

WEX Inc.  
Form 10-Q  
April 28, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32426

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WEX INC.

(Exact name of registrant as specified in its charter)

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

97 Darling Avenue, South Portland, Maine 04106  
(Address of principal executive offices) (Zip Code)  
(207) 773-8171

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(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.

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Class	Outstanding at April 22, 2016
Common Stock, \$0.01 par value per share	38,699,048 shares

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SIGNATURE

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for statements that are forward-looking and are not statements of historical facts. This Quarterly Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals. Any statements in this Quarterly Report that are not statements of historical facts are forward-looking statements. When used in this Quarterly Report, the words “may,” “could,” “anticipate,” “plan,” “continue,” “project,” “intend,” “estimate,” “believe,” “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words.

Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns as well as payment and transaction processing activity; the impact of foreign currency exchange rates on the Company’s operations, revenue and income; changes in interest rates; the impact of fluctuations in fuel prices; the effects of the Company’s business expansion and acquisition efforts; the Company’s failure to successfully integrate the businesses it has acquired or plans to acquire; the Company’s failure to successfully operate and expand ExxonMobil’s European commercial fuel card program, or Esso Card; the failure of corporate investments to result in anticipated strategic value; the impact and size of credit losses; the impact of changes to the Company’s credit standards; breaches of the Company’s technology systems and any resulting negative impact on our reputation, liabilities or relationships with customers or merchants; the Company’s failure to maintain or renew key agreements; failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors; the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking or financial regulations impacting the Company’s industrial bank, the Company as the corporate parent or other subsidiaries or affiliates; the impact of the Company’s outstanding notes

on its operations; the impact of increased leverage on the Company's operations, results or capacity generally, and as a result of potential acquisitions specifically; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract; the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes; the uncertainties of litigation; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2015, filed on Form 10-K with the Securities and Exchange Commission on February 26, 2016. Our forward-looking statements and these factors do not reflect the potential future impact of any alliance, merger, acquisition, disposition or stock repurchases. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue

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reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

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## PART I

## Item 1. Financial Statements.

## WEX INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$515,322	\$ 279,989
Accounts receivable (less reserve for credit losses of \$12,151 in 2016 and \$13,832 in 2015)	1,567,154	1,508,605
Securitized accounts receivable, restricted	86,278	87,724
Income taxes receivable	6,830	—
Available-for-sale securities	19,178	18,562
Fuel price derivatives, at fair value	—	5,007
Property, equipment and capitalized software (net of accumulated depreciation of \$201,882 in 2016 and \$192,140 in 2015)	146,511	138,585
Deferred income taxes, net	9,168	10,303
Goodwill	1,123,474	1,112,878
Other intangible assets, net	461,599	470,712
Other assets	208,263	215,544
Total assets	\$4,143,777	\$3,847,909
Liabilities and Stockholders' Equity		
Accounts payable	\$451,781	\$ 378,811
Accrued expenses	165,378	156,180
Income taxes payable	—	2,732
Deposits	1,041,695	870,518
Securitized debt	75,053	82,018
Revolving line-of-credit facilities and term loan, net	670,969	664,918
Deferred income taxes, net	94,463	83,912
Notes outstanding, net	394,983	394,800
Other debt	50,561	50,046
Amounts due under tax receivable agreement	57,537	57,537
Other liabilities	10,034	10,756
Total liabilities	3,012,454	2,752,228
Commitments and contingencies (Note 14)		
Stockholders' Equity		
Common stock \$0.01 par value; 175,000 shares authorized; 43,133 shares issued in 2016 and 43,079 in 2015; 38,801 shares outstanding in 2016 and 38,746 in 2015	431	431
Additional paid-in capital	176,455	174,972
Non-controlling interest	13,028	12,437
Retained earnings	1,206,720	1,183,634
Accumulated other comprehensive income	(92,969 )	(103,451 )
Less treasury stock at cost; 4,428 shares in 2016 and 4,428 shares in 2015	(172,342 )	(172,342 )
Total stockholders' equity	1,131,323	1,095,681
Total liabilities and stockholders' equity	\$4,143,777	\$3,847,909
See notes to unaudited condensed consolidated financial statements.		



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WEX INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF  
 INCOME

(in thousands, except per share data)  
 (unaudited)

	Three months ended March 31,	
	2016	2015
Total revenues	205,928	202,285
Expenses		
Salary and other personnel	63,410	58,417
Restructuring	1,589	8,559
Service fees	36,759	30,070
Provision for credit losses	3,917	3,914
Technology leasing and support	11,076	9,434
Occupancy and equipment	5,712	4,997
Depreciation and amortization	22,264	21,387
Operating interest expense	1,386	1,579
Cost of hardware and equipment sold	905	1,109
Other	17,783	15,794
Gain on divestiture	—	(1,215 )
Total operating expenses	164,801	154,045
Operating income	41,127	48,240
Financing interest expense	(21,558 )	(12,088 )
Net foreign currency gain (loss)	16,124	(4,376 )
Net realized and unrealized gain on fuel price derivative instruments	711	2,749
Income before income taxes	36,404	34,525
Income taxes	13,183	14,492
Net income	23,221	20,033
Less: Net gain (loss) attributable to non-controlling interests	135	(2,312 )
Net earnings attributable to WEX Inc.	\$23,086	\$22,345
Net earnings attributable to WEX Inc. per share:		
Basic	\$0.60	\$0.58
Diluted	\$0.59	\$0.57
Weighted average common shares outstanding:		
Basic	38,756	38,859
Diluted	38,850	38,952

See notes to unaudited condensed consolidated financial statements.



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WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Net income	\$23,221	\$20,033
Changes in available-for-sale securities, net of tax effect of \$97 and \$53 for the three months ended March 31, 2016 and 2015	164	91
Foreign currency translation	10,774	(29,066 )
Comprehensive income (loss)	34,159	(8,942 )
Less: comprehensive income (loss) attributable to non-controlling interests	591	(6,695 )
Comprehensive income (loss) attributable to WEX Inc.	\$33,568	\$(2,247 )
See notes to unaudited condensed consolidated financial statements.		

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WEX INC.  
CONDENSED CONSOLIDATED  
STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands)  
(unaudited)

	Common Stock			Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Non-controlling interest in subsidiaries	Total Stockholders' Equity
	Shares	Amount at par	Additional Paid-in Capital					
Balance at December 31, 2014	38,897	\$ 430	\$ 179,077	\$ (50,581 )	\$ (150,331 )	\$ 1,081,730	\$ 17,396	\$ 1,077,721
Stock issued upon exercise of stock options	1	—	14	—	—	—	—	14
Tax expense from stock option and restricted stock units	—	—	(364 )	—	—	—	—	(364 )
Stock issued upon vesting of restricted and deferred stock units	45	1	—	—	—	—	—	1
Stock-based compensation, net of share repurchases for tax withholdings	—	—	863	—	—	—	—	863
Purchase of shares of treasury stock	(210 )	—	—	—	(22,011 )	—	—	(22,011 )
Changes in available-for-sale securities, net of tax effect of \$53	—	—	—	91	—	—	—	91
Foreign currency translation	—	—	—	(24,683 )	—	—	(1,451 )	(26,134 )
Net income (loss)	—	—	—	—	—	22,345	(2,301 )	20,044
Balance at March 31, 2015	38,733	\$ 431	\$ 179,590	\$ (75,173 )	\$ (172,342 )	\$ 1,104,075	\$ 13,644	\$ 1,050,225
Balance at December 31, 2015	38,746	\$ 431	\$ 174,972	\$ (103,451 )	\$ (172,342 )	\$ 1,183,634	\$ 12,437	\$ 1,095,681
Stock issued upon exercise of stock options	1	—	5	—	—	—	—	5
Tax expense from stock option and restricted stock units	—	—	(578 )	—	—	—	—	(578 )
	54	—	—	—	—	—	—	—

Stock issued upon vesting of restricted and deferred stock units								
Stock-based compensation, net of share repurchases for tax withholdings	—	—	2,056	—	—	—	—	2,056
Changes in available-for-sale securities, net of tax effect of \$97	—	—	—	164	—	—	—	164
Foreign currency translation	—	—	—	10,318	—	—	456	10,774
Net income	—	—	—	—	—	23,086	135	23,221
Balance at March 31, 2016	38,801	\$ 431	\$ 176,455	\$ (92,969 )	\$ (172,342)	\$ 1,206,720	\$ 13,028	\$ 1,131,323

See notes to unaudited condensed consolidated financial statements.

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## WEX INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$23,221	\$20,033
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Net unrealized (gain) loss	(11,440 )	25,113
Stock-based compensation	4,243	3,218
Depreciation, amortization and impairment	23,036	22,155
Gain on divestiture	—	(1,215 )
Deferred taxes	12,644	13,854
Restructuring charge	942	8,567
Provision for credit losses	3,917	3,914
Loss on disposal of property, equipment and capitalized software	3	145
Changes in operating assets and liabilities:		
Accounts receivable	(49,711 )	17,826
Other assets	12,808	(25,512 )
Accounts payable	68,561	110,331
Accrued expenses	9,743	(23,921 )
Income taxes	(10,818 )	(1,558 )
Other liabilities	(734 )	(1,303 )
Net cash provided by operating activities	86,415	171,647
Cash flows from investing activities		
Purchases of property, equipment and capitalized software	(20,494 )	(12,074 )
Purchases of available-for-sale securities	(489 )	(86 )
Maturities of available-for-sale securities	135	159
Proceeds from divestiture	—	16,708
Net cash (used for) provided by investing activities	(20,848 )	4,707
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	—	(364 )
Repurchase of share-based awards to satisfy tax withholdings	(2,187 )	(2,355 )
Proceeds from stock option exercises	6	14
Net change in deposits	170,604	155,715
Other debt	—	(485 )
Net activity on 2014 revolving credit facility, net of debt issuance costs	15,056	(72,431 )
Net activity on term loan, net of debt issuance costs	(6,875 )	(6,875 )
Net change in securitized debt	(10,469 )	—
Purchase of shares of treasury stock	—	(22,011 )
Net cash provided by financing activities	166,135	51,208
Effect of exchange rate changes on cash and cash equivalents	3,631	(1,308 )
Net change in cash and cash equivalents	235,333	226,254
Cash and cash equivalents, beginning of period	279,989	284,763
Cash and cash equivalents, end of period	\$515,322	\$511,017
Supplemental cash flow information		

Interest paid	\$ 16,068	\$ 17,698
Income taxes paid	\$ 11,505	\$ 2,745
See notes to unaudited condensed consolidated financial statements.		

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## WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

## 1. Basis of Presentation

The acronyms and abbreviations identified below are used in the accompanying unaudited condensed consolidated financial statements and the notes thereto. The following is provided to aid the reader and provide a reference point when reviewing the unaudited condensed consolidated financial statements.

2011 Credit Agreement	Credit agreement entered into on May 23, 2011 among the Company, as borrower, WEX Card Holdings Australia Pty Ltd, a wholly-owned subsidiary of the Company, as specified designated borrower, Bank of America, N.A., as administrative agent and letter of credit issuer, and the other lenders party thereto
2013 Credit Agreement	Amended and restated credit agreement entered into on January 18, 2013 by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate
2014 Amendment Agreement	Amendment and restatement agreement entered into on August 22, 2014, among the Company, the lenders party thereto, and Bank of America, N.A., as administrative agent
2014 Credit Agreement	Second amended and restated credit agreement entered into on August 22, 2014, by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of consenting lenders.
Adjusted Net Income or ANI	A non-GAAP metric that adjusts net earnings attributable to WEX Inc. to exclude fair value changes of fuel-price related derivative instruments, the amortization of purchased intangibles, the impact of net foreign currency remeasurement gains and losses, the expense associated with stock-based compensation, acquisition related expenses and adjustments, the net impact of tax rate changes on the Company's deferred tax asset and related changes in the tax-receivable agreement, deferred loan costs associated with the extinguishment of debt, certain non-cash asset impairment charges, restructuring charges, ticking fees, gains on the extinguishment of a portion of the tax receivable agreement, regulatory reserves, gains or losses on divestitures and adjustments attributable to non-controlling interests, including adjustments to the redemption value of a non-controlling interest, as well as the related tax impacts of the adjustments
ASU 2014-09	Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606)
ASU 2015-03	Accounting Standards Update No. 2015-03 Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs
ASU 2015-16	Accounting Standards Update No. 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments
ASU 2016-01	Accounting Standards Update No. 2016-01 Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities
ASU 2016-02	Accounting Standards Update No. 2016-02 Leases (Topic 842)
ASU 2016-08	Accounting Standards Update No. 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
ASU 2016-09	Accounting Standards Update No. 2016-09 Compensation-Stock Compensation (Topical 718): Improvements to Employee Share-Based Payment Accounting
Australian Securitization Subsidiary	Southern Cross WEX 2015-1 Trust, a bankruptcy-remote subsidiary consolidated by the Company
	Average total dollars of spend in a funded fuel transaction

Average  
expenditure per  
payment  
processing  
transaction

Benaissance	Benaissance, a leading provider of integrated SaaS technologies and services for healthcare premium billing, payment and workflow management, acquired by the Company on November 18, 2015
Company	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements
EFS	Electronic Funds Source LLC
Esso portfolio in Europe	European commercial fleet card portfolio acquired from ExxonMobil
Evolution1	EB Holdings Corp. and its subsidiaries which includes Evolution1, Inc., acquired by the Company on July 16, 2014
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles in the United States
Indenture	The Notes were issued pursuant to an indenture dated as of January 30, 2013 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee
NCI	Non-controlling interest

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WEX INC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOL	Net operating loss
Notes	\$400 million notes with a 4.75% fixed rate, issued on January 30, 2013
NOW deposits	Negotiable order of withdrawal deposits
Over-the-road	Typically heavy trucks traveling long distances
Payment solutions purchase volume	Total amount paid by customers for transactions
Payment processing transactions	Funded payment transactions where the Company maintains the receivable for total purchase
PPG	Price per gallon of fuel
rapid! PayCard	rapid! PayCard, previously a line of business of the Company, sold on January 7, 2015
SaaS	Software-as-a-service
SEC	Securities and Exchange Commission
Ticking fees	A fee incurred by a borrower to compensate the lender to delay a financing arrangement and hold a commitment of funds for the borrower for a period of time.
Total fleet transactions	Total of transaction processing and payment processing transactions
Transaction processing transactions	Unfunded payment transactions where the Company is the processor and only has receivables for the processing fee
UNIK	UNIK S.A., the Company's Brazilian subsidiary
WEX	WEX Inc.
WEX Europe Services	Consists primarily of our European commercial fleet card portfolio acquired by the Company from ExxonMobil on December 1, 2014
WEX Health	Evolution1 and Benaissance combined, referred to as WEX Health

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by GAAP for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of WEX Inc. for the year ended December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2016.

In April 2015, the FASB issued ASU 2015-03 related to the simplification of the presentation of debt issuance costs. The standard requires entities to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The ASU provides that debt issuance costs are analogous to debt discounts and reduce the proceeds of borrowing which increases the effective interest rate. Prior to the amendment, debt issuance costs were reported in the balance sheet as an asset. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, requires retrospective adoption, and represents a change in accounting principle. As a result of the adoption, the December 31, 2015 unaudited condensed consolidated balance sheet is restated as follows:

	Effect of	
Previously Reported	Accounting Principle Adoption	Adjusted



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Unaudited condensed consolidated balance sheet

Other assets	\$225,581	\$ (10,037 )	\$215,544
Total assets	\$3,857,946	\$ (10,037 )	\$3,847,909
Revolving line-of-credit facilities and term loan, net	\$669,755	\$ (4,837 )	\$664,918
Notes outstanding, net	\$400,000	\$ (5,200 )	\$394,800
Total liabilities	\$2,762,265	\$ (10,037 )	\$2,752,228
Total liabilities and stockholders' equity	\$3,857,946	\$ (10,037 )	\$3,847,909

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WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

Fair Value of Financial Instruments

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

2. New Accounting Standards

In May 2014, the FASB issued ASU 2014-09 related to revenue recognition, which will supersede most existing revenue recognition guidance under U.S. GAAP. The new revenue recognition standard requires entities to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard permits the use of either the retrospective or cumulative effect transition method. On July 9, 2015, the Board voted to defer the effective date by one year to interim and annual reporting periods beginning after December 15, 2017, and permitted early adoption of the standard, but not for periods beginning on or before the original effective date of December 15, 2016. In March 2016, the FASB issued ASU 2016-08 and in April 2016, the FASB issued ASU 2016-10 to clarify the implementation guidance on the new revenue recognition standard. The effective dates for these standards are the same as the effective date for ASU 2014-09. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures and has not yet selected a transition method.

In September 2015, the FASB issued ASU 2015-16 related to simplifying the accounting for measurement period adjustments. This standard replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance. The Company adopted this standard on January 1, 2016.

In January 2016, the FASB issued ASU 2016-01 related to accounting for equity investments. The pronouncement requires equity investments, except those accounted for under the equity method of accounting, or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. When transitioning, the standard requires leases to be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. Certain qualitative and quantitative disclosures are required. The standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the impact the standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09 to simplify several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and classification in the statement of cash flows. The standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the impact the standard will have on the consolidated financial statements and related disclosures.

### 3. Business Acquisitions

#### Benaissance

On November 18, 2015, the Company purchased the stock of Benaissance for approximately \$80,677, subject to working capital adjustments. The transaction was financed through the Company's cash on hand and existing credit facility. Benaissance provides financial management for health benefits administration by offering SaaS solutions for individual single point and

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WEX INC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

consolidated group premium billing. The Company acquired Benaissance to enhance the Company's positioning in the growing healthcare market.

During the fourth quarter of 2015, the Company obtained preliminary information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed in the Benaissance acquisition. During the first quarter of 2016, the Company decreased certain tangible assets for \$502 and increased Goodwill by \$502. Based on such information, the Company recorded intangible assets and goodwill as described below. The Company is still reviewing certain state filings associated with the acquisition and has not finalized the purchase accounting.

Goodwill is expected to be deductible for tax purposes.

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

Consideration paid (net of cash acquired)	\$80,677
Less:	
Accounts receivable	1,594
Other tangible assets and liabilities, net	314
Acquired software and developed technology(a)	10,300
Customer relationships(b)	27,700
Trade name(c)	1,500
Recorded goodwill	\$39,269

(a) Weighted average life – 5.0 years.

(b) Weighted average life – 7.6 years.

(c) Weighted average life – 8.1 years.

No pro forma information has been included in these financial statements as the operations of Benaissance for the period that they were not part of the Company are not material to the Company's revenues, net income and earnings per share.

Acquisition of remaining 49% of UNIK

On August 31, 2015, the Company acquired the remaining 49 percent ownership in UNIK for \$46,018. See Note 12 Non-controlling Interests for further information.

#### 4. Sale of Subsidiary and Assets

##### rapid! PayCard

On January 7, 2015, the Company sold the assets of its rapid! PayCard operations for \$20,000, which resulted in a pre-tax book gain of approximately \$1,215. The Company's primary focus in the U.S. continues to be in the fleet, travel, and healthcare industries. As such, the Company divested the operations of rapid! PayCard, which were not material to the Company's annual revenue, net income or earnings per share. The Company does not view this divestiture as a strategic shift in its operations.

#### 5. Reserves for Credit Losses

In general, the Company's trade receivables provide for payment terms of 30 days or less. Receivables not paid within the terms of the customer agreement are generally subject to late fees based upon the outstanding customer receivable balance. Beginning in the first quarter of 2015, the Company began to extend revolving credit to certain customers with respect to small fleet receivables. These accounts are also subject to late fees and balances that are not paid in full are subject to interest charges based on the revolving balance. As of March 31, 2016, the Company has approximately \$1,000 in receivables with revolving credit. The portfolio of receivables consists of a large group of homogeneous smaller balance amounts that are collectively evaluated for impairment. No customer made up more than nine percent of the outstanding receivables at March 31, 2016.

Receivables are generally written off when they are 150 days past due or upon declaration of bankruptcy by the customer. The reserve for credit losses is calculated by an analytic model that also takes into account other factors,

such as the actual charge-offs for the preceding reporting periods, expected charge-offs and recoveries for the subsequent reporting periods, a review of accounts receivable balances which become past due, changes in customer payment patterns, known fraudulent activity in the portfolio, as well as leading economic and market indicators.

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(in thousands, except per share data)

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As of March 31, 2016, approximately 90 percent of the outstanding balance of total trade accounts receivable was current and approximately 98 percent of the outstanding balance of total trade accounts receivable was less than 60 days past due. As of March 31, 2015, approximately 95 percent of the outstanding balance of total trade accounts receivable was current and approximately 98 percent of the outstanding balance was less than 60 days past due. The outstanding balance is made up of receivables from a wide range of industries.

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

	Three months ended March 31,	
	2016	2015
Balance, beginning of period	\$13,832	\$13,919
Provision for credit losses	3,917	3,914
Charge-offs	(7,036 )	(7,367 )
Recoveries of amounts previously charged-off	1,340	1,210
Currency translation	98	(163 )
Balance, end of period	\$12,151	\$11,513

## 6. Goodwill and Other Intangible Assets

## Goodwill

The changes in goodwill during the first three months of 2016 were as follows:

	Fleet Solutions Segment	Travel and Corporate Solutions Segment	Health and Employee Benefit Solutions Segment	Total
Gross goodwill, January 1, 2016	\$736,240	\$43,825	\$350,321	\$1,130,386
Impact of foreign currency translation	9,207	(527 )	1,414	10,094
Acquisition adjustments	—	—	502	502
Gross goodwill, March 31, 2016	745,447	43,298	352,237	1,140,982
Accumulated impairment, March 31, 2016	(1,337 )	(16,171 )	—	(17,508 )
Net goodwill, March 31, 2016	\$744,110	\$27,127	\$352,237	\$1,123,474

As described in Note 3, the Company adjusted the amount of goodwill in the current period in the accompanying unaudited condensed consolidated balance sheet to account for the measurement period adjustments to goodwill associated with the Benaissance acquisition.

The Company had no impairments to goodwill during the three months ended March 31, 2016.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## Other Intangible Assets

The changes in other intangible assets during the first three months of 2016 were as follows:

	Net Carrying Amount, January 1, 2016	Amortization	Disposals	Impact of foreign currency translation	Net Carrying Amount, March 31, 2016
Definite-lived intangible assets					
Acquired software and developed technology	\$ 114,012	\$ (3,214 )	\$ —	\$ 406	\$ 111,204
Customer relationships	297,904	(7,781 )	—	1,753	291,876
Licensing agreements	27,398	(1,276 )	—	1,114	27,236
Patent	878	(42 )	—	30	866
Trademarks and trade names	13,144	(333 )	—	14	12,825
Indefinite-lived intangible assets					
Trademarks and trade names	17,376	—	—	216	17,592
Total	\$470,712	\$ (12,646 )	\$ —	\$ 3,533	\$ 461,599

The following table presents the estimated amortization expense related to the definite-lived intangible assets listed above for the remainder of 2016 and for each of the five succeeding fiscal years:

Remaining 2016	\$38,138
2017	\$51,242
2018	\$47,276
2019	\$43,465
2020	\$39,972
2021	\$35,899

Other intangible assets, net consist of the following:

	March 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Acquired software and developed technology	\$156,161	\$ (44,957 )	\$ 111,204	\$155,182	\$ (41,170 )	\$ 114,012
Customer relationships	407,783	(115,907 )	291,876	403,382	(105,478 )	297,904
Licensing agreements	33,217	(5,981 )	27,236	31,903	(4,505 )	27,398
Patent	2,536	(1,670 )	866	2,413	(1,535 )	878
Trademarks and trade names	16,437	(3,612 )	12,825	16,410	(3,266 )	13,144
	\$616,134	\$ (172,127 )	444,007	\$609,290	\$ (155,954 )	453,336
Indefinite-lived intangible assets						
Trademarks and trade names			17,592			17,376
Total			\$ 461,599			\$ 470,712





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## 7. Earnings per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
Net earnings attributable to WEX Inc. available for common stockholders – Basic and Diluted	\$23,086	\$22,345
Weighted average common shares outstanding – Basic	38,756	38,859
Unvested restricted stock units	79	76
Stock options	15	17
Weighted average common shares outstanding – Diluted	38,850	38,952

For the three months ended March 31, 2016 and March 31, 2015, an immaterial number of outstanding stock options and restricted stock units were excluded from the computation of diluted earnings per share because the effect of including these options and restricted stock units would be anti-dilutive.

## 8. Derivative Instruments

The Company is exposed to certain market risks relating to its ongoing business operations. Derivative instruments were utilized in prior years to manage the Company's commodity price risk. The Company entered into put and call option contracts related to the Company's commodity price risk, which were based on the wholesale price of gasoline and the retail price of diesel fuel and settled on a monthly basis. These put and call option contracts, or fuel price derivative instruments, were designed to reduce the volatility of the Company's cash flows associated with its fuel price-related earnings exposure in North America.

During the fourth quarter of 2014, the Company suspended purchases under its fuel derivatives program due to unusually low prices in the commodities market. Management will continue to monitor the fuel price market and evaluate alternatives as it relates to this hedging program. During the first quarter of 2016, the Company held fuel price sensitive derivative instruments to hedge approximately 20 percent of its anticipated U.S. fuel-price related earnings exposure based on assumptions at time of purchase and all these positions were settled as of March 31, 2016. After the first quarter of 2016, the Company is no longer hedged for changes in fuel prices.

In April 2014, the Company initiated a partial foreign currency exchange hedging program. In 2014 the Company managed foreign currency exchange exposure on an intra-quarter basis. During the third quarter of 2015, the Company decided to suspend the foreign currency exchange hedging program for all but a few short-term intercompany transactions. Because this was a partial foreign currency exchange hedging program, the Company had foreign currency exchange exposure which was not hedged while the program was in effect.

In September 2015, the Company initiated a new limited foreign currency exchange hedging program, entering into short-term foreign currency swaps to convert the foreign currency exposures of certain foreign currency denominated intercompany loans and investments to the base currency.

The realized and unrealized gains or losses on the currency forward contracts and swaps are reported in earnings within the same unaudited condensed consolidated statement of income line as the impact of the foreign currency translation, net foreign currency gain (loss).

Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the unaudited condensed consolidated balance sheet. The Company's fuel price derivative instruments and foreign currency instruments do not qualify for hedge accounting treatment, and therefore, no such hedging designation has been made.

Derivatives Not Designated as Hedging Instruments

For derivative instruments that are not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings.

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As of March 31, 2016, the Company had the following contracts related to its foreign currency swaps, which are not designated as hedging contracts and settle in the base currency at various dates within two days of purchase:

Aggregate

Notional

Amount

Australian dollar A\$ 15,000

Norwegian Krone NOK 40,000

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

	Derivatives Classified as Assets				Derivatives Classified as Liabilities			
	March 31, 2016		December 31, 2015		March 31, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments								
Commodity contracts	Fuel price derivatives, at fair value	\$ —	Fuel price derivatives, at fair value	\$5,007	Fuel price derivatives, at fair value	\$ —	Fuel price derivatives, at fair value	\$ —
Foreign currency contracts	Accounts receivable	\$ —	Accounts receivable	\$ —	Accounts payable	\$ 10	Accounts payable	\$ 90

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

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three months ended	
		March 31, 2016	2015
Commodity contracts	Net realized and unrealized gain on fuel price derivatives	\$ 711	\$ 2,749
Foreign currency contracts	Net foreign currency (loss) gain	\$ (34 )	\$ 2,752

## 9. Financing and Other Debt

In January 2016, the Company began to incur ticking fees for the debt financing commitment associated with the pending acquisition of EFS. As of March 31, 2016, the Company recorded \$10,500 of ticking fees, which is included in financing interest expense. These ticking fees are calculated based on the financing commitment in the aggregate amount of \$2,125,000 and will remain in place until the closing of the EFS acquisition or the expiration of the bank commitment, which is July 18, 2016. During the second quarter of 2016, the Company began to accrue approximately \$6,500 of ticking fees on a monthly basis.

## 2014 Credit Agreement

As of March 31, 2016, the Company had \$219,094, excluding loan origination fees, of borrowings against its \$700,000 revolving credit facility. The outstanding debt under the amortizing term loan arrangement, which expires in January of 2018, totaled \$451,875 at March 31, 2016 and \$458,750 at December 31, 2015. As of March 31, 2016, amounts outstanding under the amortizing term loan bear interest at a rate of LIBOR plus 200 basis points. The revolving credit facility currently bears interest



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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at a rate equal to, at the Company's option, (a) LIBOR plus 200 basis points, (b) the prime rate plus 100 basis points for domestic borrowings; and the Eurocurrency rate plus 200 basis points for international borrowings.

**Borrowed Federal Funds**

In the first quarter of 2016, the Company decreased its federal funds lines of credit by \$11,500 to \$246,000. As of March 31, 2016, the Company had \$0 outstanding on its \$246,000 federal funds lines of credit. As of December 31, 2015 the Company had no outstanding balance on its \$257,500 of available credit on these lines.

**UNIK debt**

UNIK had approximately \$5,561 of debt as of March 31, 2016, and \$5,046 of debt as of December 31, 2015. UNIK's debt is comprised of various credit facilities held in Brazil, with various maturity dates. The weighted average annual interest rate was 13.5 percent as of March 31, 2016 and December 31, 2015. This debt is classified in Other debt on the Company's unaudited condensed consolidated balance sheets for the periods presented.

**Participation debt**

During the second quarter of 2014, WEX Bank entered into an agreement with a third party bank to fund customer balances that exceeded WEX Bank's lending limit to an individual customer. This borrowing carries a variable interest rate of 3-month LIBOR plus a margin of 225 basis points. The balance of the debt as of both March 31, 2016 and December 31, 2015, was \$45,000, which, in each case, was secured by an interest in the underlying customer receivable. The participation debt balance will fluctuate on a daily basis based on customer funding needs, and will range from \$0 to \$45,000. The Company's participation debt agreement will mature on July 1, 2016. This debt is classified in Other debt on the Company's unaudited condensed consolidated balance sheets for the periods presented.

**Australian securitization facility**

On April 28, 2015, the Company entered into a one year securitized debt agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. Under the terms of the agreement, each month, on a revolving basis, the Company sells certain of its Australian receivables to a bankruptcy-remote subsidiary consolidated by the Company ("Australian Securitization Subsidiary"). The Australian Securitization Subsidiary, in turn, uses the receivables as collateral to issue asset-backed commercial paper ("securitized debt") for approximately 85 percent of the securitized receivables. The amount collected on the securitized receivables is restricted to pay the securitized debt and is not available for general corporate purposes.

The Company pays a variable interest rate on the outstanding balance of the securitized debt, based on the Australian Bank Bill Rate plus an applicable margin. The interest rate was 2.93 percent as of March 31, 2016 and 2.91 percent as of December 31, 2015. The Company had \$75,053 of securitized debt as of March 31, 2016 and \$82,018 of securitized debt as of December 31, 2015.

**Debt issuance costs**

The following table presents the Company's net debt issuance costs related to its revolving line-of-credit facilities, term loan and notes outstanding:

	March 31, December 31,	
	2016	2015
Revolving line of credit facilities and term loan	\$ 4,248	\$ 4,837
Notes outstanding	\$ 5,017	\$ 5,200

**10. Fair Value**

The Company holds mortgage-backed securities, fixed income and equity securities, derivatives (see Note 8, Derivative Instruments) and certain other financial instruments which are carried at fair value. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as model pricing, when market quotes are not readily accessible or available. In determining the fair value of the Company's obligations, various factors are considered, including: closing exchange or over-the-counter market price quotations; time value and volatility factors underlying options and derivatives; price activity for equivalent

instruments; and the Company's own credit standing.

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

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

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

Level 3 – Instruments whose significant value drivers are unobservable.

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of March 31, 2016:

	March 31, 2016	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:							
Mortgage-backed securities	\$633	\$—	\$ 633	\$			—
Asset-backed securities	778	—	778	—			
Municipal bonds	778	—	778	—			
Equity securities	16,989	16,989	—	—			
Total available-for-sale securities	\$19,178	\$16,989	\$ 2,189	\$			—
Executive deferred compensation plan trust <sup>(a)</sup>	\$5,905	\$					