WEX Inc.
Form 10-Q
July 31, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission file number: 001-32426

WEX INC.
(Exact name of registrant as specified in its charter)

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

(207) 773-8171
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý 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). ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Class	Outstanding at July 24, 2015
Common Stock, $0.01 par value per share	38,652,393 shares

Table of Contents

TABLE OF CONTENTS

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 inten identify forward-looking statements, although not all forward-looking statements contain such words.

Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns, payments, transaction processing activity and the commercial activity of fleets; the effects of the Company's business expansion and acquisition efforts; the Company's failure to successfully integrate the businesses it has acquired; 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, or liabilities, or loss of relationships with customers or merchants; fuel price volatility and changes in fleet fuel efficiency; 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 regulations impacting the Company's industrial bank and the Company as the corporate parent; the impact of foreign currency exchange rates on the Company's operations, revenue and income; changes in interest rates; the impact of the Company's outstanding notes on its operations; 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, 2014, filed on Form 10-K with the Securities and Exchange Commission on February 26, 2015. 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 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.

Table of Contents

PART I
Item 1. Financial Statements.
WEX INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$184,332	$284,763
Accounts receivable (less reserve for credit losses of $9,665 in 2015 and $13,919 in 2014)	1,972,141	1,865,538
Securitized accounts receivable, restricted	104,259	—
Income taxes receivable	—	6,859
Available-for-sale securities	18,672	18,940
Fuel price derivatives, at fair value	16,668	40,969
Property, equipment and capitalized software (net of accumulated depreciation of $176,950 in 2015 and $169,382 in 2014)	114,729	105,596
Deferred income taxes, net	11,415	5,764
Goodwill	1,089,271	1,117,149
Other intangible assets, net	461,727	497,297
Other assets	206,559	175,506
Total assets	$4,179,773	$4,118,381
Liabilities and Stockholders' Equity		
Accounts payable	$596,526	$425,956
Accrued expenses	125,865	137,227
Income taxes payable	3,032	—
Deposits	905,193	979,553
Securitized debt	89,176	—
Borrowed federal funds	50,500	—
Revolving line-of-credit facilities and term loan	720,970	901,564
Deferred income taxes, net	58,766	44,004
Notes outstanding	400,000	400,000
Other debt	51,446	52,975
Amounts due under tax receivable agreement	64,516	69,637
Other liabilities	10,837	13,154
Total liabilities	3,076,827	3,024,070
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	14,992	16,590
Stockholders' Equity		
Common stock $0.01 par value; 175,000 shares authorized; 43,077 shares issued in 2015 and 43,021 in 2014; 38,745 shares outstanding in 2015 and 38,897 in 2014	431	430
Additional paid-in capital	183,655	179,077
Non-controlling interest	13,165	17,396
Retained earnings	1,130,567	1,081,730
Accumulated other comprehensive income	(67,522)	(50,581)
Less treasury stock at cost; 4,428 shares in 2015 and 4,218 shares in 2014	(172,342)	(150,331)
Total stockholders' equity	1,087,954	1,077,721

Total liabilities and stockholders’ equity	$4,179,773	$4,118,381

See notes to unaudited condensed consolidated financial statements.

Table of Contents

WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenues				
Fleet payment solutions	$135,520	$145,828	$264,010	$281,263
Other payment solutions	78,133	55,753	151,928	102,386
Total revenues	213,653	201,581	415,938	383,649
Expenses				
Salary and other personnel	59,091	43,426	117,508	87,328
Restructuring	—	—	8,559	—
Service fees	33,941	27,831	64,011	54,136
Provision for credit losses	3,983	6,803	7,897	15,893
Technology leasing and support	10,021	7,151	19,455	14,178
Occupancy and equipment	5,034	3,761	10,031	8,127
Depreciation, amortization and impairment	20,759	15,176	42,146	30,194
Operating interest expense	1,357	1,599	2,936	2,887
Cost of hardware and equipment sold	684	2,255	1,793	3,203
Other	15,865	13,250	31,659	25,837
Gain on divestiture	—	—	(1,215)	—
Total operating expenses	150,735	121,252	304,780	241,783
Operating income	62,918	80,329	111,158	141,866
Financing interest expense	(11,916)	(7,276)	(24,004)	(14,632)
Net foreign currency (loss) gain	(2,161)	1,238	(6,537)	2,271
Net realized and unrealized loss on fuel price derivative instruments	(6,000)	(7,561)	(3,251)	(5,716)
Income before income taxes	42,841	66,730	77,366	123,789
Income taxes	16,441	23,881	30,933	44,860
Net income	26,400	42,849	46,433	78,929
Less: Net loss attributable to non-controlling interests	(92)	(484)	(2,404)	(946)
Net earnings attributable to WEX Inc.	$26,492	$43,333	$48,837	$79,875
Net earnings attributable to WEX Inc. per share:				
Basic	$0.68	$1.12	$1.26	$2.05
Diluted	$0.68	$1.11	$1.26	$2.05
Weighted average common shares outstanding:				
Basic	38,739	38,856	38,798	38,911
Diluted	38,799	38,946	38,880	39,031

See notes to unaudited condensed consolidated financial statements.

Table of Contents

WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	$26,400	$42,849	$46,433	$78,929
Changes in available-for-sale securities, net of tax effect of $(82) and $88 for the three months ended June 30, 2015 and 2014 and $(29) and $131 for the six months ended June 30, 2015 and 2014	(140)	152	(49)	226
Foreign currency translation	8,749	7,883	(20,317)	22,662
Comprehensive income	35,009	50,884	26,067	101,817
Less: comprehensive income (loss)attributable to non-controlling interests	866	(8)	(5,829)	310
Comprehensive income attributable to WEX Inc.	$34,143	$50,892	$31,896	$101,507

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Common Stock Shares	Amount at par	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)Income	Treasury Stock	Retained Earnings	Non-controlling interest in subsidiaries	Total Stockholders' Equity
Balance at December 31, 2013	38,987	$ 429	$ 168,891	$ (15,495)	$ (130,566)	$ 879,519	$ 519	$ 903,297
Stock issued upon exercise of stock options	12	—	158	—	—	—	—	158
Tax benefit from stock option and restricted stock units	—	—	1,232	—	—	—	—	1,232
Stock issued upon vesting of restricted and deferred stock units	76	1	(1)	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings		—	2,165	—	—	—	—	2,165
Purchase of shares of treasury stock	(211)	—	—	—	(19,765)	—	—	(19,765)
Changes in available-for-sale securities, net of tax effect of $131	—	—	—	226	—	—	—	226
Foreign currency translation	—	—	—	21,406	—	—	4	21,410
Non-controlling interest investment	—	—	—	—	—	—	1,033	1,033
Net income (loss)	—	—	—	—	—	79,875	(697)	79,178
Balance at June 30, 2014	38,864	$ 430	$ 172,445	$ 6,137	$ (150,331)	$ 959,394	$ 859	$ 988,934
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	2	—	24	—	—	—	—	24
Tax from stock option and restricted stock units	—	—	(234)	—	—	—	—	(234)
Stock issued upon vesting of restricted and deferred stock units	56	1	(1)	—	—	—	—	—

Stock-based compensation, net of share repurchases for tax withholdings		—	4,789	—	—	—	—	4,789
Purchase of shares of treasury stock	(210)	—	—	—	(22,011)	—	—	(22,011)
Changes in available-for-sale securities, net of tax effect of ($29)	—	—	—	(49)	—	—	—	(49)
Foreign currency translation	—	—	—	(16,892)	—	—	(1,168)	(18,060)
Non-controlling interest investment	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	48,837	(3,063)	45,774
Balance at June 30, 2015	38,745	$ 431	$ 183,655	$ (67,522)	$ (172,342)	$ 1,130,567	$ 13,165	$ 1,087,954

See notes to unaudited condensed consolidated financial statements.

Table of Contents

WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended June 30, 2015	2014
Cash flows from operating activities		
Net income	$46,433	$78,929
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Fair value change of fuel price derivatives	24,301	2,073
Stock-based compensation	7,160	5,540
Depreciation, amortization and impairment	43,687	31,383
Gain on divestiture	(1,215)	—
Deferred taxes	9,026	14,631
Foreign currency remeasurement	24,460	—
Restructuring charge	8,567	—
Provision for credit losses	7,897	15,893
Loss on disposal of property, equipment and capitalized software	119	338
Changes in operating assets and liabilities:		
Accounts receivable	(244,537)	(499,349)
Other assets	(32,769)	(4,647)
Accounts payable	177,671	181,664
Accrued expenses	(19,133)	7,289
Income taxes	10,130	(2,707)
Other liabilities	(3,661)	350
Amounts due under tax receivable agreement	(5,121)	(4,749)
Net cash provided by (used for) operating activities	53,015	(173,362)
Cash flows from investing activities		
Purchases of property, equipment and capitalized software	(27,701)	(22,604)
Purchases of available-for-sale securities	(174)	(2,654)
Maturities of available-for-sale securities	364	166
Proceeds from divestitures	17,265	—
Net cash used for investing activities	(10,246)	(25,092)
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	653	1,232
Repurchase of share-based awards to satisfy tax withholdings	(2,371)	(3,375)
Proceeds from stock option exercises	24	158
Net change in deposits	(73,079)	162,442
Net change in borrowed federal funds	50,500	—
Other debt	(482)	22,262
Net activity on 2014 revolving credit facility	(168,829)	—
Net change in securitized debt	90,382	—
Net activity on term loan	(13,750)	(7,500)
Purchase of shares of treasury stock	(22,011)	(19,765)
Net cash (used for) provided by financing activities	(138,963)	155,454

Effect of exchange rate changes on cash and cash equivalents	(4,237)	537
Net change in cash and cash equivalents	(100,431)	(42,463)
Cash and cash equivalents, beginning of period	284,763	361,486
Cash and cash equivalents, end of period	$184,332	$319,023
Supplemental cash flow information		
Interest paid	$25,391	$16,822
Income taxes paid	$11,309	$32,115

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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
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 gains and losses, the expense associated with stock-based compensation, acquisition related expenses, 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, gains on the extinguishment of a portion of the tax receivable agreement, gains or losses on divestitures and adjustments attributable to non-controlling interests, 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 2015-04	Accounting Standards Update No. 2015-04 Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets
Company	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements
European fleet business	Consist primarily of our European commercial fleet card portfolio acquired by the Company from ExxonMobil on December 1, 2014 ("Esso portfolio in Europe")
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	

	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 interests
Notes	$400 million notes with a 4.75% fixed rate, issued on January 30, 2013
NOW deposits	Negotiable order of withdrawal deposits
Pacific Pride	Pacific Pride Services, LLC, previously a wholly owned subsidiary, sold on July 29, 2014
rapid! PayCard	rapid! PayCard, previously a line of business of the Company, sold on January 7, 2015
SEC	Securities and Exchange Commission
Securitization Subsidiary	Southern Cross WEX 2015-1 Trust, a bankruptcy-remote subsidiary consolidated by the Company
UNIK	UNIK S.A., the Company's Brazilian 51 percent majority owned subsidiary
WEX	WEX Inc.

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

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, 2014. 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, 2014, filed with the SEC on February 26, 2015. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2015.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other liabilities approximate their respective fair values due to the short-term nature of such instruments. The carrying values of certificates of deposit, interest-bearing money market deposits, borrowed federal funds and credit agreement borrowings approximate their respective fair values as the interest rates on these financial instruments are variable. All other financial instruments are reflected at fair value on the condensed consolidated balance 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 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. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method.

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 new standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Entities would apply the new guidance retrospectively to all prior periods and provide the applicable disclosures for a change in accounting principal: (i) the nature of and reason for the change in accounting principle; (ii) the transition method; (iii) a description of the prior-period information that has been retrospectively adjusted; and, (iv) the effect of the change on the financial statement line item. The adoption of this standard affects presentation only and, as such, is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-04 related to using a practical expedient for the measurement date of an employer’s defined benefit obligation and plan assets.The new standard gives an entity with a fiscal year-end that does not coincide with a calendar month-end the ability, as a practical expedient, to measure its defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. Additionally, the new standard provides guidance on accounting for (i) contributions to the plan and (ii) significant events that require a remeasurement (e.g., a plan amendment, settlement, or curtailment) that occur during the period between a month-end measurement date and the employer’s fiscal year-end. An entity should reflect the effects of those contributions or significant events in the measurement of the retirement benefit obligations and related plan assets. As a separate practical expedient, an entity may elect to measure the effects of a significant event as of the calendar month-end closest to the date of the significant event. The new standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted and the new standard should be applied prospectively. The Company does not believe that the adoption of ASU 2014-05 will have a material impact on its results of operations.

Table of Contents

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

3. Business Acquisitions

Esso portfolio in Europe

On December 1, 2014, the Company acquired certain assets of the Esso portfolio in Europe through a majority owned subsidiary, WEX Europe Services Limited. The Company formed this entity during 2013 and has 75 percent ownership. The Company paid $379,458 in cash, which includes an $80,000 advance payment made in the third quarter of 2014. The transaction was financed through the Company's cash on hand and existing credit facility. Under the terms of the transaction, WEX purchased ExxonMobil's commercial fleet fuel card program which includes operations, funding, pricing, sales and marketing in nine countries in Europe. As part of the transaction, both parties have agreed to enter into a long term supply agreement to serve the current and future Esso Card customers and to grow the business. The Company entered into this transaction in order to expand its presence in the European market and to broaden its international footprint, while laying the foundation for further expansion.

During the fourth quarter of 2014, the Company obtained preliminary information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed in the Esso portfolio in Europe transaction. During the first six months of 2015, the Company obtained additional information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2014 comparative information resulting in an increase in goodwill of $405, a decrease in accounts receivable of $2, a decrease in the customer relationship intangible asset of $374, a decrease in the licensing agreements intangible asset of $374, and an increase in other tangible assets and liabilities, net, including consideration receivable of $345. Based on such information, the Company recorded intangible assets and goodwill as described below. The Company is still reviewing the valuation as well as performing procedures to verify the completeness and accuracy of the data used in the independent valuation of all assets and liabilities. The Company has not finalized the purchase accounting. Goodwill related to this transaction is expected to be deductible for income tax purposes. The results of operations for the Esso portfolio in Europe are presented in the Company's Fleet Payment Solutions segment.

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 and consideration receivable)	$379,458
Less:	
Accounts receivable	303,376
Other tangible assets and liabilities, net	(8,365)
Licensing agreements[a]	36,605
Customer relationships[b]	7,346
Recorded goodwill	$40,496

[a] Weighted average life – 4.6 years.
[b] Weighted average life – 7.2 years.

Supplemental pro forma financial information related to the Esso portfolio in Europe acquisition has not been provided as it would be impracticable to do so. Historical financial information regarding the acquired assets is not accessible and, thus, the amounts would require estimates to be significant and render the disclosure irrelevant.

Acquisition of Evolution1

On July 16, 2014, the Company acquired all of the outstanding stock of Evolution1, a leading provider of cloud-based technology and payment solutions within the healthcare industry, for approximately $532,174 in cash. The transaction was financed through the Company's cash on hand and existing credit facility. Evolution1 developed and operates an all-in-one, multi-tenant technology platform, card products, and mobile offering that supports a full range of healthcare account types. This includes consumer-directed payments for health savings accounts, health reimbursement arrangements, flexible spending accounts, voluntary employee beneficiary associations, and defined contribution and wellness programs. The Company acquired Evolution1 to enhance the Company's capabilities and positioning in the growing healthcare market.

During the third quarter of 2014, the Company obtained preliminary information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed in the Evolution1 acquisition. During the fourth quarter of 2014 and the first half of 2015, the Company obtained additional information to assist in determining the fair values of

Table of Contents

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

certain tangible and intangible assets acquired and liabilities assumed as of the acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2014 comparative information resulting in an increase in goodwill of $379, an increase in other tangible assets and liabilities of $127, and an increase in deferred income tax liabilities of $252. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The valuation of all assets and liabilities have been finalized. Evolution1 had previously recorded goodwill on its financial statements from a prior acquisition, some of which is expected to be deductible for tax purposes. The results of operations for Evolution1 are presented in the Company's Other Payment Solutions segment.

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

Consideration paid (net of cash acquired)	$532,174
Less:	
Accounts receivable	8,418
Accounts payable	(175)
Deferred tax liabilities, net	(68,768)
Other tangible assets and liabilities, net	(3,712)
Acquired software and developed technology[a]	70,000
Customer relationships[b]	211,000
Trade name[c]	7,900
Trade name[d]	11,000
Recorded goodwill	$296,511

[a] Weighted average life – 6.4 years.
[b] Weighted average life – 9.7 years.
[c] Weighted average life – 9.9 years.
[d] Indefinite-lived

The following represents unaudited pro forma operational results as if Evolution1 had been included in the Company's unaudited condensed consolidated statements of operations as of the beginning of the fiscal periods ended:

	Three Months Ended June 30, 2014	Six months Ended June 30, 2014
Revenue	$222,741	$428,011
Net income attributable to WEX Inc.	$37,180	$71,317
Pro forma net income attributable to WEX Inc. per common share:		
Net income per share – basic	$0.96	$1.83
Net income per share – diluted	$0.95	$1.83

The pro forma financial information assumes that the companies were combined as of January 1, 2013, and includes the business combination accounting impact from the acquisition, including acquisition related expenses, amortization charges from acquired intangible assets, interest expense for debt incurred in the acquisition and net income tax effects. The pro forma results of operations do not include any cost savings or other synergies that may result from the acquisition or any estimated integration costs that have been or will be incurred by the Company. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal year 2014.

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

4. Sale of Subsidiary and Assets

rapid! PayCard

On January 7, 2015, the Company sold the assets of its operations of rapid! PayCard for $20,000, subject to final working capital adjustments which resulted in a pre-tax 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. The operations of rapid! PayCard 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 Other Payment Solution segment.

Pacific Pride

On July 29, 2014, the Company sold its wholly owned subsidiary Pacific Pride for $49,664, which resulted in a pre-tax gain of $27,490. The transfer of the operations of Pacific Pride occurred on July 31, 2014. The Company decided to sell the operations of Pacific Pride as it did not align with the long-term strategy of the core fleet business. The operations of Pacific Pride were not material to the Company's annual revenue, net income or earnings per share. Simultaneously with the sale, the Company entered into a multi-year agreement with the buyer that will continue to allow WEX branded card acceptance at Pacific Pride locations. The Company does not view this divestiture as a strategic shift in its Fleet Payment Solution segment.

The following is a summary of the allocation of the assets and liabilities sold:

Consideration received	$49,664
Less:	
Expenses associated with the sale	1,340
Accounts receivable	48,699
Accounts payable	(53,001)
Other tangible assets and liabilities, net	828
Customer relationships	3,727
Trademarks and trade name	1,444
Goodwill	19,137
Gain on sale	$27,490

5. Reserves for Credit Losses

In general, the Company’s trade receivables provide for payment terms of 30 days or less. The portfolio of receivables consists of a large group of smaller balance homogeneous amounts that are collectively evaluated for impairment. No customer made up more than seven percent of the outstanding receivables at June 30, 2015.

Receivables are generally written off when they are 150 days past due or declaration of upon bankruptcy by the customer. The Company considers whether to adjust the reserve that is calculated by the analytic model primarily based on 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.

As of June 30, 2015, approximately 98 percent of the outstanding balance of total trade accounts receivable was less than 60 days past due. As of June 30, 2014, approximately 99 percent of the total trade accounts receivable outstanding balance was less than 60 days past due.

Table of Contents

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

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

	Six months ended June 30, 2015	2014
Balance, beginning of period	$13,919	$10,396
Provision for credit losses	7,897	15,893
Charge-offs	(15,019)	(17,515)
Recoveries of amounts previously charged-off	2,931	3,644
Currency translation	(63)	119
Balance, end of period	$9,665	$12,537

6. Goodwill and Other Intangible Assets

Goodwill

The changes in goodwill during the first six months of 2015 were as follows:

	Fleet Payment Solutions Segment	Other Payment Solutions Segment	Total
Gross goodwill, January 1, 2015	$759,855	$374,424	$1,134,279
Impact of foreign currency translation	(13,409)	(1,558)	(14,967)
Disposal of certain assets	(147)	(12,386)	(12,533)
Gross goodwill, June 30, 2015	746,299	360,480	1,106,779
Accumulated impairment, June 30, 2015	(1,337)	(16,171)	(17,508)
Net goodwill, June 30, 2015	$744,962	$344,309	$1,089,271

As described in Note 3, the Company adjusted the amount of goodwill as of December 31, 2014 in the accompanying unaudited condensed consolidated balance sheet to account for the measurement period adjustments to the Esso portfolio in Europe purchase price allocation.

The Company had no impairments to goodwill during the six months ended June 30, 2015.

Management is currently evaluating its internal reporting structure and is in the process of determining the impact of the changes on the Company’s segment and goodwill reporting.

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

Other Intangible Assets
The changes in other intangible assets during the first six months of 2015 were as follows:

	Net Carrying Amount, January 1, 2015	Amortization	Disposals	Impact of foreign currency translation	Net Carrying Amount, June 30, 2015
Definite-lived intangible assets					
Acquired software and developed technology	$119,509	$ (5,758)	$—	$(1,597)	$ 112,154
Customer relationships	309,450	(15,390)	(2,329)	(3,389)	288,342
Licensing agreements	35,341	(2,128)	(164)	(2,934)	30,115
Patent	1,245	(309)	—	117	1,053
Trade names	15,373	(590)	(723)	(118)	13,942
Indefinite-lived intangible assets					
Trademarks and trade names	16,379	—	—	(258)	16,121
Total	$497,297	$ (24,175)	$(3,216)	$(8,179)	$ 461,727

The following table presents the estimated amortization expense related to the definite-lived intangible assets listed above for the remainder of 2015 and for each of the five succeeding fiscal years:

Remaining 2015	$24,190
2016	$47,760
2017	$47,406
2018	$43,946
2019	$40,623
2020	$37,201

Other intangible assets, net consist of the following:

	June 30, 2015			December 31, 2014		
	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	$148,481	$(36,327)	$ 112,154	$150,458	$(30,949)	$ 119,509
Customer relationships	382,723	(94,381)	288,342	393,942	(84,492)	309,450
Licensing agreements	32,590	(2,475)	30,115	35,726	(385)	35,341
Patent	2,552	(1,499)	1,053	2,697	(1,452)	1,245
Trademarks and trade names	16,675	(2,733)	13,942	17,786	(2,413)	15,373
	$583,021	$(137,415)	445,606	$600,609	$(119,691)	480,918
Indefinite-lived intangible assets						
Trademarks and trade names			16,121			16,379
Total			$ 461,727			$ 497,297

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

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 and six months ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net earnings attributable to WEX Inc. available for common stockholders – Basic and Diluted	$26,492	$43,333	$48,837	$79,875
Weighted average common shares outstanding – Basic	38,739	38,856	38,798	38,911
Unvested restricted stock units	43	68	65	96
Stock options	17	22	17	24
Weighted average common shares outstanding – Diluted	38,799	38,946	38,880	39,031

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

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

8. Derivative Instruments

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

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 its alternatives as it relates to this hedging program. For the third quarter of 2015, the Company has purchased fuel price sensitive derivative instruments to hedge approximately 60 percent of our anticipated U.S. fuel-price related earnings exposure. For the fourth quarter of 2015 and first quarter of 2016, the amount hedged declines to 40 percent and 20 percent, respectively. At this time, there are no hedges beyond the first quarter of 2016.

Beginning in April 2014, the Company initiated a partial foreign currency exchange hedging program. The Company uses currency forward contracts to offset the foreign currency impact of balance sheet translation. Prior to the first quarter of 2015, the Company managed foreign currency exchange exposure on an intra-quarter basis. Beginning in the first quarter of 2015, the Company held foreign currency exchange contracts that were outstanding over the quarter-end period, minimized foreign cash balances, and expanded the scope of its hedging program to include more currencies. The Company plans to discontinue the foreign currency hedging program in August of 2015. The realized and unrealized gains or losses on the currency forward contracts 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 (loss) gain.

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.

As of June 30, 2015, the Company had the following put and call option contracts related to the Company's commodity fuel price derivatives, which are not designated as hedging contracts and settle on a monthly basis:

	Aggregate Notional Amount (gallons) [(a)]
Fuel price derivative instruments – unleaded fuel	
Option contracts settling July 2015 – March 2016	15,868
Fuel price derivative instruments – diesel	
Option contracts settling July 2015 – March 2016	7,857
Total fuel price derivative instruments	23,725

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

As of June 30, 2015, the Company had the following forward and spot contracts related to its foreign currency exchange contracts, which are not designated as hedging contracts and settle at various dates within approximately 40 days:

	Aggregate Notional Amount ($)
Foreign currency exchange contracts	383,788

16

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

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

	Derivatives Classified as Assets				Derivatives Classified as Liabilities			
	June 30, 2015		December 31, 2014		June 30, 2015		December 31, 2014	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Fuel price derivatives, at fair value	$16,668	Fuel price derivatives, at fair value	$40,969	Fuel price derivatives, at fair value	$—	Fuel price derivatives, at fair value	$—
Foreign currency exchange contracts	Other assets	$—	Other assets	$—	Other liabilities	$1,433	Other liabilities	$—

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

		Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three months ended June 30,		Six months ended June 30,	
Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	2015	2014	2015	2014
Commodity contracts	Net realized and unrealized loss on fuel price derivatives	$(6,000)	$(7,561)	$(3,251)	$(5,716)
Foreign currency exchange contracts	Net foreign currency (loss) gain	$(5,838)	$(1,284)	21,967	$(1,284)

9. Financing and Other Debt

2014 Credit Agreement

As of June 30, 2015, the Company has $248,470 of borrowings against its $700,000 revolving credit facility. The outstanding debt under the Company's amortizing term loan arrangement, which expires in January of 2018, totaled $472,500 at June 30, 2015 and $486,250 at December 31, 2014. As of June 30, 2015, amounts outstanding under the amortizing term loan bear interest at a rate of LIBOR plus 225 basis points. The revolving credit facility currently bears interest at a rate equal to, at our option, (a) LIBOR plus 225 basis points, (b) the prime rate plus 125 basis points for our domestic borrowings; and the Eurocurrency rate plus 225 basis points for our international borrowings.

Borrowed Federal Funds

In the second quarter of 2015, the Company increased its federal funds lines of credit by $135,000 to $260,000. As of June 30, 2015, the Company had $50,500 outstanding, at a rate of 0.375 percent, on its $260,000 federal funds lines of credit. As of December 31, 2014 the Company had no outstanding balance on its $125,000 of available credit on these lines.

UNIK debt

UNIK had approximately $6,446 of debt as of June 30, 2015, and $7,975 of debt as of December 31, 2014. 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 June 30, 2015, and 13.9 percent as of December 31, 2014. 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 a customer balance 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 2.25 percent. The balance of the debt as of both June 30, 2015 and December 31, 2014, was $45,000. The participation debt balance will fluctuate on a daily basis based on customer funding needs, and will range from $0 to $45,000. The participation debt agreement will mature on April 1, 2016. This debt is classified in Other debt on the Company’s unaudited condensed consolidated balance sheets for the periods presented.

Securitization facility

On April 28, 2015, the Company entered into a one year securitized debt agreement with a bank. 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 ("Securitization Subsidiary"). The 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 as of June 30, 2015, was 2.89 percent. As of June 30, 2015, the Company had $89,176 of securitized debt.

Table of Contents

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

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.

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.

Table of Contents
WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of June 30, 2015:

	June 30, 2015	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	$665	$—	$665	$—
Asset-backed securities	996	—	996	—
Municipal bonds	488	—	488	—
Equity securities	16,523	16,523	—	—
Total available-for-sale securities	$18,672	$16,523	$2,149	$—
Executive deferred compensation plan trust [(a)]	$6,124	$6,124	$—	$—
Fuel price derivatives – unleaded fuel[(b)]	$10,590	$—	$10,590	$—
Fuel price derivatives – diesel[(b)]	6,078	—	—	6,078
Total fuel price derivatives	$16,668	$—	$10,590	$6,078
Liabilities:				
Foreign currency exchange contracts[(c)]	$1,433	$—	$1,433	$—

(a) The fair value of these instruments is recorded in Other assets.
(b) The balance sheet presentation combines unleaded fuel and diesel fuel positions.
(c) The fair value of these instruments is recorded in Other liabilities.

The following table presents the Company's assets and liabilities that are measured at fair value and the related hierarchy levels as of December 31, 2014:

	December 31, 2014	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	$810	$—	$810	$—
Asset-backed securities	1,165	—	1,165	—
Municipal bonds	554	—	554	—
Equity securities	16,411	16,411	—	—
Total available-for-sale securities	$18,940	$16,411	$2,529	$—
Executive deferred compensation plan trust [(a)]	$5,927	$5,927	$—	$—
Fuel price derivatives – unleaded fuel[(b)]	$29,120	$—	$29,120	$—
Fuel price derivatives – diesel[(b)]	11,849	—		