Rate of 0.28%, plus 0.75% as of June 30, 2012. The unused facility fee is payable at a rate of 0.35% per annum as of June 30, 2012. The Securitization Facility provides for certain termination events, which includes nonpayment, upon the occurrence of which the administrator may declare the facility termination date to have occurred, may exercise certain enforcement rights with respect to the receivables, and may appoint a successor servicer, among other things.
- (c) In connection with the Company's acquisition of a Russian fuel card company, there is a final payment of \$11.3 million due on December 15, 2013. The Company also is party to another acquisition agreement that includes contingent earn-out payments of \$4.9 million, which is payable in three installments in December 2012, November 2013 and May 2016.
- The Company was in compliance with all financial and non-financial covenants at June 30, 2012.

The Company has deferred debt issuance costs associated with its new Credit Facility of \$6.3 million as of June 30, 2012, which is classified in Other Assets within the Company's unaudited Consolidated Balance Sheet.

## 8. Income Taxes

The provision for income taxes differs from amounts computed by applying the U.S. federal tax rate of 35% to income before income taxes for the three months ended June 30, 2012 and 2011 due to the following (in thousands):

|                                              | 2012      |       | 2011      |       |
|----------------------------------------------|-----------|-------|-----------|-------|
| Income tax expense at federal statutory rate | \$ 27,544 | 35.0% | \$ 18,840 | 35.0% |
| Changes resulting from:                      |           |       |           |       |
| Foreign income tax differential              | (2,155)   | (2.7) | (2,164)   | (4.0) |
| State taxes, net of federal benefit          | 653       | 0.8   | 730       | 1.4   |
| Foreign-sourced nontaxable income            | (2,729)   | (3.5) | (793)     | (1.5) |
| Other                                        | 982       | 1.3   | 500       | 0.9   |
| Provision for income taxes                   | \$ 24,295 | 30.9% | \$ 17,113 | 31.8% |

At June 30, 2012 and December 31, 2011, notes payable and other obligations noncurrent, included liabilities for unrecognized income tax benefits of \$5.7 million and \$4.2 million, respectively. During the three months ended June 30, 2012 and 2011 the Company recognized additional liabilities of \$0.3 million and \$0.1 million, respectively. During the six months ended June 30, 2012 and 2011 the Company recognized additional liabilities of \$0.7 million and \$0.2 million, respectively. During the three and six months ended June 30, 2012 and 2011, amounts recorded for accrued interest and penalties expense related to the unrecognized income tax benefits were not significant.

The Company files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The statute of limitations for the Company's U.S. federal income tax returns has expired for years prior to 2008. The statute of limitations for the Company's U.K. income tax returns has expired for years prior to 2010. The statute of limitations has expired for years prior to 2008 for the Company's Czech Republic income tax returns.

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### 9. Earnings Per Share

The Company reports basic and diluted earnings per share. Basic earnings per share is computed by dividing net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the reported period. Diluted earnings per share reflect the potential dilution related to equity-based incentives using the if-converted and treasury stock method, where applicable.

The calculation and reconciliation of basic and diluted earnings per share for the three and six months ended June 30 (in thousands, except per share data):

|                                                                   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-------------------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                                   | 2012                           | 2011      | 2012                         | 2011      |
| Net income                                                        | \$ 54,401                      | \$ 36,715 | \$ 96,480                    | \$ 69,049 |
| Denominator for basic and diluted earnings per share:             |                                |           |                              |           |
| Weighted-average shares outstanding                               | 82,430                         | 78,929    | 82,054                       | 78,673    |
| Share-based payment awards classified as participating securities | 863                            | 1,222     | 876                          | 1,371     |
| Denominator for basic earnings per share                          | 83,293                         | 80,151    | 82,930                       | 80,044    |
| Dilutive securities                                               | 2,444                          | 3,397     | 2,521                        | 3,420     |
| Denominator for diluted earnings per share                        | 85,737                         | 83,548    | 85,451                       | 83,464    |
| Basic earnings per share                                          | \$ 0.65                        | \$ 0.46   | \$ 1.16                      | \$ 0.86   |
| Diluted earnings per share                                        | \$ 0.63                        | \$ 0.44   | \$ 1.13                      | \$ 0.83   |

Diluted earnings per share for the three month periods ended June 30, 2012 and 2011 excludes the effect of 0.2 million and 0.2 million shares of common stock, respectively, that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

### 10. Segments

The Company's reportable segments represent components of the business for which separate financial information is evaluated regularly by the chief operating decision maker in determining how to allocate resources and in assessing performance. The Company operates in two reportable segments, North America and International. The Company has identified these segments due to commonality of the products in each of their business lines having similar economic characteristics, services, customers and processes. There were no significant inter-segment sales.

The results from the Company's Mexican prepaid fuel card and food voucher business acquired during the third quarter of 2011, Allstar business acquired during the fourth quarter of 2011 and a Russian fuel card business acquired during the second quarter of 2012 are reported in our International segment.

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The Company's segment results are as follows as of and for the three month periods ended June 30 (in thousands):

|                                | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|--------------------------------|--------------------------------|------------|------------------------------|------------|
|                                | 2012                           | 2011       | 2012                         | 2011       |
| Revenues, net:                 |                                |            |                              |            |
| North America                  | \$ 107,286                     | \$ 92,865  | \$ 190,098                   | \$ 164,449 |
| International                  | 64,534                         | 41,348     | 127,887                      | 80,769     |
|                                | \$ 171,820                     | \$ 134,213 | \$ 317,985                   | \$ 245,218 |
| Operating income:              |                                |            |                              |            |
| North America                  | \$ 53,598                      | \$ 40,471  | \$ 91,711                    | \$ 71,990  |
| International                  | 27,850                         | 19,421     | 54,212                       | 38,389     |
|                                | \$ 81,448                      | \$ 59,892  | \$ 145,923                   | \$ 110,379 |
| Depreciation and amortization: |                                |            |                              |            |
| North America                  | \$ 5,024                       | \$ 4,889   | \$ 10,018                    | \$ 9,831   |
| International                  | 6,585                          | 3,699      | 13,311                       | 7,364      |
|                                | \$ 11,609                      | \$ 8,588   | \$ 23,329                    | \$ 17,195  |
| Capital expenditures:          |                                |            |                              |            |
| North America                  | \$ 2,501                       | \$ 1,347   | \$ 4,596                     | \$ 2,834   |
| International                  | 2,367                          | 1,975      | 3,835                        | 3,082      |
|                                | \$ 4,868                       | \$ 3,322   | \$ 8,431                     | \$ 5,916   |

**11. Commitments and Contingencies**

In the ordinary course of business, the Company is involved in various pending or threatened legal actions. The Company is currently involved in an investigation by the Office of Fair Trading in the United Kingdom, relating to its Keyfuels product line. This product line consists of a proprietary payment card and associated site network in the United Kingdom. A competitor alleged that a Company subsidiary is dominant in a relevant market with its Keyfuels product line. The Office of Fair Trading is investigating whether the Company is dominant and, if dominant, whether some of its contracts with some sites and dealers would constitute exclusive dealings requiring them to be reformed to eliminate exclusivity. The Office of Fair Trading has issued a statement of objections, which the Company responded to, and it is awaiting the regulator's conclusions. If determined adversely, the regulator has authority to require the Company to reform contracts to eliminate exclusivity and impose significant fines, which could be material. Any adverse determination is appealable to the Competition Appeal Tribunal. The Company does not believe that a reasonable estimate of the range of loss can be made at this time.

The Company has recorded reserves for certain legal proceedings. The amounts recorded are estimated and as additional information becomes available, the Company will reassess the potential liability related to its pending litigation and revise its estimate in the period that information becomes known. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and related notes appearing elsewhere in this report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences include, but are not limited to, those identified below and those described in Part I, Item 1A "Risk Factors" appearing in our Annual Report on Form 10-K. All foreign currency amounts that have been converted into U.S. dollars in this discussion are based on the exchange rate as reported by Oanda for the applicable periods.

This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Overview**

FleetCor is a leading independent global provider of specialized payment products and services to businesses, commercial fleets, major oil companies, petroleum marketers and government entities in countries throughout North America, Latin America and Europe. Our payment programs enable our customers to better manage and control employee spending and provide card-accepting merchants with a high volume customer base that can increase their sales and customer loyalty. We believe that our size and scale, geographic reach, advanced technology and our expansive suite of products, services, brands and proprietary networks contribute to our leading industry position.

We provide our payment products and services in a variety of combinations to create customized payment solutions for our customers and partners. We sell these products and services directly and indirectly through partners with whom we have strategic relationships, such as major oil companies and petroleum marketers. We refer to these major oil companies and petroleum marketers as our "partners." We provide our customers with various card products that typically function like a charge card to purchase fuel, lodging and related products and services at participating locations. Our payment programs enable businesses to better manage and control employee spending and provide card-accepting merchants with a high volume customer base that can increase their sales and customer loyalty.

In order to deliver our payment programs and services and process transactions, we own and operate proprietary "closed-loop" networks through which we electronically connect to merchants and capture, analyze and report customized information. We also use third-party networks to deliver our payment programs and services in order to broaden our card acceptance and use. To support our payment products, we also provide a range of services, such as issuing and processing, as well as specialized information services that provide our customers with value-added functionality and data. Our customers can use this data to track important business productivity metrics, combat fraud and employee misuse, streamline expense administration and lower overall fleet operating costs.

**Our segments, sources of revenue and expenses****Segments**

We operate in two segments, which we refer to as our North America and International segments. The results from our Mexican prepaid fuel card and food voucher company ("Mexican business") acquired during the third quarter of 2011, Allstar Business Solutions ("Allstar") acquired during the fourth quarter of 2011 and Russian fuel card business acquired during the second quarter of 2012 are reported in our International segment. Our revenue is reported net of the wholesale cost for underlying products and services. In this report, we refer to this net revenue as "revenue." For the three and six months ended June 30, 2012 and 2011, our North America and International segments generated the following revenue:

|                       | Three months ended June 30, |                    |         |                    | Six months ended June 30, |                    |          |                    |
|-----------------------|-----------------------------|--------------------|---------|--------------------|---------------------------|--------------------|----------|--------------------|
|                       | 2012                        |                    | 2011    |                    | 2012                      |                    | 2011     |                    |
|                       | Revenue                     | % of total revenue | Revenue | % of total revenue | Revenue                   | % of total revenue | Revenue  | % of total revenue |
| (dollars in millions) |                             |                    |         |                    |                           |                    |          |                    |
| North America         | \$ 107.3                    | 62.4%              | \$ 92.9 | 69.2%              | \$ 190.1                  | 59.8%              | \$ 164.4 | 67.1%              |
| International         | 64.5                        | 37.6%              | 41.3    | 30.8%              | 127.9                     | 40.2%              | 80.8     | 32.9%              |

|          |        |          |        |          |        |          |        |
|----------|--------|----------|--------|----------|--------|----------|--------|
| \$ 171.8 | 100.0% | \$ 134.2 | 100.0% | \$ 318.0 | 100.0% | \$ 245.2 | 100.0% |
|----------|--------|----------|--------|----------|--------|----------|--------|

**Table of Contents*****Sources of Revenue***

**Transactions** In both of our segments, we derive revenue from transactions and the related revenue per transaction. As illustrated in the diagram below, a transaction is defined as a purchase by a customer. Our customers include holders of our card products and those of our partners, for whom we manage card programs. Revenue from transactions is derived from our merchant and network relationships, as well as our customers and partners. Through our merchant and network relationships we primarily offer fuel, vehicle maintenance or lodging services to our customers. We also earn revenue from our customers and partners through program fees and charges. The following diagram illustrates a typical transaction flow.

**Illustrative Transaction Flow**

From our merchant and network relationships, we derive revenue from the difference between the price charged to a customer for a transaction and the price paid to the merchant or network for the same transaction. As illustrated in the table below, the price paid to a merchant or network may be calculated as (i) the merchant's wholesale cost of fuel plus a markup; (ii) the transaction purchase price less a percentage discount; or (iii) the transaction purchase price less a fixed fee per unit. The difference between the price we pay to a merchant and the merchant's wholesale cost for the underlying products and services is considered a merchant commission and is recognized as an expense. Approximately 59.2% and 52.7% of our revenue was derived from our merchant and network relationships during the three months ended June 30, 2012 and 2011, respectively. Approximately 55.3% and 49.0% of our revenue was derived from our merchant and network relationships during the six months ended June 30, 2012 and 2011, respectively.

**Illustrative Revenue Model for Fuel Purchases**

(unit of one gallon)

| Illustrative Revenue Model |           |                        |         | Merchant Payment Methods |         |                        |         |
|----------------------------|-----------|------------------------|---------|--------------------------|---------|------------------------|---------|
| i) Cost Plus               |           |                        |         | ii) Percentage           |         |                        |         |
| Retail Price               | \$ 3.00   | <b>Mark-up:</b>        |         | <b>Discount:</b>         |         | <b>iii) Fixed Fee:</b> |         |
| Wholesale Cost             | (2.86)    | Wholesale Cost         | \$ 2.86 | Retail Price             | \$ 3.00 | Retail Price           | \$ 3.00 |
|                            |           | Mark-up                | 0.05    | Discount (3%)            | (0.09)  | Fixed Fee              | (0.09)  |
| FleetCor Revenue           | \$ 0.14   |                        |         |                          |         |                        |         |
| Merchant Commission        | \$ (0.05) | Price Paid to Merchant | \$ 2.91 | Price Paid to Merchant   | \$ 2.91 | Price Paid to Merchant | \$ 2.91 |
| Price Paid to Merchant     | \$ 2.91   |                        |         |                          |         |                        |         |

From our customers and partners, we derive revenue from a variety of program fees such as transaction fees, card fees, network fees and report fees. Our payment programs include other fees and charges associated with late payments and based on customer credit risk. Approximately 40.8% and 47.3% of our revenue was derived from customer and partner program fees and charges during the three months ended June 30, 2012 and 2011, respectively. Approximately 44.7% and 51.0% of our revenue was derived from customer and partner program fees and charges during the six months ended June 30, 2012 and 2011, respectively.

**Table of Contents****Key operating metrics**

**Transaction volume and revenue per transaction** Set forth below is revenue per transaction information for the three and six months ended June 30, 2012 and 2011:

|                                                   | Three months ended June 30, |         | Six months ended June 30, |         |
|---------------------------------------------------|-----------------------------|---------|---------------------------|---------|
|                                                   | 2012                        | 2011    | 2012                      | 2011    |
| <b>Transactions (in millions)</b>                 |                             |         |                           |         |
| North America                                     | 39.3                        | 38.6    | 76.0                      | 74.8    |
| International <sup>1</sup>                        | 34.9                        | 11.1    | 70.1                      | 21.9    |
| Total transactions <sup>1</sup>                   | 74.2                        | 49.7    | 146.1                     | 96.7    |
| <b>Revenue per transaction</b>                    |                             |         |                           |         |
| North America                                     | \$ 2.73                     | \$ 2.40 | \$ 2.50                   | \$ 2.20 |
| International <sup>1</sup>                        | 1.85                        | 3.72    | 1.82                      | 3.68    |
| Consolidated revenue per transaction <sup>1</sup> | 2.31                        | 2.70    | 2.18                      | 2.54    |

<sup>1</sup> The presentation of prior quarters presented herein has been conformed to the current period presentation that eliminates certain intercompany transactions.

Revenue per transaction is derived from the various revenue types as discussed above and can vary based on geography, the relevant merchant relationship, the payment product utilized and the types of products or services purchased, the mix of which would be influenced by our acquisitions, organic growth in our business and the overall macroeconomic environment, including fluctuations in foreign currency exchange rates. Revenue per transaction per customer increases as the level of services we provide to a customer increases, as macroeconomic factors change and as adjustments are made to merchant and customer rates.

Revenue per transaction in the International segment has historically run higher than the North America segment primarily due to higher margins and higher fuel prices in our international product lines. However, acquisitions in 2011 have significantly impacted revenue per transactions in our International segment as well as on a consolidated basis. In 2011, we acquired a Mexican business and Allstar, which contributed to the increase in transaction volumes and revenues in our International segment. While the Allstar business in the UK and our business in Mexico represent good profit margin businesses, they do have lower revenue per transaction products in comparison to our other businesses and when combined with our other businesses' transactions and revenues, results in a lower revenue per transaction. The acquisition of our Russian fuel card business in June 2012 did not impact revenue per transaction due to the acquisition date.

**Sources of Revenue** Set forth below is information on our sources of revenue for the three and six months ended June 30, 2012 and 2011 expressed as a percentage of consolidated revenues:

|                                                          | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                          | 2012                        | 2011  | 2012                      | 2011  |
| Revenue from customers and partners                      | 40.8%                       | 47.3% | 44.7%                     | 51.0% |
| Revenue from merchants and networks                      | 59.2%                       | 52.7% | 55.3%                     | 49.0% |
| Revenue tied to fuel-price spreads                       | 23.5%                       | 21.5% | 19.7%                     | 19.2% |
| Revenue influenced by the absolute price of fuel         | 19.2%                       | 25.6% | 19.2%                     | 24.0% |
| Revenue from program fees, late fees, interest and other | 57.3%                       | 52.9% | 61.1%                     | 56.8% |

**Factors and trends impacting our business**

We believe that the following factors and trends are important in understanding our financial performance:

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*Fuel prices* Our fleet customers use our products and services primarily in connection with the purchase of fuel. Accordingly, our revenue is affected by fuel prices, which are subject to significant volatility. A change in retail fuel prices could cause a decrease or increase in our revenue from several sources, including fees paid to us based on a percentage of each customer's total purchase. We believe that approximately 19.2% and 25.6% of our consolidated revenue during the three months ended June 30, 2012 and 2011, respectively, and 19.2% and 24.0% of our consolidated revenue during the six months ended June 30, 2012 and 2011, respectively, was directly influenced by the absolute price of fuel. Changes in the absolute price of fuel may also impact unpaid account balances and the late fees and charges based on these amounts.

*Fuel-price spread volatility* A portion of our revenue involves transactions where we derive revenue from fuel-price spreads, which is the difference between the price charged to a fleet customer for a transaction and the price paid to the merchant for the

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same transaction. In these transactions, the price paid to the merchant is based on the wholesale cost of fuel. The merchant's wholesale cost of fuel is dependent on several factors including, among others, the factors described above affecting fuel prices. The fuel price that we charge to our customer is dependent on several factors including, among others, the fuel price paid to the merchant, posted retail fuel prices and competitive fuel prices. We experience fuel-price spread contraction when the merchant's wholesale cost of fuel increases at a faster rate than the fuel price we charge to our customers, or the fuel price we charge to our customers decreases at a faster rate than the merchant's wholesale cost of fuel. Approximately 23.5% and 21.5% of our consolidated revenue during the three months ended June 30, 2012 and 2011, respectively, and 19.7% and 19.2% of our consolidated revenue during the six months ended June 30, 2012 and 2011, respectively, was derived from transactions where our revenue is tied to fuel-price spreads.

*Acquisitions* Since 2002, we have completed over 45 acquisitions of companies and commercial account portfolios. Acquisitions have been an important part of our growth strategy, and it is our intention to continue to seek opportunities to increase our customer base and diversify our service offering through further strategic acquisitions. The impact of acquisitions has, and may continue to have, a significant impact on our results of operations and may make it difficult to compare our results between periods.

*Interest rates* Our results of operations are affected by interest rates. We are exposed to market risk changes in interest rates on our cash investments and debt.

*Global economic environment* Our results of operations are materially affected by conditions in the economy generally, both in North America and internationally. Factors affected by the economy include our transaction volumes and the credit risk of our customers. These factors affected our businesses in both our North America and International segments.

*Foreign currency changes* Our results of operations are impacted by changes in foreign currency rates; namely, by movements of the British pound, the Czech koruna, the Russian ruble, the Canadian dollar, the Euro and the Mexican Peso relative to the U.S. dollar. Approximately 62.4% and 69.1% of our revenue during the three months ended June 30, 2012 and 2011, respectively, and 59.7% and 66.9% of our revenue during the six months ended June 30, 2012 and 2011, respectively, was derived in U.S. dollars and was not affected by foreign currency exchange rates.

*Expenses* Over the long term, we expect that our general and administrative expense will decrease as a percentage of revenue as our revenue increases. To support our expected revenue growth, we plan to continue to incur additional sales and marketing expense by investing in our direct marketing, third-party agents, internet marketing, telemarketing and field sales force.

**Table of Contents****Results of Operations****Three months ended June 30, 2012 compared to the three months ended June 30, 2011**

The following table sets forth selected consolidated statement of income data for the three months ended June 30, 2012 and 2011 (in thousands).

|                                  | Three months ended<br>June 30, 2012 | % of total<br>revenue | Three months ended<br>June 30, 2011 | % of total<br>revenue | Increase<br>(decrease) | % Change |
|----------------------------------|-------------------------------------|-----------------------|-------------------------------------|-----------------------|------------------------|----------|
| Revenues, net:                   |                                     |                       |                                     |                       |                        |          |
| North America                    | \$ 107,286                          | 62.4%                 | \$ 92,865                           | 69.2%                 | \$ 14,421              | 15.5%    |
| International                    | 64,534                              | 37.6%                 | 41,348                              | 30.8%                 | 23,186                 | 56.1%    |
| Total revenues, net              | 171,820                             | 100.0%                | 134,213                             | 100.0%                | 37,607                 | 28.0%    |
| Consolidated operating expenses: |                                     |                       |                                     |                       |                        |          |
| Merchant commissions             | 17,651                              | 10.3%                 | 14,881                              | 11.1%                 | 2,770                  | 18.6%    |
| Processing                       | 27,014                              | 15.7%                 | 19,775                              | 14.7%                 | 7,239                  | 36.6%    |
| Selling                          | 10,274                              | 6.0%                  | 9,003                               | 6.7%                  | 1,271                  | 14.1%    |
| General and administrative       | 23,824                              | 13.9%                 | 22,074                              | 16.4%                 | 1,750                  | 7.9%     |
| Depreciation and amortization    | 11,609                              | 6.8%                  | 8,588                               | 6.4%                  | 3,021                  | 35.2%    |
| Operating income                 | 81,448                              | 47.4%                 | 59,892                              | 44.6%                 | 21,556                 | 36.0%    |
| Other income, net                | (66)                                | 0.0%                  | (56)                                | 0.0%                  | (10)                   | 17.9%    |
| Interest expense, net            | 2,818                               | 1.6%                  | 3,451                               | 2.6%                  | (633)                  | (18.3)%  |
| Loss on extinguishment of debt   | -                                   | 0.0%                  | 2,669                               | 2.0%                  | (2,669)                | (100.0)% |
| Provision for income taxes       | 24,295                              | 14.1%                 | 17,113                              | 12.8%                 | 7,182                  | 42.0%    |
| Net income                       | \$ 54,401                           | 31.7%                 | \$ 36,715                           | 27.4%                 | \$ 17,686              | 48.2%    |
| Operating income for segments:   |                                     |                       |                                     |                       |                        |          |
| North America                    | \$ 53,598                           | 31.2%                 | \$ 40,471                           | 30.2%                 | \$ 13,127              | 32.4%    |
| International                    | 27,850                              | 16.2%                 | 19,421                              | 14.5%                 | 8,429                  | 43.4%    |
| Operating income                 | \$ 81,448                           | 47.4%                 | \$ 59,892                           | 44.6%                 | \$ 21,556              | 36.0%    |
| Operating margin for segments:   |                                     |                       |                                     |                       |                        |          |
| North America                    | 50.0%                               |                       | 43.6%                               |                       | 6.4%                   |          |
| International                    | 43.2%                               |                       | 47.0%                               |                       | (3.8)%                 |          |

**Revenues and revenue per transaction**

Our consolidated revenues increased from \$134.2 million in the three months ended June 30, 2011 to \$171.8 million in the three months ended June 30, 2012, an increase of \$37.6 million, or 28.0%. During the three months ended June 30, 2012, our consolidated revenue was impacted by:

organic growth in certain of our payment programs; and

the acquisitions of our Mexican business during the third quarter of 2011, Allstar during the fourth quarter of 2011 and another Russian fuel card business during the second quarter of 2012.

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We believe the macroeconomic environment had a neutral effect on our consolidated revenue for the three months ended June 30, 2012 over the comparable period in 2011. The impact of higher fuel spread margins was partially offset by the impact of unfavorable foreign exchange rates, continued soft economic conditions in the U.K. and Czech Republic and the competitive environment. Consolidated revenue per transaction decreased from \$2.70 in the three months ended June 30, 2011 to \$2.31 in the three months ended June 30, 2012, a decrease of \$0.39 or 14.4%. Consolidated revenue per transaction was impacted by the reasons discussed above. The acquisitions of our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012 also contributed to the increase in transaction volumes on a consolidated basis. While the Allstar business in the UK and our business in Mexico represent good profit margin businesses, they do have lower revenue per transaction products in comparison to our other businesses and when combined with our other businesses transactions and revenues,

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results in a lower revenue per transaction than would have resulted without the acquisitions. The acquisition of an additional Russian fuel card business in June 2012 did not impact revenue per transaction due to the acquisition date. The results from our recently acquired Mexican, Allstar and Russian fuel card businesses are reported in our International segment.

### ***North America segment revenues and revenue per transaction***

North America revenues increased from \$92.9 million in the three months ended June 30, 2011 to \$107.3 million in the three months ended June 30, 2012, an increase of \$14.4 million, or 15.5%. During the three months ended June 30, 2012, our North America segment revenue was impacted by:

organic growth in certain of our payment programs.

We believe the macroeconomic environment had a generally positive effect on our North American revenue for the three months ended June 30, 2012 over the comparable period in 2011, due to the impact of higher fuel spread margins. North America segment revenue per transaction increased from \$2.40 in the three months ended June 30, 2011 to \$2.73 in the three months ended June 30, 2012, an increase of \$0.33 or 13.8%. North America revenue per transaction was impacted by the reasons discussed above.

### ***International segment revenues and revenue per transaction***

International segment revenues increased from \$41.3 million in the three months ended June 30, 2011 to \$64.5 million in the three months ended June 30, 2012, an increase of \$23.2 million, or 56.1%. During the three months ended June 30, 2012, our International segment revenue was primarily impacted by:

organic growth in certain of our payment programs; and

the acquisitions of our Mexican business during the third quarter of 2011, Allstar during the fourth quarter of 2011 and another Russian fuel card business during the second quarter of 2012.

We believe the macroeconomic environment had a negative effect on our International revenue for the three months ended June 30, 2012 over the comparable period in 2011. The impact of higher fuel prices and higher fuel spread margins were offset by the impact of unfavorable foreign exchange rates, continued soft economic conditions in the U.K. and Czech Republic and the competitive environment. International segment revenue per transaction decreased from \$3.72 in the three months ended June 30, 2011 to \$1.85 in the three months ended June 30, 2012, a decrease of \$1.87 or 50.3%. International revenue per transaction was impacted by the reasons discussed above. As discussed above, we acquired our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012, which together contributed to the increase in transaction volumes in our International segment. While the Allstar business in the UK and our business in Mexico represent good profit margin businesses, they do have lower revenue per transaction products in comparison to our other businesses and when combined with our other businesses' transactions and revenues, results in a lower revenue per transaction than would have resulted without the acquisitions. The acquisition of an additional Russian fuel card business in June 2012 did not impact revenue per transaction due to the acquisition date.

### ***Consolidated operating expenses***

**Merchant commissions** Merchant commissions increased from \$14.9 million in the three months ended June 30, 2011 to \$17.7 million in the three months ended June 30, 2012, an increase of \$2.8 million, or 18.6%. This increase was due primarily to higher volume in those revenue streams where merchant commissions are paid, as well as the fluctuation of the margin between the wholesale cost and retail price of fuel, which impacted merchant commissions.

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**Processing** Processing expenses increased from \$19.8 million in the three months ended June 30, 2011 to \$27.0 million in the three months ended June 30, 2012, an increase of \$7.2 million, or 36.6%. During the three months ended June 30, 2012, our processing expenses primarily increased due to acquisitions completed in 2011 and 2012, which have a higher rate of processing expenses as a percentage of consolidated revenues in comparison to our other businesses and higher MasterCard processing fees associated with organic growth in certain of our payment programs.

**Selling** Selling expenses increased from \$9.0 million in the three months ended June 30, 2011 to \$10.3 million in the three months ended June 30, 2012, an increase of \$1.3 million, or 14.1%. The increase was primarily due to acquisitions completed in 2011 and 2012, as well as additional sales and marketing spending in certain markets.

**General and administrative** General and administrative expenses increased from \$22.1 million in the three months ended June 30, 2011 to \$23.8 million in the three months ended June 30, 2012, an increase of \$1.7 million, or 7.9%. The increase was primarily due to acquisitions completed in 2011 and 2012, partially offset by the reduction in compensation expense associated with our stock based incentive plans.

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***Depreciation and amortization*** Depreciation and amortization increased from \$8.6 million in the three months ended June 30, 2011 to \$11.6 million in the three months ended June 30, 2012, an increase of \$3.0 million, or 35.2%. The increase was primarily due to acquisitions completed during 2011 and 2012, which resulted in an increase of \$2.7 million related to the amortization of acquired intangible assets for customer and vendor relationships, trade names and trademarks, non-compete agreements and software, as well as acquired fixed assets.

### ***Operating income and operating margin***

#### ***Consolidated operating income***

Operating income increased from \$59.9 million in the three months ended June 30, 2011 to \$81.4 million in the three months ended June 30, 2012, an increase of \$21.5 million, or 36.0%. Our operating margin increased from 44.6% for the three months ended June 30, 2011 to 47.4% for the three months ended June 30, 2012. The increase in operating income from the three months ended June 30, 2011 to the three months ended June 30, 2012 was due primarily to the impact of acquisitions completed during 2011 and 2012 and organic growth in the business, partially offset by additional amortization related to acquisitions completed during 2011.

Operating margin was positively impacted by organic revenue growth and lower overall operating expenses as a percentage of revenues, partially offset by the impact of recent acquisitions. We completed the acquisition of our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012. While the Allstar business in the UK, our business in Mexico and our recent acquisition in Russia represent good profit margin businesses, they produce lower margin products in comparison to our other businesses and when combined with our other business operating income, produced a lower margin than would have resulted without the acquisitions.

For the purpose of segment operating results, we calculate segment operating income by subtracting segment operating expenses from segment revenue. Similarly, segment operating margin is calculated by dividing segment operating income by segment revenue.

#### ***North America segment operating income***

North America operating income increased from \$40.5 million in the three months ended June 30, 2011 to \$53.6 million in the three months ended June 30, 2012, an increase of \$13.1 million, or 32.4%. North America operating margin increased from 43.6% for the three months ended June 30, 2011 to 50.0% for the three months ended June 30, 2012. The increase in operating income and operating margin from the three months ended June 30, 2011 to the three months ended June 30, 2012 was due primarily to organic growth in the business, the impact of generally positive macroeconomic conditions, resulting in higher fuel spread revenues and lower overall operating expenses as a percentage of revenues. These increases were partially offset by higher merchant commissions as a percentage of revenues due to volume increases in certain businesses where commissions are paid, as well as the fluctuation of the margin between the wholesale cost and retail price of fuel, which increased merchant commissions.

#### ***International segment operating income***

International operating income increased from \$19.4 million in the three months ended June 30, 2011 to \$27.9 million in the three months ended June 30, 2012, an increase of \$8.4 million, or 43.3%. International operating margin decreased from 47.0% for the three months ended June 30, 2011 to 43.2% for the three months ended June 30, 2012. The increase in operating income from the three months ended June 30, 2011 to the three months ended June 30, 2012 was due primarily to the impact of acquisitions completed in 2011 and 2012, which were partially offset by additional amortization related to acquisitions completed during 2011 and 2012 and the impact of generally negative macroeconomic conditions, which includes the unfavorable impact of foreign exchange rates.

The lower operating margin is due to the impact of recent acquisitions. While the Allstar business in the UK, our business in Mexico and our recent acquisition in Russia represent good profit margin businesses, they produce lower margin products in comparison to our other businesses and when combined with our other business operating income, produced a lower margin than would have resulted without the acquisitions.

#### ***Other income, net***

Other income, net increased from income of \$0.06 million in the three months ended June 30, 2011 to \$0.07 million in the three months ended June 30, 2012.

#### ***Interest expense, net***

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Interest expense decreased from \$3.5 million in the three months ended June 30, 2011 to \$2.8 million in the three months ended June 30, 2012, a decrease of \$0.7 million, or 18.3%. The decrease is due to lower average interest rates paid on debt instruments in the three months ended June 30, 2012 over the comparable period in 2011. The reduction in our average interest rates is a result of the pay down of our 2005 Credit Facility and CCS Facility upon entry into our new Credit Facility on June 22, 2011 and lower interest rates to finance accounts receivable. The average interest rate paid on borrowings on our domestic revolving line of credit and term loans (including the unused credit facility fee) and foreign swing line of credit under our new Credit Facility was 1.99%, 1.99% and 2.05%, respectively, during the three months ended June 30, 2012. The average interest rate on the 2005 Credit Facility was 2.52% in the three months ended June 30, 2011. The average interest rate on the CCS Credit Facility was 2.66% in the three months ended June 30, 2011.

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### ***Loss on early extinguishment of debt***

Loss on early extinguishment of debt decreased from \$2.7 million in the three months ended June 30, 2011 to zero in the three months ended June 30, 2012. This decrease is due to the write-off of \$1.7 million and \$1.0 million in deferred debt issuance costs associated with the early extinguishment of the 2005 Facility and CCS Credit Facility, respectively, upon retirement of these credit facilities with the proceeds from our new Credit Facility signed on June 22, 2011.

### ***Provision for income taxes***

The provision for income taxes increased from \$17.1 million in the three months ended June 30, 2011 to \$24.3 million in the three months ended June 30, 2012, an increase of \$7.2 million, or 42.0%. We provide for income taxes during interim periods based on an estimate of our effective tax rate for the year. Discrete items and changes in the estimate of the annual tax rate are recorded in the period they occur. Our effective tax rate decreased from 31.8% for three months ended June 30, 2011 to 30.9% for the three months ended June 30, 2012. The decrease in our effective tax rate was primarily due to a change in the mix of earnings between U.S. and foreign jurisdictions.

We pay taxes in many different taxing jurisdictions, including the U.S., most U.S. states and many non-U.S. jurisdictions. The tax rates in certain non-U.S. taxing jurisdictions are lower than the U.S. tax rate. Consequently, as our earnings fluctuate between taxing jurisdictions our effective tax rate fluctuates.

### ***Net income***

For the reasons discussed above, our net income increased from \$36.7 million in the three months ended June 30, 2011 to \$54.4 million in the three months ended June 30, 2012, an increase of \$17.7 million, or 48.2%.

**Table of Contents****Six months ended June 30, 2012 compared to the three months ended June 30, 2011**

The following table sets forth selected consolidated statement of income data for the six months ended June 30, 2012 and 2011 (in thousands).

|                                  | Six months ended<br>June 30, 2012 | % of<br>total<br>revenue | Six months ended<br>June 30, 2011 | % of<br>total<br>revenue | Increase<br>(decrease) | % Change |
|----------------------------------|-----------------------------------|--------------------------|-----------------------------------|--------------------------|------------------------|----------|
| Revenues, net:                   |                                   |                          |                                   |                          |                        |          |
| North America                    | \$ 190,098                        | 59.8%                    | \$ 164,449                        | 67.1%                    | \$ 25,649              | 15.6%    |
| International                    | 127,887                           | 40.2%                    | 80,769                            | 32.9%                    | 47,118                 | 58.3%    |
| Total revenues, net              | 317,985                           | 100.0%                   | 245,218                           | 100.0%                   | 72,767                 | 29.7%    |
| Consolidated operating expenses: |                                   |                          |                                   |                          |                        |          |
| Merchant commissions             | 28,044                            | 8.8%                     | 23,158                            | 9.4%                     | 4,886                  | 21.1%    |
| Processing                       | 52,593                            | 16.5%                    | 37,707                            | 15.4%                    | 14,886                 | 39.5%    |
| Selling                          | 20,449                            | 6.4%                     | 16,790                            | 6.8%                     | 3,659                  | 21.8%    |
| General and administrative       | 47,647                            | 15.0%                    | 39,989                            | 16.3%                    | 7,658                  | 19.2%    |
| Depreciation and amortization    | 23,329                            | 7.3%                     | 17,195                            | 7.0%                     | 6,134                  | 35.7%    |
| Operating income                 | 145,923                           | 45.9%                    | 110,379                           | 45.0%                    | 35,544                 | 32.2%    |
| Other expense (income), net      | 522                               | 0.2%                     | (90)                              | 0.0%                     | 612                    | NR       |
| Interest expense, net            | 6,381                             | 2.0%                     | 6,814                             | 2.8%                     | (433)                  | (6.4)%   |
| Loss on extinguishment of debt   | -                                 | -                        | 2,669                             | 1.1%                     | (2,669)                | (100.0)% |
| Provision for income taxes       | 42,540                            | 13.4%                    | 31,937                            | 13.0%                    | 10,603                 | 33.2%    |
| Net income                       | \$ 96,480                         | 30.3%                    | \$ 69,049                         | 28.2%                    | \$ 27,431              | 39.7%    |
| Operating income for segments:   |                                   |                          |                                   |                          |                        |          |
| North America                    | \$ 91,711                         | 28.9%                    | \$ 71,990                         | 29.4%                    | \$ 19,721              | 27.4%    |
| International                    | 54,212                            | 17.0%                    | 38,389                            | 15.7%                    | 15,823                 | 41.2%    |
| Operating income                 | \$ 145,923                        | 45.9%                    | \$ 110,379                        | 45.0%                    | \$ 35,544              | 32.2%    |
| Operating margin for segments:   |                                   |                          |                                   |                          |                        |          |
| North America                    | 48.2%                             |                          | 43.8%                             |                          | 4.4%                   |          |
| International                    | 42.4%                             |                          | 47.5%                             |                          | (5.1)%                 |          |

**Revenues and revenue per transaction**

Our consolidated revenues increased from \$245.2 million in the six months ended June 30, 2011 to \$318.0 million in the six months ended June 30, 2012, an increase of \$72.8 million, or 29.7%. During the six months ended June 30, 2012, our consolidated revenue was impacted by:

organic growth in certain of our payment programs; and

the acquisitions of our Mexican business during the third quarter of 2011, Allstar during the fourth quarter of 2011 and another Russian fuel card business during the second quarter of 2012.

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We believe the macroeconomic environment had a neutral effect on our consolidated revenue for the six months ended June 30, 2012 over the comparable period in 2011. The impact of higher fuel prices and higher fuel spread margins were offset by the impact of unfavorable foreign exchange rates, continued soft economic conditions in the U.K. and Czech Republic and the competitive environment. Consolidated revenue per transaction decreased from \$2.54 in the six months ended June 30, 2011 to \$2.18 in the six months ended June 30, 2012, a decrease of \$0.36 or 14.2%. Consolidated revenue per transaction was impacted by the reasons discussed above. The acquisitions of our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012 also contributed to the increase in transaction volumes on a consolidated basis. While the Allstar business in the UK and our business in Mexico represent good profit margin businesses, they do have lower revenue per transaction products in comparison to our other businesses and when combined with our other businesses' transactions and revenues, results in a lower revenue per transaction than would have resulted without the acquisitions. The acquisition of an additional Russian fuel card business in June 2012 did not impact revenue per transaction due to the acquisition date. The results from our recently acquired Mexican, Allstar and Russian fuel card businesses are reported in our International segment.

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### ***North America segment revenues and revenue per transaction***

North America revenues increased from \$164.4 million in the six months ended June 30, 2011 to \$190.1 million in the six months ended June 30, 2012, an increase of \$25.7 million, or 15.6%. During the six months ended June 30, 2012, our North America segment revenue was impacted by:

organic growth in certain of our payment programs.

We believe the macroeconomic environment had a generally positive effect on our North American revenue for the six months ended June 30, 2012 over the comparable period in 2011, due to the impact of higher fuel prices and higher fuel spread margins. North America segment revenue per transaction increased from \$2.20 in the six months ended June 30, 2011 to \$2.50 in the six months ended June 30, 2012, an increase of \$0.30 or 13.6%. North America revenue per transaction was impacted by the reasons discussed above.

### ***International segment revenues and revenue per transaction***

International segment revenues increased from \$80.8 million in the six months ended June 30, 2011 to \$127.9 million in the six months ended June 30, 2012, an increase of \$47.1 million, or 58.3%. During the six months ended June 30, 2012, our International segment revenue was impacted by:

organic growth in certain of our payment programs; and

the acquisitions of our Mexican business during the third quarter of 2011, Allstar during the fourth quarter of 2011 and another Russian fuel card business during the second quarter of 2012.

We believe the macroeconomic environment had a negative effect on our International revenue for the six months ended June 30, 2012 over the comparable period in 2011. The impact of higher fuel prices was offset by the impact of unfavorable foreign exchange rates, continued soft economic conditions in the U.K. and Czech Republic and the competitive environment. International segment revenue per transaction decreased from \$3.68 in the six months ended June 30, 2011 to \$1.82 in the six months ended June 30, 2012, a decrease of \$1.86 or 50.5%. International revenue per transaction was impacted by the reasons discussed above. As discussed above, we acquired our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012, which together contributed to the increase in transaction volumes in our International segment. While the Allstar business in the UK and our business in Mexico represent good profit margin businesses, they do have lower revenue per transaction products in comparison to our other businesses and when combined with our other businesses' transactions and revenues, results in a lower revenue per transaction than would have resulted without the acquisitions. The acquisition of an additional Russian fuel card business in June 2012 did not impact revenue per transaction due to the acquisition date.

### ***Consolidated operating expenses***

**Merchant commissions** Merchant commissions increased from \$23.2 million in the six months ended June 30, 2011 to \$28.0 million in the six months ended June 30, 2012, an increase of \$4.8 million, or 21.1%. This increase was due primarily to the fluctuation of the margin between the wholesale cost and retail price of fuel, which impacted merchant commissions and the impact of higher volume in revenue streams where merchant commissions are paid.

**Processing** Processing expenses increased from \$37.7 million in the six months ended June 30, 2011 to \$52.6 million in the six months ended June 30, 2012, an increase of \$14.9 million, or 39.5%. During the six months ended June 30, 2012, our processing expenses primarily increased due to acquisitions completed in 2011 and 2012, which have a higher rate of processing expenses as a percentage of consolidated revenues in comparison to our other businesses and higher MasterCard processing fees associated with organic growth in certain of our payment programs.

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**Selling** Selling expenses increased from \$16.8 million in the six months ended June 30, 2011 to \$20.4 million in the six months ended June 30, 2012, an increase of \$3.6 million, or 21.8%. The increase was primarily due to acquisitions completed in 2011 and 2012, as well as additional sales and marketing spending in certain markets.

**General and administrative** General and administrative expenses increased from \$40.0 million in the six months ended June 30, 2011 to \$47.6 million in the six months ended June 30, 2012, an increase of \$7.6 million, or 19.20%. The increase was primarily due to acquisitions completed in 2011 and 2012, partially offset by the reduction in compensation expense associated with our stock based incentive plans.

**Depreciation and amortization** Depreciation and amortization increased from \$17.2 million in the six months ended June 30, 2011 to \$23.3 million in the six months ended June 30, 2012, an increase of \$6.1 million, or 35.7%. The increase was primarily due to

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acquisitions completed during 2011 and 2012, which resulted in an increase of \$5.4 million related to the amortization of acquired intangible assets for customer and vendor relationships, trade names and trademarks, non-compete agreements and software, as well as acquired fixed assets.

### ***Operating income and operating margin***

#### ***Consolidated operating income***

Operating income increased from \$110.4 million in the six months ended June 30, 2011 to \$145.9 million in the six months ended June 30, 2012, an increase of \$35.5 million, or 32.2%. Our operating margin increased from 45.0% for the six months ended June 30, 2011 to 45.9% for the six months ended June 30, 2012. The increase in operating income from the six months ended June 30, 2011 to the six months ended June 30, 2012 was due primarily to the impact of acquisitions completed during 2011 and organic growth in the business, partially offset by additional amortization related to acquisitions completed during 2011.

Operating margin was positively impacted by organic revenue growth and lower overall operating expenses as a percentage of revenues, partially offset by the impact of recent acquisitions. We completed the acquisition of our Mexican business and Allstar in 2011 and another Russian fuel card business in 2012. While the Allstar business in the UK, our business in Mexico and our recent acquisition in Russia represent good profit margin businesses, they produce lower margin products in comparison to our other businesses and when combined with our other business operating income, produced a lower margin than would have resulted without the acquisitions.

For the purpose of segment operating results, we calculate segment operating income by subtracting segment operating expenses from segment revenue. Similarly, segment operating margin is calculated by dividing segment operating income by segment revenue.

#### ***North America segment operating income***

North America operating income increased from \$72.0 million in the six months ended June 30, 2011 to \$91.7 million in the six months ended June 30, 2012, an increase of \$19.7 million, or 27.4%. North America operating margin increased from 43.8% for the six months ended June 30, 2011 to 48.2% for the six months ended June 30, 2012. The increase in operating income and operating margin from the six months ended June 30, 2011 to the six months ended June 30, 2012 was due primarily to organic growth in the business, the impact of generally positive macroeconomic conditions, resulting in higher fuel spread revenues and lower overall operating expenses as a percentage of revenues. These increases were partially offset by higher merchant commissions as a percentage of revenues due to volume increases in certain businesses where commissions are paid, as well as the fluctuation of the margin between the wholesale cost and retail price of fuel, which increased merchant commissions.

#### ***International segment operating income***

International operating income increased from \$38.4 million in the six months ended June 30, 2011 to \$54.2 million in the six months ended June 30, 2012, an increase of \$15.8 million, or 41.2%. International operating margin decreased from 47.5% for the six months ended June 30, 2011 to 42.4% for the six months ended June 30, 2012. The increase in operating income from the six months ended June 30, 2011 to the six months ended June 30, 2012 was due primarily to the impact of acquisitions completed in 2011 and 2012, which were partially offset by additional amortization related to these acquisitions and the impact of generally negative macroeconomic conditions, which includes the unfavorable impact of foreign exchange rates.

The lower operating margin is due to the impact of recent acquisitions. While the Allstar business in the UK, our business in Mexico and our recent acquisition in Russia represent good profit margin businesses, they produce lower margin products in comparison to our other businesses and when combined with our other business operating income, produced a lower margin than would have resulted without the acquisitions.

#### ***Other income, net***

Other income, net decreased from income of \$0.09 million in the six months ended June 30, 2011 to an expense of \$0.5 million in the six months ended June 30, 2012, a decrease of \$0.6 million. The decrease was due primarily to expenses related to our secondary stock offering during the first quarter, as well as foreign currency exchange losses recognized during the six months ended June 30, 2012.

#### ***Interest expense, net***

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Interest expense decreased from \$6.8 million in the six months ended June 30, 2011 to \$6.4 million in the six months ended June 30, 2012, a decrease of \$0.4 million, or 6.4%. The decrease is due to lower average interest rates paid on debt instruments in the six months ended June 30, 2012 over the comparable period in 2011. The reduction in our average interest rates is a result of the pay down of our 2005 Credit Facility and CCS Facility upon entry into our new Credit Facility on June 22, 2011 and lower interest rates to finance accounts receivable. The average interest rate paid on borrowings on our domestic revolving line of credit and term loans (including the unused credit facility fee) and foreign swing line of credit under our new Credit Facility was 2.01%, 2.01% and 2.05%, respectively, during the six months ended June 30, 2012. The average interest rate on the 2005 Credit Facility was 2.54% in the six months ended June 30, 2011. The average interest rate on the CCS Credit Facility was 2.66% in the six months ended June 30, 2011.

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### ***Loss on extinguishment of debt***

Loss on early extinguishment of debt decreased from \$2.7 million in the six months ended June 30, 2011 to zero in the six months ended June 30, 2012. This decrease is due to the write-off of \$1.7 million and \$1.0 million in deferred debt issuance costs associated with the early extinguishment of the 2005 Facility and CCS Credit Facility, respectively, upon retirement of these credit facilities with the proceeds from our new Credit Facility signed on June 22, 2011.

### ***Provision for income taxes***

The provision for income taxes increased from \$31.9 million in the six months ended June 30, 2011 to \$42.5 million in the six months ended June 30, 2012, an increase of \$10.6 million, or 33.2%. We provide for income taxes during interim periods based on an estimate of our effective tax rate for the year. Discrete items and changes in the estimate of the annual tax rate are recorded in the period they occur. Our effective tax rate decreased from 31.6% for six months ended June 30, 2011 to 30.6% for the six months ended June 30, 2012. The decrease in our effective tax rate was primarily due to a change in the mix of earnings between U.S. and foreign jurisdictions.

We pay taxes in many different taxing jurisdictions, including the U.S., most U.S. states and many non-U.S. jurisdictions. The tax rates in certain non-U.S. taxing jurisdictions are lower than the U.S. tax rate. Consequently, as our earnings fluctuate between taxing jurisdictions our effective tax rate fluctuates.

### ***Net income***

For the reasons discussed above, our net income increased from \$69.0 million in the six months ended June 30, 2011 to \$96.5 million in the six months ended June 30, 2012, an increase of \$27.5 million, or 39.7%.

### ***Liquidity and capital resources***

Our principal liquidity requirements are to service and repay our indebtedness, make acquisitions of businesses and commercial account portfolios and meet working capital, tax and capital expenditure needs.

#### ***Sources of liquidity***

At June 30, 2012, our unrestricted cash and cash equivalent balance totaled \$255.6 million. Our restricted cash balance at June 30, 2012 totaled \$50.1 million. Restricted cash primarily represents customer deposits in the Czech Republic, which we are restricted from using other than to repay customer deposits.

At June 30, 2012, cash and cash equivalents held in foreign subsidiaries where we have determined such cash and cash equivalents are permanently reinvested totaled \$230.3 million. All of the cash and cash equivalents held by our foreign subsidiaries, excluding restricted cash, are available for general corporate purposes. Our current intent is to permanently reinvest these funds outside of the U.S. Our current expectation for funds held in our foreign subsidiaries is to use the funds to finance foreign organic growth, to pay for potential future foreign acquisitions and to repay any foreign borrowings that may arise from time to time. We currently believe that funds generated from our U.S. operations, along with potential borrowing capabilities in the U.S. will be sufficient to fund our U.S. operations for the foreseeable future, and therefore do not foresee a need to repatriate cash held by our foreign subsidiaries in a taxable transaction to fund our U.S. operations. However, if at a future date or time these funds are needed for our operations in the U.S. or we otherwise believe it is in the best interests of the Company to repatriate all or a portion of such funds, we may be required to accrue and pay U.S. taxes to repatriate these funds. No assurances can be provided as to the amount or timing thereof, the tax consequences related thereto or the ultimate impact any such action may have on our results of operations or financial condition.

We utilize an accounts receivable Securitization Facility to finance a majority of our domestic fuel card receivables, to lower our cost of funds and more efficiently use capital. We generate and record accounts receivable when a customer makes a purchase from a merchant using one of our card products and generally pay merchants within seven days of receiving the merchant billing. As a result, we utilize the asset Securitization Facility as a source of liquidity to provide the cash flow required to fund merchant payments prior to collecting customer balances. These balances are primarily composed of charge balances, which are typically billed to the customer on a weekly, semimonthly or monthly basis, and are generally required to be paid within 14 days of billing. We also consider the undrawn amounts under our Securitization Facility and Credit Facility as funds available for working capital purposes and acquisitions. At June 30, 2012, we had the ability to generate approximately \$18.9 million of additional liquidity under our Securitization Facility and had \$487.0 million available under the new Credit Facility.

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Based on our current forecasts and anticipated market conditions, we believe that our current cash balances, our available borrowing capacity and our ability to generate cash from operations, will be sufficient to fund our liquidity needs for at least the next twelve months, absent any major acquisition opportunities that might arise. However, we regularly evaluate our cash requirements for current operations, commitments, capital requirements and acquisitions, and we may elect to raise additional funds for these purposes in the future, either through the issuance of debt or equity securities. We may not be able to obtain additional financing on terms favorable to us, if at all.

**Table of Contents****Cash flows**

The following table summarizes our cash flows for the six months ended June 30, 2012 and 2011.

| (in millions)                                       | Six months ended June 30,<br>2012 | 2011   |
|-----------------------------------------------------|-----------------------------------|--------|
| Net cash (used in) provided by operating activities | \$ (36.8)                         | \$ 2.5 |
| Net cash used in investing activities               | (43.9)                            | (6.7)  |
| Net cash provided by (used in) financing activities | 49.9                              | (18.7) |

**Operating activities** Net cash (used in) provided by operating activities decreased from \$2.5 million provided by operating activities in the six months ended June 30, 2011 to \$36.8 million used in operating activities in the six months ended June 30, 2012. The decrease is primarily due to a decrease in working capital, driven by the decrease in, other assets and accounts payable and accrued expenses and customer deposits, partially offset by additional net income during the period.

**Investing activities** Net cash used in investing activities increased from \$6.7 million in the six months ended June 30, 2011 to \$43.9 million in the six months ended June 30, 2012. This increase is primarily due to the increase in cash used for acquisitions during the six months ended June 30, 2012 over the comparable period in 2011.

**Financing activities** Net cash (used in) provided by financing activities increased from \$18.7 million used in financing activities in the six months ended June 30, 2011 to \$49.9 million provided by financing activities in the six months ended June 30, 2012. The increase is primarily due to additional borrowings on the Securitization Facility of \$27.0 million, notes payable, net of payments made of \$24.0 million and swing line of credit of \$26.9 million in the six months ended June 30, 2012 over the comparable period in 2011, as well as additional tax benefits related to stock based compensation of \$12.9 million in the six months ended June 30, 2012 over the comparable period in 2011. These increases were partially offset by additional payments made on our revolving line of credit, net of borrowings, of \$40.0 million during the six months ended June 30, 2012 over the comparable period in 2011.

**Capital spending summary**

Our capital expenditures increased from \$5.9 million in the six months ended June 30, 2011 to \$8.4 million in the six months ended June 30, 2012, an increase of \$2.5 million, or 42.5%. The increase was primarily related to additional investments to continue to enhance our existing processing systems and continued development of a new European processing system. We anticipate our capital expenditures to increase to approximately \$16.0 million for 2012 as compared to \$13.5 million in 2011, as we continue to enhance our existing processing systems.

**Credit Facility**

On June 22, 2011, we entered into a new five-year, \$900 million Credit Agreement (the "Credit Agreement") with a syndicate of banks. The Credit Agreement provides for a \$300 million term loan facility and a \$600 million revolving credit facility, with sublimits for letters of credit, swing line loans and multicurrency borrowings. Subject to certain conditions, including obtaining commitments of lenders, we have the option to increase the facility up to an additional \$150 million. The Credit Agreement contains representations, warranties and events of default, as well as certain affirmative and negative covenants, customary for financings of this nature. These covenants include limitations on our ability to pay dividends and make other restricted payments under certain circumstances and compliance with certain financial ratios.

Proceeds from this new Credit Facility were used to retire our existing indebtedness under our 2005 Credit Facility and CCS Credit Facility. Proceeds from this new Credit Facility may also be used for working capital purposes, acquisitions, and other general corporate purposes.

On March 13, 2012, we entered into the first Amendment to the Credit Agreement. The Amendment adds two U.K. entities as designated borrowers and adds a \$110 million foreign currency swing line subfacility under the existing revolver, which will allow for alternate currency borrowing on the swing line. The Amendment also permits us to provide a cash deposit of up to \$50 million to a processor in connection with one of our MasterCard programs.

Interest on amounts outstanding under the Credit Agreement accrues based on the British Bankers Association LIBOR Rate (the Eurocurrency Rate), plus a margin based on a leverage ratio, or at our option, the Base Rate (defined as the rate equal to the highest of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate announced by Bank of America, N.A., or (c) the Eurocurrency Rate plus 1.00%) plus a margin based on a leverage ratio. Interest is payable quarterly in arrears. In addition, we have agreed to pay a quarterly commitment fee at a rate per annum ranging

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from 0.20% to 0.40% of the daily unused portion of the credit facility. At June 30, 2012, the interest rate on the term loan and domestic revolving line of credit was 1.75% and the unused credit facility fee was 0.25%. At June 30, 2012, the interest rate on the foreign swing line of credit was 2.05%.

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The stated maturity date for our term loan and revolving loans and letters of credit under the Credit Agreement is June 22, 2016. The term loan is payable in quarterly installments and are due on the last business day of each March, June, September, and December with the final principal payment due on June 22, 2016. Borrowings on the revolving line of credit are repayable at our option of one, two, three or six months after borrowing, depending on the term of the borrowing on the facility. Borrowings on the foreign swing line of credit are due no later than ten business days after such loan is made.

During the six months ended June 30, 2012, we made principal payments of \$7.5 million on the term loan and \$185.0 million on the domestic revolving line of credit. At June 30, 2012, we had \$285.0 million in outstanding term loans, \$85.0 million in borrowings outstanding on the domestic revolving line of credit and \$28.1 million in borrowings outstanding on the foreign swing line of credit. As of June 30, 2012, we were in compliance with each of the covenants under the new Credit Facility agreement.

### ***2005 Credit Facility***

We were party to a credit agreement, dated as of June 29, 2005, which was subsequently amended and restated as of April 30, 2007, with a syndicate of banks. We refer to this facility as the 2005 Credit Facility in this report.

The 2005 Credit Facility provided for term loans in the amount of \$250.0 million and two tranches of multicurrency revolving loans, each of which revolving loans were available to be made in U.S. dollars, British pounds or Euros; a U.S. tranche for the U.S. borrower of up to \$30.0 million (with a \$10.0 million sub-limit for letters of credit), and a global tranche for both the U.S. borrower and U.K. borrower of up to \$20.0 million. The 2005 Credit Facility also included a \$10.0 million swing line facility which was available to the U.S. borrower. The credit agreement also provided for delayed draw term loans in the amount of up to \$50.0 million, of which \$50.0 million was borrowed in April 2008. The 2005 Credit Facility further provided for incremental term loans in an aggregate amount not to exceed \$100.0 million. None of the incremental term loans were made.

Interest on the facilities accrued, at our election, based on a base rate, EURIBOR or LIBOR, plus a margin. The margin with respect to the term loans was fixed at 2.25% for LIBOR and EURIBOR loans and at 1.25% for base rate loans. With respect to revolving loans and letter of credit fees, the margin or fee was determined based on our leverage ratio and ranged from 2.00% to 2.50% for LIBOR and EURIBOR loans and from 1.00% to 1.50% for base rate loans. Interest on overdue amounts accrued at a rate equal to the applicable interest rate plus 2.00% per annum.

The stated maturity date for our term loans was April 30, 2013 and the stated maturity date for our revolving loans and letters of credit was April 30, 2012. The term loans were payable in quarterly installments of 0.25% of the initial aggregate principal amount of the loans and are due on the last business day of each March, June, September, and December, with the final principal payment due in April 2013. Principal payments of \$270.4 million were made on the term loan during the six months ended June 30, 2011.

On June 22, 2011, we retired our indebtedness under the 2005 Credit Facility with the proceeds from our new Credit Facility. As of the date of retirement of this indebtedness, we were in compliance with each of the covenants under the 2005 Credit Facility.

### ***CCS Credit Facility***

Certain of our subsidiaries were party to a credit agreement, dated as of December 7, 2006, which was subsequently amended as of March 28, 2008, with a syndicate of banks. We refer to this facility as the CCS Credit Facility in this report.

The CCS Credit Facility agreement provided for term loans in the total amount of CZK 1.675 billion (\$84.3 million), which consisted of a Facility A amortized term loan in the amount of CZK 990 million (\$49.8 million) and a Facility B bullet term loan in the amount of CZK 685.0 million (\$34.2 million).

Interest on the term loans accrued, calculated according to the term selected by CCS, based on a base rate, PRIBOR (Prague Interbank Offered Rate), plus a margin and a mandatory cost. The margin was determined based on CCS's leverage ratio and ranges from 0.95% to 1.75% for the Facility A term loan and from 2.00% to 2.90% for the Facility B term loan.

The stated maturity date for CCS's term loans was December 21, 2013 with respect to Facility A and December 21, 2014 with respect to Facility B. The Facility A term loan was payable in semiannual payments in June and December of each year, ending in December 2013 and the Facility B term loan was payable in one lump sum on December 21, 2014. CCS had the right to prepay the loans without premium or penalty on the last day of an interest period. Principal payments of \$59.7 million were made on these facilities during the six months ended June 30, 2011.

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On June 22, 2011, we retired our indebtedness under the CCS Credit Facility with the proceeds from our new Credit Facility. As of the date of retirement of this indebtedness, we were in compliance with each of the covenants under the CCS Credit Facility agreement.

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### ***Other Debt***

Two of our subsidiaries entered into a Purchase Agreement dated June 15, 2012 for the acquisition of a Russian fuel card company. In connection with the purchase, a final payment of \$11.25 million is due December 15, 2013.

One of our subsidiaries entered into a Purchase Agreement during June 2012, which includes contingent earn-out payments related to an acquired business of \$4.9 million, which is payable in three installments in December 2012, November 2013 and May 2016.

One of our subsidiaries, FleetCor Luxembourg Holding2 S.à r.l. ( Lux 2 ), entered into a Share Sale and Purchase Agreement dated April 24, 2008 (the Purchase Agreement ) with ICP Internet Cash Payments B.V. for the purchase of ICP International Card Products B.V. The acquired business is now being operated in the Netherlands as FleetCor Technologieën B.V. In connection with the purchase Lux 2 agreed to make deferred payments in the aggregate amount of 1.0 million (\$1.4 million), of which the final payment was made on June 6, 2011 in the amount of 0.33 million (\$0.47 million).

In connection with an acquisition by FleetCor Luxembourg Holding4 S.à r.l. in October 2010, the parties agreed to defer payment of a portion of the purchase price, equal to approximately \$1.1 million, which was paid in February 2011.

### ***Securitization Facility***

We are a party to a receivables purchase agreement among FleetCor Funding LLC, as seller, PNC Bank, National Association as administrator, and the various purchaser agents, conduit purchasers and related committed purchasers parties thereto, which was amended and restated for the fourth time as of October 29, 2007 and which has been amended seven times since then to add or remove purchasers, extend the facility termination date and remove financial covenants. We refer to this arrangement as the Securitization Facility in this report. The current purchase limit under the Securitization Facility is \$500 million. On June 22, 2011, concurrently with the signing of the Credit Agreement, FleetCor Funding LLC entered into a fifth amendment to the fourth amended and restated receivables purchase agreement. The amendment to the Securitization Facility revised certain definitions, removed the compliance certification reporting requirement, and removed financial covenant requirements. The Securitization Facility was amended for a sixth time on September 30, 2011 to permit us to sell receivables to the purchasers and repay purchasers on a non-ratable basis in order to take advantage of the lower cost of capital of certain purchasers. The facility was amended for the seventh time on February 6, 2012 to add a new purchaser and extend the facility termination date to February 4, 2013. There is a program fee equal to the commercial paper rate of 0.28%, plus 0.75% as of June 30, 2012. The unused facility fee is payable at a rate of 0.35% per annum as of June 30, 2012.

Under a related purchase and sale agreement, dated as of December 20, 2004, and most recently amended on July 7, 2008, between FleetCor Funding LLC, as purchaser, and certain of our subsidiaries, as originators, the receivables generated by the originators are deemed to be sold to FleetCor Funding LLC immediately and without further action upon creation of such receivables. At the request of FleetCor Funding LLC, as seller, undivided percentage ownership interests in the receivables are ratably purchased by the purchasers in amounts not to exceed their respective commitments under the facility. Collections on receivables are required to be made pursuant to a written credit and collection policy and may be reinvested in other receivables, may be held in trust for the purchasers, or may be distributed. Fees are paid to each purchaser agent for the benefit of the purchasers and liquidity providers in the related purchaser group in accordance with the Securitization Facility and certain fee letter agreements.

The Securitization Facility provides for certain termination events, upon the occurrence of which the administrator may declare the facility termination date to have occurred, may exercise certain enforcement rights with respect to the receivables, and may appoint a successor servicer, among other things. There are no financial covenant requirements related to our Securitization Facility.

### ***Critical accounting policies and estimates***

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenue and expenses. Some of these estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates on historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. In many instances, however, we reasonably could have used different accounting estimates and, in other instances, changes in our accounting estimates could occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to estimates of this type as critical accounting estimates.

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Accounting estimates necessarily require subjective determinations about future events and conditions. During the six months ended June 30, 2012, we have not adopted any new critical accounting policies that had a significant impact upon our consolidated financial statements, have not changed any critical accounting policies and have not changed the application of any critical accounting policies from the year ended December 31, 2011. For critical accounting policies, refer to the Critical Accounting Estimates in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011 and our summary of significant accounting policies in Note 1 of our notes to the unaudited consolidated financial statements in this Form 10-Q.

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### **Special Cautionary Notice Regarding Forward-Looking Statements**

This report contains statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results, in contrast with statements that reflect historical facts. In some cases, we have identified such forward-looking statements with typical conditional words such as anticipate, intend, believe, estimate, plan, seek, project or expect, may, will, should, the negative of these terms or other comparable terminology.

These forward-looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. We have based these forward-looking statements largely on our current expectations and projections about future events. Forward-looking statements are subject to many uncertainties and other variable circumstances, such as delays or failures associated with implementation; fuel price and spread volatility; changes in credit risk of customers and associated losses; the actions of regulators relating to payment cards; failure to maintain or renew key business relationships; failure to maintain competitive offerings; failure to maintain or renew sources of financing; failure to complete, or delays in completing, anticipated new partnership arrangements or acquisitions and the failure to successfully integrate or otherwise achieve anticipated benefits from such partnerships or acquired businesses; failure to successfully expand business internationally; the impact of foreign exchange rates on operations, revenue and income; the effects of general economic conditions on fueling patterns and the commercial activity of fleets, as well as the other risks and uncertainties identified under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011. These factors could cause our actual results and experience to differ materially from any forward-looking statement. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake, and specifically decline, any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

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

As of June 30, 2012, there have been no material changes to our market risk from that disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Item 4. Controls and Procedures**

As of June 30, 2012, management carried out, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2012, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

As of the date of this filing, we are not currently party to any legal proceedings or governmental inquiries or investigations that we consider to be material, except as described below, and were not involved in any material legal proceedings that terminated during the second quarter. We are and may become, however, subject to lawsuits from time to time in the ordinary course of our business. We are currently involved in an investigation by the Office of Fair Trading in the United Kingdom, relating to our Keyfuels product line. This product line consists of our proprietary payment card and associated site network in the United Kingdom. A competitor alleged we are dominant in a relevant market with our Keyfuels product line. The Office of Fair Trading is investigating whether we are dominant and, if dominant, whether some of our contracts with some sites and dealers would constitute exclusive dealings requiring them to be reformed to eliminate exclusivity. The Office of Fair Trading has issued a statement of objections, which we responded to, and we are awaiting its conclusions. If determined adversely, the regulator has authority to require us to reform contracts to eliminate exclusivity and impose significant fines, which could be material. Any adverse determination is appealable to the Competition Appeal Tribunal.

**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, 2011 (the Form 10-K), which could materially affect our business, financial condition or future results.

The risk factor in the Form 10-K entitled Litigation and regulatory actions could subject us to significant fines, penalties or requirements resulting in increased expenses is hereby updated with the additional information regarding the Office of Fair Trading investigation described in response to Part II, Item 1. Legal Proceedings above.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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### **Item 6. Exhibits**

#### **Exhibit**

- | <b>No.</b> |                                                                                                                                                                                                                                                                                                                                            |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1        | Amended and Restated Certificate of Incorporation of FleetCor Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K, File No. 001-35004, filed with the Securities and Exchange Commission (the "SEC") on March 25, 2011)                                                            |
| 3.2        | Amended and Restated Bylaws of FleetCor Technologies, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, File No. 001-35004, filed with the SEC on March 25, 2011)                                                                                                                             |
| 4.1        | Form of Stock Certificate for Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1, File No. 333-166092, filed with the SEC on June 29, 2010)                                                                                                                  |
| 10.1       | Arrangement Agreement Among FleetCor Luxembourg Holdings2 S.À.R.L, FleetCor Technologies, Inc. and CTF Technologies, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the SEC on May 10, 2012)                                                                                |
| 31.1       | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.                                                                                                                                                                                                         |
| 31.2       | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended                                                                                                                                                                                                          |
| 32.1       | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2001                                                                                                                                                                                                  |
| 32.2       | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2001                                                                                                                                                                                                  |
| 101        | The following financial information for the Registrant formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Cash Flows and (iv) the Notes to Unaudited Consolidated Financial Statements. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, in their capacities indicated on August 9, 2012.

FleetCor Technologies, Inc.

(Registrant)

| <b>Signature</b>                         | <b>Title</b>                                                                                                                           |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| /s/ Ronald F. Clarke<br>Ronald F. Clarke | President, Chief Executive Officer and Chairman of the Board of Directors<br>(Duly Authorized Officer and Principal Executive Officer) |
| /s/ Eric R. Dey<br>Eric R. Dey           | Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer)                                              |