

WEX Inc.
Form 10-Q
August 08, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 (I.R.S. Employer
incorporation or organization) 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)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer (Do not check if a smaller reporting company) Accelerated filer

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Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock outstanding as of July 31, 2018 was 43,091,553.

Table of Contents

TABLE OF CONTENTS	
<u>FORWARD-LOOKING STATEMENTS</u>	<u>3</u>
<u>ACRONYMS AND ABBREVIATIONS</u>	<u>4</u>
PART I—FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>5</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
Item 4. <u>Controls and Procedures</u>	<u>52</u>
PART II—OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>53</u>
Item 1A. <u>Risk Factors</u>	<u>53</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>53</u>
Item 6. <u>Exhibits</u>	<u>54</u>
<u>SIGNATURE</u>	

Table of Contents

Unless otherwise indicated or required by the context, the terms “we,” “us,” “our,” “WEX,” or the “Company,” in this Quarterly Report on Form 10-Q mean WEX Inc. and all of its subsidiaries that are consolidated under Generally Accepted Accounting Principles in the United States.

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 “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project” and similar expressions 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;
- potential adverse changes to business or employee relationships, including those resulting from the completion of an acquisition;
- competitive responses to any acquisitions;
- uncertainty of the expected financial performance of the combined operations following completion of an acquisition;
- the ability to successfully integrate the Company’s acquisitions;
- the ability to realize anticipated synergies and cost savings;
- unexpected costs, charges or expenses resulting from an acquisition;
- 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 or those of our third-party service providers 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;
- failure to successfully implement the Company’s information technology strategies and capabilities in connection with its technology outsourcing and insourcing arrangements and any resulting cost associated with that failure;
- 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 borrowing capacity generally, and as a result of acquisitions specifically;
- 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 on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on March 1, 2018.

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

ACRONYMS AND ABBREVIATIONS

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

2016 Credit Agreement	Credit agreement entered into on July 1, 2016 by and among the Company and certain of its subsidiaries, as borrowers, WEX Card Holding Australia Pty Ltd., as designated borrower, and Bank of America, N.A., as administrative agent on behalf of the lenders, as amended.
2017 Tax Act	2017 Tax Cuts and Jobs Act
Adjusted Net Income or ANI	A non-GAAP measure that adjusts net income attributable to shareholders to exclude unrealized gains and losses on financial instruments, net foreign currency remeasurement gains and losses, acquisition-related intangible amortization, other acquisition and divestiture related items, stock-based compensation, restructuring and other costs, an impairment charge, debt restructuring and debt issuance cost amortization, adjustments attributed to our non-controlling interest and certain tax related items.
Segment adjusted operating income	A non-GAAP measure that adjusts operating income to exclude specified items that the Company's management excludes in evaluating segment performance, including acquisition and divestiture related expenses and adjustments including the amortization of purchased intangibles, an impairment charge, the expense associated with stock-based compensation, restructuring and other costs, debt restructuring costs and unallocated corporate expenses.
AOC	AOC Solutions and one of its affiliate companies, 3Delta Systems, Inc.
ASC	Accounting Standards Codification
ASU 2014-09	Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606)
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 2016-13	Accounting Standards Update No. 2016-13 Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
ASU 2016-18	Accounting Standards Update No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash
ASU 2017-07	Accounting Standards Update 2017-07 Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
Australian Securitization Subsidiary Company	Southern Cross WEX 2015-1 Trust, a bankruptcy-remote subsidiary consolidated by the Company
EBITDA	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements A non-GAAP measure that adjusts income before income taxes to exclude interest, depreciation and amortization
EFS	Electronic Funds Source, LLC, a provider of customized corporate payment solutions for fleet and corporate customers with a focus on the large and mid-sized over-the-road fleets. On July 1, 2016, the Company acquired WP Mustang Topco LLC, the indirect parent of Electronic Funds Source, LLC and Warburg Pincus Private Equity XI (Lexington), LLC, an affiliated entity, from investment funds affiliated with Warburg Pincus LLC
European Securitization Subsidiary	Gorham Trade Finance B.V., a bankruptcy-remote subsidiary consolidated by the Company
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
GAAP	Generally Accepted Accounting Principles in the United States
ICS	Insured Cash Sweep

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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
NYSE	New York Stock Exchange
Notes	\$400 million notes with a 4.75% fixed rate, issued on January 30, 2013
Over-the-road	Typically heavy trucks traveling long distances
Payment solutions	Total amount paid by customers for transactions
purchase volume	
Payment processing transactions	Funded payment transactions where the Company maintains the receivable for total purchase
SaaS	Software-as-a-service
SEC	Securities and Exchange Commission
Total fuel transactions	Total of transaction processing and payment processing transactions of our Fleet Solutions segment
Transaction processing transactions	Unfunded payment transactions where the Company is the processor and only has receivables for the processing fee
WEX Latin America	UNIK S.A., the Company's Brazilian subsidiary, which has been subsequently branded WEX Latin America
WEX	WEX Inc.
WEX Health	Evolution1 and Benaissance, collectively

Table of Contents

PART I

Item 1. Financial Statements.

WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
Payment processing revenue	\$ 178,738	\$ 141,354	\$ 347,192	\$ 277,732
Account servicing revenue	78,716	65,677	157,420	127,216
Finance fee revenue	51,573	42,085	101,255	85,457
Other revenue	61,849	54,768	119,838	104,836
Total revenues	370,876	303,884	725,705	595,241
Cost of services				
Processing costs	76,306	69,233	155,928	133,563
Service fees	13,809	20,177	26,029	37,755
Provision for credit losses	11,505	16,082	25,495	28,313
Operating interest	9,528	4,619	18,013	9,512
Depreciation and amortization	20,612	18,376	41,045	35,760
Total cost of services	131,760	128,487	266,510	244,903
General and administrative	48,488	40,073	103,921	82,250
Sales and marketing	57,697	39,983	114,238	80,141
Depreciation and amortization	30,020	31,585	59,763	63,439
Impairment charge	—	16,175	—	16,175
Operating income	102,911	47,581	181,273	108,333
Financing interest expense	(25,505)	(28,547)	(52,842)	(55,695)
Net foreign currency (loss) gain	(26,734)	10,525	(26,344)	18,967
Net unrealized gain (loss) on financial instruments	2,706	(2,264)	16,214	(699)
Income before income taxes	53,378	27,295	118,301	70,906
Income taxes	13,938	10,655	29,527	25,190
Net income	39,440	16,640	88,774	45,716
Less: Net income (loss) from non-controlling interest	142	(450)	843	(775)
Net income attributable to shareholders	\$ 39,298	\$ 17,090	\$ 87,931	\$ 46,491
Net income attributable to WEX Inc. per share:				
Basic	\$ 0.91	\$ 0.40	\$ 2.04	\$ 1.08
Diluted	\$ 0.90	\$ 0.40	\$ 2.02	\$ 1.08
Weighted average common shares outstanding:				
Basic	43,181	43,002	43,116	42,937
Diluted	43,546	43,060	43,524	43,090

See notes to unaudited condensed consolidated financial statements.

See Note 1, Basis of Presentation, for further details on our change in presentation to a functional income statement.

Table of Contents

WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$39,440	\$16,640	\$88,774	\$45,716
Changes in investment securities, net of tax expense of \$60 and \$61 for the three and six months ended June 30, 2017, respectively	—	106	—	109
Foreign currency translation	(25,413)	6,082	(23,478)	22,702
Comprehensive income	14,027	22,828	65,296	68,527
Less: Comprehensive (loss) income attributable to non-controlling interest	(342)	49	649	(234)
Comprehensive income attributable to WEX Inc.	\$14,369	\$22,779	\$64,647	\$68,761

See notes to unaudited condensed consolidated financial statements.

6

Table of Contents

WEX INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 310,784	\$ 508,072
Restricted cash	25,009	18,866
Accounts receivable (net of allowances of \$30,247 in 2018 and \$30,207 in 2017)	3,087,354	2,517,980
Securitized accounts receivable, restricted	168,274	150,235
Prepaid expenses and other current assets	79,838	69,413
Total current assets	3,671,259	3,264,566
Property, equipment and capitalized software (net of accumulated depreciation of \$292,111 in 2018 and \$264,928 in 2017)	161,708	163,908
Goodwill	1,843,575	1,876,132
Other intangible assets (net of accumulated amortization of \$456,537 in 2018 and \$392,827 in 2017)	1,103,330	1,154,047
Investment securities	22,970	23,358
Deferred income taxes, net	6,410	7,752
Other assets	142,725	253,088
Total assets	\$ 6,951,977	\$ 6,742,851
Liabilities and Stockholders' Equity		
Accounts payable	\$ 1,015,226	\$ 811,362
Accrued expenses	304,346	315,346
Short-term deposits	828,243	986,989
Short-term debt, net	379,538	397,218
Other current liabilities	21,959	24,795
Total current liabilities	2,549,312	2,535,710
Long-term debt, net	2,125,109	2,027,752
Long-term deposits	326,303	306,865
Deferred income taxes, net	130,266	119,283
Other liabilities	28,991	32,683
Total liabilities	5,159,981	5,022,293
Commitments and contingencies (Note 13)		
Stockholders' Equity		
Common Stock \$0.01 par value; 175,000 shares authorized; 47,514 shares issued in 2018 and 47,352 in 2017; 43,086 shares outstanding in 2018 and 43,022 in 2017	475	473
Additional paid-in capital	574,818	569,319
Retained earnings	1,493,255	1,404,683
Accumulated other comprehensive loss	(114,079)	(90,795)
Treasury stock at cost; 4,428 shares in 2018 and 2017	(172,342)	(172,342)
Total WEX Inc. stockholders' equity	1,782,127	1,711,338
Non-controlling interest	9,869	9,220
Total stockholders' equity	1,791,996	1,720,558
Total liabilities and stockholders' equity	\$ 6,951,977	\$ 6,742,851

See notes to unaudited condensed consolidated financial statements.

See Note 1, Basis of Presentation, for further details on our change in presentation to a classified balance sheet.

7

Table of Contents

WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

	Common Stock Issued Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2016	47,173	\$ 472	\$ 547,627	\$ (122,839)	\$(172,342)	\$ 1,244,271	\$ 8,558	\$ 1,505,747
Cumulative-effect adjustment ¹	—	—	—	—	—	260	—	260
Balance at January 1, 2017	47,173	\$ 472	\$ 547,627	\$ (122,839)	\$(172,342)	\$ 1,244,531	\$ 8,558	\$ 1,506,007
Stock issued	170	1	430	—	—	—	—	431
Share repurchases for tax withholdings	—	—	(9,195)	—	—	—	—	(9,195)
Stock-based compensation expense	—	—	13,871	—	—	—	—	13,871
Changes in investment securities, net of tax expense of \$61	—	—	—	109	—	—	—	109
Foreign currency translation	—	—	—	22,161	—	—	541	22,702
Net income (loss)	—	—	—	—	—	46,491	(775)	45,716
Balance at June 30, 2017	47,343	\$ 473	\$ 552,733	\$ (100,569)	\$(172,342)	\$ 1,291,022	\$ 8,324	\$ 1,579,641
Balance at December 31, 2017	47,352	\$ 473	\$ 569,319	\$ (90,795)	\$(172,342)	\$ 1,404,683	\$ 9,220	\$ 1,720,558
Cumulative-effect adjustment ²	—	—	—	—	—	641	—	641
Balance at January 1, 2018	47,352	\$ 473	\$ 569,319	\$ (90,795)	\$(172,342)	\$ 1,405,324	\$ 9,220	\$ 1,721,199
Stock issued	162	2	1,449	—	—	—	—	1,451
Share repurchases for tax withholdings	—	—	(11,810)	—	—	—	—	(11,810)
Stock-based compensation expense	—	—	15,860	—	—	—	—	15,860
Foreign currency translation	—	—	—	(23,284)	—	—	(194)	(23,478)
Net income	—	—	—	—	—	87,931	843	88,774
Balance at June 30, 2018	47,514	\$ 475	\$ 574,818	\$ (114,079)	\$(172,342)	\$ 1,493,255	\$ 9,869	\$ 1,791,996

¹ Includes the impact of modified retrospective transition as part of the Company's adoption of ASU 2016-09 to recognize previously disallowed excess tax benefits that increased a net operating loss.

² Includes the impact of modified retrospective adoption of Topic 606.

See notes to unaudited condensed consolidated financial statements.

8

Table of Contents

WEX INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 88,774	\$ 45,716
Adjustments to reconcile net income to net cash used for operating activities:		
Net unrealized loss	43	4,457
Stock-based compensation	15,860	13,871
Depreciation and amortization	100,808	99,199
Debt restructuring and debt issuance cost amortization	5,819	4,163
Provision for deferred taxes	11,849	14,924
Provision for credit losses	25,495	28,313
Impairment charge	—	16,175
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable and securitized receivables	(645,356)	(423,854)
Prepaid expenses and other current and other long-term assets	117,954	(3,193)
Accounts payable	220,909	111,251
Accrued expenses	(9,322)	3,322
Income taxes	2,520	1,458
Other current and other long-term liabilities	(9,382)	(1,665)
Amounts due under tax receivable agreement	(3,827)	(5,899)
Net cash used for operating activities	(77,856)	(91,762)

Cash flows from investing activities			
Purchases of property, equipment and capitalized software	(34,624)	)	(37,480)
Purchase of equity investment	(2,617))	—
Purchases of investment securities	(244)	)	(230)
Maturities of investment securities	100		272
Net cash used for investing activities	(37,385)	)	(37,438)
Cash flows from financing activities			
Repurchase of share-based awards to satisfy tax withholdings	(11,810)	)	(9,194)
Proceeds from stock option exercises	1,451		431
Net change in deposits	(138,894)	)	2,631
Net activity on other debt	62,992		22,980
Borrowings on revolving credit facility	931,888		2,353,261
Repayments of revolving credit facility	(1,068,522)	)	(2,205,038)
Borrowings on term loans	153,000		—
Repayments on term loans	(18,152)	)	(17,375)
Debt issuance costs	(2,907))	—
Net change in securitized debt	22,773		13,662
Net cash (used for) provided by financing activities	(68,181)	)	161,358
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(7,723)	)	(3,930)
Net change in cash, cash equivalents and restricted cash	(191,145)	)	28,228
Cash, cash equivalents and restricted cash, beginning of period ^(a)	526,938		213,342
	\$ 335,793		\$ 241,570

Cash, cash equivalents
and restricted cash,
end of period ^(a)

Supplemental
disclosure of non-cash
investing and
financing activities

Capital expenditures incurred but not paid	\$	1,258	\$	6,076
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^(a) The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within our unaudited condensed consolidated balance sheets to amounts reported within our unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017:

9

Table of Contents

	Six Months Ended	
	June 30,	
	2018	2017
Cash and cash equivalents at beginning of period	\$508,072	\$190,930
Restricted cash at beginning of period	18,866	22,412
Cash, cash equivalents and restricted cash at beginning of period	\$526,938	\$213,342
Cash and cash equivalents at end of period	\$310,784	\$219,001
Restricted cash at end of period	25,009	22,569
Cash, cash equivalents and restricted cash at end of period	\$335,793	\$241,570
See notes to unaudited condensed consolidated financial statements.		

Table of Contents

WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

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. Accordingly, they do not include all information and notes required by GAAP for complete financial statements. 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, 2017, filed with the SEC on March 1, 2018. 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, 2018 are not necessarily indicative of the results for any future periods or the year ending December 31, 2018.

The Company rounds amounts in the unaudited condensed consolidated financial statements to thousands and calculates all per-share data from underlying whole-dollar amounts. Thus, certain amounts may not foot, crossfoot or recalculate based on reported numbers due to rounding.

Changes to Prior Year Financial Statement Presentation

Effective January 1, 2018, the Company modified the presentation of the balance sheets and statements of income and changed how it allocates certain costs to our segments. These changes enhance the information reported to the users of our financial statements.

The Company now classifies assets and liabilities as current and non-current within our unaudited condensed consolidated balance sheets as defined according to the normal twelve month operating cycle of our business. Prior period amounts have been recast to conform with this presentation. As a result of this change, total assets and total liabilities have increased by approximately \$3.7 million compared to what was reported within our Annual Report on Form 10-K for the year ended December 31, 2017 due to a gross-up of interest rate swap arrangements to reflect their corresponding short and long-term portions. See Note 11, Fair Value, for more information on the fair value of our interest rate swap arrangements.

Additionally, the Company has modified the presentation of certain line items in its unaudited condensed consolidated statements of income. Under the new presentation, costs of services are segregated from other operating expenses. Operating expenses have been reclassified into functional categories in order to provide additional detail into the underlying drivers of changes in operating expenses and align presentation with industry practice. The revised presentation did not result in a change to previously reported revenues, operating income, income before income taxes or net income.

Effective with the change in financial statement presentation noted above, the Company now reports expenses in the categories noted below. No changes have been made to non-operating expenses.

Cost of Services

• Processing costs - The Company's processing costs consist of expenses related to processing transactions, servicing customers and merchants, cost of goods sold related to hardware and other product sales.

• Service fees - The Company incurs costs from third-party networks utilized to deliver payment solutions.

• Additionally, other third-parties are utilized in performing services directly related to generating revenue. With the adoption of Topic 606 effective January 1, 2018, fees paid to third-party payment processing networks are no longer recorded as service fees and are now presented as a reduction of revenues.

• Provision for credit losses - Changes in the reserve for credit loss are the result of changes in management's estimate of the losses in the Company's outstanding portfolio of receivables, including losses from fraud.

• Operating interest - The Company incurs interest expense on the operating debt obtained to provide liquidity for its short-term receivables.

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Depreciation and amortization - The Company has identified those tangible and intangible assets directly associated with providing a service that generates revenue and records the depreciation and amortization associated with those assets under this category. Such assets include processing platforms and related infrastructure, acquired developed technology intangible assets, and other similar asset types.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Other Operating Expenses

General and administrative - General and administrative includes compensation and related expenses for the executive, finance and accounting, other information technology, human resources, legal and other corporate functions. Also included are corporate facilities expenses, certain third-party professional service fees and other corporate expenses.

Sales and marketing - The Company's sales and marketing expenses relate primarily to compensation, benefits, sales commissions and related expenses for sales, marketing and other related activities. With the adoption of Topic 606 effective January 1, 2018, certain payments to partners are now classified as sales and marketing expenses.

Depreciation and amortization - The depreciation and amortization associated with tangible and intangible assets that are not considered to be directly associated with providing a service that generates revenue are recorded as other operating expenses. Such assets include corporate facilities and information technology assets and acquired intangible assets other than those included in cost of services.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. Recent Accounting Pronouncements

The following table provides a brief description of accounting pronouncements adopted during the six months ended June 30, 2018 and recent accounting pronouncements that could have a material effect on our financial statements:

Standard	Description	Date/Method of Adoption	Effect on financial statements or other significant matters
Adopted During the Six Months Ended June 30, 2018			
ASU 2014-09	This standard supersedes most existing revenue recognition guidance under 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. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.	The Company adopted this standard on January 1, 2018 using the modified retrospective approach to those contracts that were not completed as of January 1, 2018. Adoption resulted in a cumulative adjustment to retained earnings as of the effective date, without restatement of prior period amounts.	<p>The Company's revenue from discount and interchange, transaction processing and certain fees is within the scope of Topic 606. FASB and its Transition Resource Group have issued clarifications on various aspects of ASU 2014-09. There were three primary impacts to the Company resulting from the adoption of Topic 606, which are described below.</p> <p>Certain amounts paid to partners in our Fleet Solutions and Travel and Corporate Solutions segments have been determined to fall under the "cost to obtain a contract" guidance. As a result, these amounts, which were previously presented as a reduction of revenues, are now reflected within sales and marketing on our unaudited condensed consolidated statements of income. This change increased both reported revenues and expenses for the three and six months ended June 30, 2018 by approximately \$16.2 million and \$31.1 million, respectively.</p> <p>Network fees paid by all three of our segments, but primarily by our Travel and Corporate Solutions segment, are now presented as a reduction of revenues in our unaudited condensed consolidated statements of income. Prior to January 1, 2018, these amounts were included within service fees. This change reduced both reported revenues and expenses by approximately \$4.4 million and \$10.0 million for the three and six months ended June 30, 2018, respectively.</p>

Certain costs to obtain a contract, such as sales commissions, are to be capitalized and amortized over the life of the customer relationship, with a practical expedient available for contracts under one year in duration. The vast majority of the Company's commissions will continue to be expensed as incurred. This change resulted in an immaterial impact to operating income for the three and six months ended June 30, 2018.

As of January 1, 2018, we recorded \$0.6 million cumulative-effect adjustment, net of the associated tax effect, related to the deferral of capitalizable costs to obtain a contract within our Health and Employee Benefit Solutions segment. These commissions are amortized to sales and marketing expense over a useful life that considers the contract term, our commission policy, renewal experience and the transfer of services to which the asset relates.

This standard changes the presentation of net benefit pension costs by requiring the disaggregation of certain of its components. Under the guidance, companies are required to present the service cost component in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost will be presented in the income statement separately from the service cost component and outside the subtotal of operating income, if one is presented. Additionally, only the service cost component will be eligible for capitalization under the new guidance.

ASU
2017-07

The Company adopted ASU 2017-07 effective January 1, 2018.

The adoption did not have a material impact on our results of operations, cash flows or consolidated financial position.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

ASU 2016–18	<p>This standard clarifies the classification and presentation of restricted cash in the statement of cash flows. Upon adoption, the statement of cash flows must explain the change during the period in the total of cash and cash equivalents and amounts described as restricted cash or cash equivalents.</p>	<p>The Company retrospectively adopted ASU 2016–18 effective January 1, 2018.</p>	<p>This retrospective adoption resulted in including restricted cash in cash, cash equivalents and restricted cash when reconciling the beginning of year and end of year amounts presented on the unaudited condensed consolidated statements of cash flows.</p> <p>A reconciliation of cash, cash equivalents and restricted cash as reported within our unaudited condensed consolidated balance sheets is included within our unaudited condensed consolidated statements of cash flows.</p>
ASU 2016–01	<p>This standard 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.</p>	<p>The Company adopted ASU 2016–01 effective January 1, 2018.</p>	<p>Changes in the fair value of investment securities are now reflected as non-operating income within our unaudited condensed consolidated statements of income. The adoption did not have a material impact on our results of operations, balance sheet or cash flows.</p>
<p>Not Yet Adopted as of June 30, 2018</p> <p>ASU 2016–02 Leases (Topic 842)</p>	<p>This standard increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Certain qualitative and quantitative disclosures are required.</p>	<p>The standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period using modified retrospective adoption.</p>	<p>The Company has established an ASU 2016–02 committee whose primary objectives include evaluating potential software solutions, reviewing and summarizing lease contracts, establishing completeness over the lease population, determining which practical expedients, if any, we will utilize to facilitate</p>

compliance and updating the Company's accounting policies and procedures. We expect to recognize right-of-use assets and corresponding lease liabilities on the Company's consolidated balance sheet following the adoption of ASU 2016-02, but the Company is not able to quantify the impact of adoption at this time. We are also evaluating the impact the standard will have on our consolidated statement of operations, consolidated statement of cash flows and related disclosures

ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This standard requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses will be based on historical experience, current conditions, and reasonable and supportable forecasts that impact the collectability of the reported amount.

The standard is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years.

The Company is evaluating the impact the standard will have on its consolidated financial statements and related disclosures.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Revenue

The Company adopted Topic 606 on January 1, 2018, utilizing the modified retrospective method. See Note 2, Recent Accounting Pronouncements, for further information regarding the adoption impact. Under the modified retrospective method, prior period comparable financial information continues to be presented under the guidance of ASC 605, Revenue Recognition. Please see the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for our accounting policies applied to revenue recognition prior to adoption of Topic 606.

The impact of adopting Topic 606 for the three and six months ended June 30, 2018 was as follows:

(In thousands)	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Prior to Adoption	Impact of Topic 606	As Reported	Prior to Adoption	Impact of Topic 606	As Reported
Revenues						
Payment processing revenue	\$ 167,874	\$ 10,864	\$ 178,738	\$ 327,504	\$ 19,688	\$ 347,192
Account servicing revenue	78,716	—	78,716	157,420	—	157,420
Finance fee revenue	51,573	—	51,573	101,255	—	101,255
Other revenue	60,822	1,027	61,849	118,315	1,523	119,838
Total revenues	358,985	11,891	370,876	704,494	21,211	725,705
Cost of services						
Processing costs	76,306	—	76,306	155,928	—	155,928
Service fees	18,181	(4,372)	13,809	36,076	(10,047)	26,029
Provision for credit losses	11,505	—	11,505	25,495	—	25,495
Operating interest	9,528	—	9,528	18,013	—	18,013
Depreciation and amortization	20,612	—	20,612	41,045	—	41,045
Total cost of services	136,132	(4,372)	131,760	276,557	(10,047)	266,510
General and administrative	48,488	—	48,488	103,921	—	103,921
Sales and marketing	41,505	16,192	57,697	83,150	31,088	114,238
Depreciation and amortization	30,020	—	30,020	59,763	—	59,763
Operating income	102,840	71	102,911	181,103	170	181,273
Financing interest expense	(25,505)	—	(25,505)	(52,842)	—	(52,842)
Net foreign currency loss	(26,734)	—	(26,734)	(26,344)	—	(26,344)
Net unrealized gain on financial instruments	2,706	—	2,706	16,214	—	16,214
Income before income taxes	53,307	71	53,378	118,131	170	118,301
Income taxes	13,919	19	13,938	29,485	42	29,527
Net income	39,388	52	39,440	88,646	128	88,774
Less: Net income (loss) from non-controlling interest	142	—	142	843	—	843
Net income attributable to shareholders	\$ 39,246	\$ 52	\$ 39,298	\$ 87,803	\$ 128	\$ 87,931

Topic 606 does not apply to rights or obligations associated with financial instruments, including the Company's finance fee and interest income from banking relationships and cardholders, certain other fees associated with cardholder arrangements and commissions paid related to such agreements, which continue to be within the scope of ASC Topic 310, Receivables ("Topic 310").

The vast majority of the Company's Topic 606 revenue is derived from stand-ready obligations to provide payment processing, transaction processing and SaaS services and support. Revenue is recognized based on the value of services transferred to date using a time elapsed output method. For payment processing and transaction processing,

services are considered to be transferred when a transaction is captured and the Company has validated that the transaction has no errors. Point-in-time revenue recognized during the three and six months ended June 30, 2018 was not material.

We disaggregate our revenue from contracts with customers by service-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following tables disaggregate our consolidated revenue for the three and six months ended June 30, 2018:

Three Months Ended June 30, 2018

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Topic 606 revenues				
Payment processing revenue	\$ 112,895	\$ 51,289	\$ 14,554	\$ 178,738
Account servicing revenue	5,384	8,995	26,702	41,081
Other revenue	10,525	1,206	5,274	17,005
Total Topic 606 revenues	\$ 128,804	\$ 61,490	\$ 46,530	\$ 236,824

Topic 310 revenues

Account servicing revenue	\$ 37,635	—	—	\$ 37,635
Finance fee revenue	45,188	228	6,157	51,573
Other revenue	29,843	14,046	955	44,844
Total Topic 310 revenues	\$ 112,666	\$ 14,274	\$ 7,112	\$ 134,052

Total revenues	\$ 241,470	\$ 75,764	\$ 53,642	\$ 370,876
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Six Months Ended June 30, 2018

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Topic 606 revenues				
Payment processing revenue	\$ 219,873	\$ 96,066	\$ 31,253	\$ 347,192
Account servicing revenue	13,850	18,464	53,727	86,041
Other revenue	27,567	2,323	13,416	43,306
Total Topic 606 revenues	\$ 261,290	\$ 116,853	\$ 98,396	\$ 476,539

Topic 310 revenues

Account servicing revenue	\$ 71,379	—	—	\$ 71,379
Finance fee revenue	88,792	487	11,976	101,255
Other revenue	50,374	25,203	955	76,532
Total Topic 310 revenues	\$ 210,545	\$ 25,690	\$ 12,931	\$ 249,166

Total revenues	\$ 471,835	\$ 142,543	\$ 111,327	\$ 725,705
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Payment Processing Revenue

Payment processing revenue consists primarily of interchange income. Interchange income is a fee paid by a merchant bank (“merchant”) to the card-issuing bank (generally the Company) in exchange for the Company facilitating and processing transactions with cardholders. Interchange fees are set by the card network. WEX processes transactions through both closed-loop and open-loop networks.

Our Fleet Solutions segment interchange income primarily relates to revenue earned on transactions processed through the Company’s proprietary closed-loop fuel networks. In closed-loop fuel network arrangements, written contracts are entered into between the Company and merchants, which determine the interchange fee charged on

transactions. The Company extends short-term credit to the fleet cardholder and pays the merchant the purchase price for the cardholder's transaction, less the interchange fees the Company retains. The Company collects the total purchase price from the fleet cardholder. In Europe, interchange income is specifically derived from the difference between the negotiated price of fuel from the supplier and the agreed upon price paid by fleet cardholders.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Interchange income in our Travel and Corporate Solutions and Health and Employee Benefit Solutions segments relates to revenue earned on transactions processed through open-loop networks. In open-loop network arrangements, there are several intermediaries involved between the merchant and the cardholder and written contracts between all parties involved in the process do not exist. Rather, the transaction is governed by the rates determined by the payment network at the point-of-sale. This framework dictates the interchange rate, the risk of loss, dispute procedures and timing of payment. For these transactions, there is an implied contract between the Company and the merchant. In our Travel and Corporate Solutions segment, the Company remits payment to the card network for the purchase price of the cardholder transaction, less the interchange fees the Company earns. The Company collects the total purchase price from the cardholder. In our Health and Employee Benefit Solutions segment, funding of transactions and collections from cardholders is performed by third-party sponsor banks, who remit a portion of the interchange fee to us.

The Company has determined that the merchant is the customer as it relates to interchange income regardless of the type of network through which transactions are processed. The Company's primary performance obligation to merchants is a stand-ready commitment to provide payment and transaction processing services as the merchant requires, which is satisfied over time in daily increments. Since the timing and quantity of transactions to be processed by us is not determinable, the total consideration is determined to be variable consideration. The variable consideration for our payment and transaction processing service is usage-based and therefore it specifically relates to our efforts to satisfy our obligation. The variability is satisfied each day the service is provided to the customer. We directly ascribe variable fees to the distinct day of service to which it relates, and we consider the services performed each day in order to ascribe the appropriate amount of total fees to that day. Therefore, we measure interchange income on a daily basis based on the services that are performed on that day.

In determining the amount of consideration received related to payment and transaction processing services provided, the Company assessed other intermediaries involved in the processing of transactions, including merchant acquirers, card networks, sponsor banks and third-party payment processors, and assessed whether the Company controls such services performed by other intermediaries according to principal-agent guidance in Topic 606. Based on this assessment, the Company determined that WEX does not control the services performed by merchant acquirers, card networks and sponsor banks as each of these parties is the primary obligor for their portion of payment and transaction processing services performed. Therefore interchange income is recognized net of any fees owed to these intermediaries. The Company determined that services performed by third-party payment processors are controlled by WEX as the Company is responsible for directing how the third-party payment processor authorizes and processes transactions on the Company's behalf. Therefore, such fees paid to third-party payment processors are recorded as service fees within cost of services.

Additionally, the Company enters into contracts with certain large customers or strategic cardholders that provide for fee rebates tied to performance milestones. The Company considered whether such fee rebates constitute consideration payable to a customer or other parties that purchase services from the customer per Topic 606. If so, such fee rebates, which are considered variable consideration, are recorded as a reduction in payment processing revenue in the same period that related interchange income is recognized. For the three and six months ended June 30, 2018, such variable consideration totaled approximately \$222.7 million and \$421.2 million, respectively. Fee rebates made to certain other partners were determined to be costs to obtain a contract, and are recorded as sales and marketing expenses.

Account Servicing Revenue

In our Fleet Solutions segment, account servicing revenue is primarily comprised of monthly fees charged to cardholders based on the number of vehicles serviced. These fees are primarily in return for providing monthly vehicle data reports and are recognized on a monthly basis as the service is provided.

In our Travel and Corporate Solutions segment, account servicing reflects revenues earned from our AOC acquisition, primarily consisting of licensing fees for use of our accounts receivable and accounts payable SaaS platforms.

In our Health and Employee Benefit Solutions segment, we also recognize account servicing fees for the per-participant per-month fee charged per consumer on our SaaS healthcare technology platform. Customers including health plans, third-party administrators, financial institutions and payroll companies typically enter into three to five year contracts, which contain significant termination penalties.

Our primary performance obligation in our Travel and Corporate Solutions and Health and Employee Benefit Solutions segments is a stand-ready commitment to provide SaaS services and support which is satisfied over time in a series of daily

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

increments. Revenue is recognized based on an output method based using days elapsed to measure progress as the Company transfers control evenly over each monthly subscription period.

Finance Fee Revenue

The Company earns revenue on overdue accounts, which is recognized as revenue at the time the fees are assessed. The finance fee is calculated using the greater of a minimum charge or a stated late fee rate multiplied by the outstanding balance that is subject to a late fee charge. On occasion, these fees are waived to maintain customer goodwill. The established reserve for such waived amounts is estimated and offset against the late fee revenue recognized. The Company engages in factoring, which is the purchase of accounts receivable from a third-party at a discount. The Company also recognizes finance fee revenue earned on the Company's foreign salary advance product. All finance fees listed above are within the scope of Topic 310 and are recognized at the time of assessment.

Other Revenue

Other revenue includes transaction processing revenue, professional and marketing services and the sales of telematics hardware, all of which is within scope of Topic 606. Revenue is recognized when control of the services or hardware is transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those services. In addition, international settlement fees and certain other cardholder fees (e.g. replacement card fees) are included in other revenue. These cardholder fees are within the scope of Topic 310 and are recognized upon completion of the related service.

Contract Balances

The Company's contract assets consist of upfront payments made to customers under long-term contracts and are recorded upon payment or when due. These payments reduce revenue recognition in future periods, as the resulting asset is amortized against revenue as the Company performs its obligations under these arrangements.

The Company's contract liabilities consist of customer payments received before the Company has satisfied the associated performance obligations and upfront payments due to the customer.

The following table provides information about these contract assets and liabilities from contracts with customers. Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

(In thousands)

Contract balance	Location on the unaudited condensed consolidated balance sheets	June 30, 2018	January 1, 2018
Receivables ¹	Accounts receivable, net	\$29,233	\$30,386
Contract assets	Prepaid expenses and other current assets	\$7,341	\$7,053
Contract assets	Other assets	\$48,645	\$49,068
Contract liabilities	Other current liabilities	\$23,481	\$26,592

¹ The majority of the Company's receivables, excluded from the table above, are either due from cardholders, who have not been deemed our customer as it relates to interchange income, or from revenues earned outside of the scope of ASC Topic 606.

Impairment losses recognized on our receivables and contract assets were immaterial for the three and six months ended June 30, 2018. In the three and six months ended June 30, 2018, we recognized revenue of \$2.2 million and \$5.3 million related to contract liabilities as of March 31, 2018 and December 31, 2017, respectively.

Remaining Performance Obligations

The Company's unsatisfied, or partially unsatisfied performance obligations as of June 30, 2018 represent the remaining minimum monthly fees on a portion of contracts across the lines of business and contractually obligated professional services yet to be provided by the Company. It is not indicative of the Company's future revenue, as it relates to an insignificant portion of the Company's operations. As allowed by Topic 606, the Company has elected to

exclude from this disclosure the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table includes revenue expected to be recognized in the future related to remaining performance obligations at the end of the reporting period.

(In thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Minimum monthly fees ¹	\$30,803	\$52,182	\$32,160	\$16,699	\$7,394	\$ 683	\$139,921
Professional services ²	9,691	4,183	—	—	—	—	13,874
Total remaining performance obligations	\$40,494	\$56,365	\$32,160	\$16,699	\$7,394	\$ 683	\$153,795

¹ The transaction price allocated to the remaining performance obligations represents the minimum monthly fees on certain service contracts, which contain substantive termination penalties that require the counterparty to pay the Company for the aggregate remaining minimum monthly fees upon an early termination for convenience.

² Includes software development projects and other services sold subsequent to the core offerings, to which the customer is contractually obligated.

4. Business Acquisition

AOC

Effective October 18, 2017, the Company acquired certain assets and assumed certain liabilities of AOC, an industry leader in commercial payments technology. The acquisition of AOC, a longstanding technology provider for our virtual card product, will broaden our capabilities, increase our pool of employees with payments platform expertise and allow us to evolve with the needs of our customers and partners through the use of AOC's payments processing technology platforms.

The Company purchased AOC for \$129.8 million, which was funded with cash on hand and through borrowings under the 2016 Credit Agreement. The Company records adjustments to the assets acquired and liabilities assumed throughout the measurement period, which may be up to one year from the acquisition date. The Company has obtained information to assist in determining the fair values of certain assets acquired and liabilities assumed since the acquisition, resulting primarily in the recording of other intangible assets and goodwill. Goodwill is calculated as the consideration in excess of net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized, including synergies derived from the acquisition. The goodwill and intangible assets recorded from this business combination were assigned to our Travel and Corporate Solutions segment.

During the second quarter of 2018, the Company assigned \$21.6 million of the purchase price to an acquired processing platform that is still under research and development and has not reached technological feasibility. While research and development continues, this asset will not be amortized. Additionally, it will be subjected to impairment testing at least annually, but more frequently if events of circumstances indicate that it is more likely than not that the asset is impaired. This intangible asset will be considered indefinite lived until completion or abandonment of the project. The Company has not finalized the purchase accounting is still reviewing the valuation and tax basis of assets acquired and liabilities assumed in this business combination. Additionally, we are performing procedures to verify the completeness and accuracy of the data used in the independent valuation for intangible assets identified in the table below. The preliminary estimates could change significantly upon completion of this evaluation. The goodwill recognized in this business combination will be deductible for income tax purposes.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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

(In thousands)	As Reported December 31, 2017	Measurement Period Adjustments	As Reported, June 30, 2018
Total consideration	\$129,828	\$ —	\$129,828
Less:			
Cash	15,546	—	15,546
Accounts receivable	4,171	100	4,271
Property and equipment	2,530	(1,329)	1,201
Customer relationships ^(a)	15,000	200	15,200
Developed technologies ^(b)	24,100	—	24,100
Trademarks and trade names ^(c)	1,460	10	1,470
In-process research and development	—	21,600	21,600
Other liabilities	(685)	(448)	(1,133)
Recorded goodwill	\$67,706	\$ (20,133)	\$47,573

^(a) Weighted average life – 9.0 years.

^(b) Weighted average life – 3.4 years.

^(c) Weighted average life – 4.3 years.

^(a) ^(b) ^(c) The weighted average life of these amortized intangible assets is 5.5 years.

Since the acquisition date, the operations of AOC contributed net revenues of approximately \$6.7 million and net loss before taxes of approximately \$0.6 million during the year ended December 31, 2017. No pro forma information has been included in these financial statements as the operations of AOC 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.

5. Accounts Receivable

In general, the Company's trade receivables provide for payment terms of 30 days or less. Receivables not paid within the terms of the agreement are generally subject to late fees based upon the outstanding receivable balance.

The Company extends revolving credit to certain small fleets. 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. The Company had approximately \$18.0 million and \$12.2 million in receivables with revolving credit balances as of June 30, 2018 and December 31, 2017, respectively.

Concentration of Credit Risk

The receivables portfolio consists of a large group of homogeneous smaller balances across a wide range of industries, which are collectively evaluated for impairment. No one customer receivable balance represented 10 percent or more of the outstanding receivables balance at June 30, 2018 or December 31, 2017. The following table presents the outstanding balance of trade accounts receivable that are less than 30 and 60 days past due, in each case, as a percentage of total trade accounts receivable:

Delinquency Status	June 30, December	
	2018	31, 2017
29 days or less past due	98 %	95 %
59 days or less past due	99 %	97 %

Reserves for Accounts Receivable

Receivables are generally written off when they are 150 days past due or upon declaration of bankruptcy of 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 past due accounts receivable balances, changes in payment patterns, known fraudulent activity in the portfolio, as well as leading economic and market indicators.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table presents changes in the accounts receivable allowances:

(In thousands)	Six Months Ended	
	June 30,	
	2018	2017
Balance, beginning of year	\$30,207	\$20,092
Provision for credit losses	25,495	28,313
Charges to other accounts ¹	9,556	7,779
Charge-offs	(38,232)	(33,050)
Recoveries of amounts previously charged-off	3,505	3,349
Currency translation	(284)	275
Balance, end of period	\$30,247	\$26,758

¹ The Company earns revenue by assessing monthly finance fees on accounts with overdue balances. These fees are recognized as revenue at the time the fees are assessed. The finance fee is calculated using the greater of a minimum charge or a stated late fee rate multiplied by the outstanding balance that is subject to a late fee charge. On occasion, these fees are waived to maintain relationship goodwill. Charges to other accounts represents the offset against the late fee revenue recognized when the Company establishes a reserve for such waived amounts.

6. Earnings per Share

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares of common stock and vested deferred stock units outstanding during the year. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options, the assumed issuance of unvested restricted stock units and deferred stock units, and unvested performance-based restricted stock units for which the performance condition has been met as of the date of determination using the treasury stock method unless the effect is anti-dilutive. The treasury stock method assumes that proceeds, including cash received from the exercise of employee stock options and the average unrecognized compensation expense for unvested share-based compensation awards, would be used to purchase the Company's common stock at the average market price during the period.

The following table summarizes net income attributable to shareholders and reconciles basic and diluted shares outstanding used in the earnings per share computations:

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Net income attributable to shareholders	\$39,298	\$17,090	\$87,931	\$46,491
Weighted average common shares outstanding – Basic	43,181	43,002	43,116	42,937
Dilutive impact of share-based compensation awards	365	58	408	153
Weighted average common shares outstanding – Diluted	43,546	43,060	43,524	43,090

For the three and six months ended June 30, 2018 and June 30, 2017, an immaterial number of outstanding share-based compensation awards were excluded from the computation of diluted earnings per share, as the effect of including these awards would be anti-dilutive.

7. Derivative Instruments

The Company is exposed to certain market risks relating to its ongoing business operations. From time to time, the Company enters into derivative instrument arrangements to manage various risks including interest rate risk, foreign exchange risk and commodity price risk.

Interest Rate Swap Agreements

During 2016 and 2017, we entered into five interest rate swap contracts. Collectively, these derivative contracts are intended to fix the future interest payments associated with \$1.3 billion of our variable rate borrowings at between 0.896% and 2.212%. At June 30, 2018, we had variable-rate borrowings of \$1.7 billion under our 2016 Credit Agreement.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The notional amounts, fixed and variable interest rates and maturities of the interest rate swap agreements are as follows:

	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E
Notional amount at inception (in thousands)	\$300,000	\$200,000	\$400,000	\$150,000	\$250,000
Amortization	N/A	N/A	5% annually	N/A	N/A
Maturity date	12/30/2022	12/30/2022	12/31/2020	12/31/2020	12/31/2018
Fixed interest rate	2.204%	2.212%	1.108%	1.125%	0.896%

The following table presents information on the location and amounts of interest rate swap gains and losses:

(In thousands)			Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives	Location of Gain (Loss) Recognized in Income Statement		2018	2017	2018	2017
Not Designated as Hedging Instruments	Net unrealized gain (loss) on financial instruments		\$3,944	\$(2,264)	\$17,452	\$(699)
Interest rate swap agreements – unrealized portion						
Interest rate swap agreements – realized portion	Financing interest income (expense)		\$1,363	\$(77)	\$1,676	\$(620)

See Note 11, Fair Value, for more information regarding the valuation of the Company's interest rate swaps.

8. Deposits

WEX Bank has issued certificates of deposit with maturities ranging from four weeks to three years, with interest rates ranging from 1.15% to 2.90% as of June 30, 2018 and from 1.00% to 2.15% as of December 31, 2017. WEX Bank may issue brokered deposits, subject to FDIC rules governing minimum financial ratios, which include risk-based asset and capital requirements. As of June 30, 2018, all brokered deposits were in denominations of \$250 thousand or less, corresponding to FDIC deposit insurance limits.

The Company requires deposits from certain customers as collateral for credit that has been extended. These deposits are generally non-interest bearing. Interest-bearing brokered money market deposits are issued in denominations of \$250 thousand or less, and pay interest at variable rates based on LIBOR or the Federal Funds rate. Money market deposits may be withdrawn by the holder at any time, although notification may be required and the monthly number of transactions is limited. Interest-bearing brokered money market deposits and customer deposits are classified as short-term deposits on our unaudited condensed consolidated balance sheets.

The following table presents the composition of deposits:

(In thousands)	June 30, 2018	December 31, 2017		
Interest-bearing brokered money market deposits	\$317,685	\$285,899		
Customer deposits	77,000	70,211		
Certificates of deposit with maturities within 1 year ^(a)	433,558	630,879		
Short-term deposits	828,243	986,989		
Certificates of deposit with maturities greater than 1 year and less than 5 years ^(a)	326,303	306,865		
Total deposits	\$1,154,546	\$1,293,854		
Weighted average cost of funds on certificates of deposit outstanding	1.85	% 1.51		%
Weighted average cost of interest-bearing brokered money market deposits	2.12	% 1.49		%

(a) Certificates of deposit are classified as short-term or long-term within our unaudited condensed consolidated balance sheets based on maturity date.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Sources of Funds

WEX Bank participates in the ICS service offered by Promontory Interfinancial Network, which allows WEX Bank to purchase brokered money market demand accounts and demand deposit accounts in an amount not to exceed \$125.0 million as part of a one-way buy program. At June 30, 2018, the outstanding balance for ICS purchases totaled \$50.0 million, which purchases are classified as interest-bearing brokered money market deposits in the table above. As of December 31, 2017, the company had made no such ICS purchases.

9. Financing and Other Debt

The following table summarizes the Company's total outstanding debt:

(In thousands)	June 30, 2018	December 31, 2017
Revolving line-of-credit facility under 2016 Credit Agreement ^(a)	\$—	\$ 136,535
Term loans under 2016 Credit Agreement ^(a)	1,737,723	1,602,875
Notes outstanding ^(a)	400,000	400,000
Securitized debt	144,533	126,901
Participation debt	204,493	184,990
Borrowed federal funds	44,000	—
WEX Latin America debt	7,889	9,747
Total gross debt	\$2,538,638	\$ 2,461,048
Current portion of gross debt	\$387,228	\$ 404,233
Less: Unamortized debt issuance costs	(7,690	) (7,015
Short-term debt, net	\$379,538	\$ 397,218
Long-term gross debt	\$2,151,410	\$ 2,056,815
Less: Unamortized debt issuance costs	(26,301	) (29,063
Long-term debt, net	\$2,125,109	\$ 2,027,752

Supplemental information under 2016 Credit Agreement:

Letters of credit ^(b)	\$53,731	\$ 27,500
Borrowing capacity ^(c)	\$516,269	\$ 405,965

^(a) See Note 11, Fair Value, for more information regarding the Company's 2016 Credit Agreement and notes outstanding.

^(b) Collateral for lease agreements, virtual card and fuel payment processing activity at the Company's foreign subsidiaries

^(c) Contingent on maintaining compliance with the financial covenants as defined in the Company's 2016 Credit Agreement

2016 Credit Agreement

The 2016 Credit Agreement provides for tranche A and tranche B term loan facilities in amounts equal to \$455.0 million and \$1,335.0 million respectively, and a \$570.0 million secured revolving credit facility, with a sublimit for letters of credit and swingline loans. Under the 2016 Credit Agreement, amounts due under the revolving credit facility and the tranche A term loan facility mature in July 2021, while amounts due under the tranche B term loan facility mature in July 2023. Prior to maturity, amounts borrowed under the credit facility will be reduced by mandatory quarterly payments of \$5.7 million and \$3.4 million for tranche A and tranche B term loan facilities, respectively.

On January 17, 2018, the Company repriced the secured term loans under the 2016 Credit Agreement, which reduced the applicable interest rate margin for the Company's tranche B term loan facility by 50 basis points for both Eurocurrency Rate (as defined in the 2016 Credit Agreement) borrowings and base rate borrowings and increased the outstanding amounts on these tranche B term loans from \$1,182.0 million to \$1,335.0 million. In addition, the repricing made certain other changes to the 2016 Credit Agreement, including increasing the maximum consolidated leverage ratio for both the period of December 31, 2018 through September 30, 2019, and upon the occurrence of an acquisition meeting certain specified criteria, permitting the incurrence of unsecured indebtedness as long as the Company is in pro forma compliance with the financial covenants, resetting the six month soft call period for a repricing of the tranche B term loans and resetting and amending the test for incremental loans. Following

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

the repricing, the applicable interest rate margin for the tranche B term loans was set at 2.25% for Eurocurrency borrowings and 1.25% for base rate borrowings.

As of June 30, 2018, amounts outstanding under the 2016 Credit Agreement bore interest at a rate equal to the Eurocurrency Rate plus a margin of 2.00% with respect to the tranche A term loan facility, and 2.25% with respect to the tranche B term loan facility (with the Eurocurrency Rate subject to a 0.00% floor). As of June 30, 2018 and December 31, 2017, amounts outstanding under the 2016 Credit Agreement bore a weighted average effective interest rate of 4.4 percent and 4.2 percent, respectively.

The Company accounted for the January 2018 repricing as both a debt extinguishment and debt modification by evaluating the refinancing on a creditor by creditor basis. During the first quarter of 2018, the Company recorded a loss on extinguishment of debt of \$1.1 million related to the write-off of unamortized debt issuance costs and incurred general and administrative expenses of \$3.0 million related to third-party costs associated with the modified debt. The loss on extinguishment and third-party costs are reflected as financing interest expense and service fees, respectively, within our unaudited condensed consolidated statements of income. In addition, the Company incurred and capitalized \$2.9 million of new debt issuance costs related to the repricing.

The Company maintains interest rate swap agreements to manage the interest rate risk associated with its outstanding variable-interest rate borrowings under the 2016 Credit Agreement. See Note 7, Derivative Instruments, for further discussion.

Debt Covenants

As more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, the 2016 Credit Agreement and the Indenture contain covenants that limit the ability of the Company and its subsidiaries, including its restricted subsidiaries and, in certain limited circumstances, WEX Bank and the Company's other regulated subsidiaries, to (i) incur additional debt, (ii) pay dividends or make other distributions on, redeem or repurchase capital stock, or make investments or other restricted payments, (iii) enter into transactions with affiliates, (iv) dispose of assets or issue stock of restricted subsidiaries or regulated subsidiaries, (v) create liens on assets, or (vi) effect a consolidation or merger or sell all, or substantially all, of the Company's assets. As of June 30, 2018, the Company was in compliance with all material covenants of its 2016 Credit Agreement and the Indenture.

Notes Outstanding

As of both June 30, 2018 and December 31, 2017, the Company had \$400.0 million of 4.75% fixed-rate senior notes outstanding, which will mature on February 1, 2023. Interest is payable semiannually in arrears on February 1 and August 1 of each year, commencing on August 1, 2013.

Australian Securitization Facility

The Company has entered into a one year securitized debt agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd expiring April 2019. Under the terms of the agreement, each month, on a revolving basis, the Company sells certain of its Australian receivables to the Company's 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 2.87% and 2.53% as of June 30, 2018 and December 31, 2017, respectively. The Company had \$91.1 million and \$90.0 million of securitized debt under this facility as of June 30, 2018 and December 31, 2017, respectively.

WEX Latin America Securitization Facility

During the second quarter of 2017, WEX Latin America entered into a securitized debt agreement to sell certain unsecured receivables associated with our salary payment card product to an investment fund managed by an unrelated third-party financial institution. Under the terms of the agreement, the investment fund's purchase price

incorporates a discount relative to the face value of the transferred receivables.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

This securitization arrangement does not meet the derecognition conditions and accordingly WEX Latin America continues to report the transferred receivables in our unaudited condensed consolidated balance sheets with no change in the basis of accounting. Additionally, we recognize the cash proceeds received from the investment fund and record offsetting securitized debt in our unaudited condensed consolidated balance sheets.

During the six months ended June 30, 2018, WEX Latin America paid \$2.6 million in exchange for a non-controlling equity investment in the securitization facility. This equity investment is recorded within other assets in our unaudited condensed consolidated balance sheets.

The Company had \$30.1 million and \$19.0 million of securitized debt under this facility as of June 30, 2018 and December 31, 2017, respectively. During the three and six months ended June 30, 2018, the Company recognized approximately \$2.3 million and \$4.4 million, respectively, of operating interest under this financing arrangement. Operating interest for the three and six months ended June 30, 2017 was immaterial.

European Securitization Facility

On April 7, 2016, the Company entered into a five-year securitized debt agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. Under the terms of the agreement, the Company sells certain of its receivables from selected European countries to its European Securitization Subsidiary. The European Securitization Subsidiary, in turn, uses the receivables as collateral to issue securitized debt. The amount collected on the securitized receivables is restricted to pay the securitized debt and is not available for general corporate purposes. The amounts of receivables to be securitized under this agreement will be determined by management on a monthly basis. The interest rate was 1.14 percent and 1.11 percent as of June 30, 2018 and December 31, 2017, respectively. The Company had \$23.3 million and \$17.9 million of securitized debt under this facility as of June 30, 2018 and December 31, 2017, respectively.

Participation Debt

Historically, WEX Bank maintained three separate participation agreements with third-party banks to fund customer balances that exceeded WEX Bank's lending limit to an individual customer. In June 2018, WEX Bank entered into a fourth participation agreement with a third-party bank to fund an additional customer's balance. Associated unsecured borrowings carry a variable interest rate of 1 month to 3 month LIBOR plus a margin of 225 basis points. The balance of the debt was approximately \$204.5 million and \$185.0 million at June 30, 2018 and December 31, 2017, respectively. The outstanding commitment as of June 30, 2018 will mature in amounts of \$85.0 million and \$50.0 million on August 28, 2018 and August 31, 2020, respectively, with the remaining \$69.5 million maturing on demand.

Borrowed Federal Funds

WEX Bank borrows from lines of credit on a federal funds rate basis to supplement the financing of its accounts receivable. There were \$44.0 million of borrowings against these lines of credit as of June 30, 2018 bearing interest at 2.13% and no outstanding borrowings as of December 31, 2017. As of June 30, 2018, the Company's federal funds available lines of credit was \$106.0 million.

WEX Latin America Debt

WEX Latin America had debt of approximately \$7.9 million and \$9.7 million as of June 30, 2018 and December 31, 2017, respectively. This is comprised of credit facilities and loan arrangements related to our accounts receivable. The average interest rate was 16.9 percent and 21.2 percent as of June 30, 2018 and December 31, 2017, respectively. These borrowings are recorded in short-term debt, net on the Company's unaudited condensed consolidated balance sheets for the periods presented.

10. Off-Balance Sheet Arrangement

WEX Europe Services Accounts Receivable Factoring

During the first quarter of 2017, WEX Europe Services entered into a factoring arrangement with an unrelated third-party financial institution (the "Purchasing Bank.") Under this arrangement, the Purchasing Bank establishes a credit limit for each customer account. The factored receivables are without recourse to the extent that the customer balances are maintained at or below the established credit limit. For customer receivable balances in excess of the

Purchasing Bank's credit limit, the Company maintains the risk of default. Additionally, there are no indications of the Company's continuing involvement in the factored receivables.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The Company obtained a true sale opinion from an independent attorney, which states that the factoring agreement provides legal isolation upon seller bankruptcy or receivership under local law and creates a sale of receivables for amounts transferred both below and above the established credit limits. As such, transfers under this arrangement are treated as sales and are accounted for as reductions in trade receivables because the agreements transfer effective control of the receivables to the Purchasing Bank. The Company records the proceeds as cash provided by operating activities.

The Company sold approximately \$190.7 million and \$360.9 million of receivables under this arrangement during the three and six months ended June 30, 2018, respectively. Proceeds received are recorded net of applicable expenses, interest and commissions. The loss on factoring was \$1.2 million and \$2.3 million for the three and six months ended June 30, 2018, respectively, and immaterial for the three and six months ended June 30, 2017, and was recorded within cost of services in the unaudited condensed consolidated statements of income. As of June 30, 2018 and December 31, 2017, the Company had associated factoring receivables of approximately \$75.4 million and \$61.8 million, respectively, of which approximately \$4.6 million and \$3.7 million, respectively, were in excess of the established credit limit. Charge-backs on balances in excess of the credit limit during the three and six months ended June 30, 2018 were insignificant. There were no charge-backs on balances in excess of the credit limit during the three and six months ended June 30, 2017.

11. Fair Value

The Company holds mortgage-backed securities, fixed-income securities, derivatives (see Note 7, Derivative Instruments) and certain other financial instruments that 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. Various factors are considered in determining the fair value of the Company's obligations, 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.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. We did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during either of the three and six months ended June 30, 2018 or June 30, 2017.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table presents the Company's assets and liabilities that are measured at fair value and the related hierarchy levels:

(In thousands)	Fair Value Hierarchy	June 30, 2018	December 31, 2017
Assets			
Municipal bonds	2	\$469	\$ 534
Asset-backed securities	2	328	345
Mortgage-backed securities	2	279	305
Fixed-income mutual fund	1	21,894	22,174
Investment securities ^(a)		\$22,970	\$ 23,358
Executive deferred compensation plan trust ^(b)	1	\$6,946	\$ 6,798
Interest rate swaps ^(c)	2	\$31,674	\$ 19,595
Liabilities			
Interest rate swaps ^(d)	2	\$—	\$ 5,373

^(a) Not deemed available for current operations and have been classified as long-term assets.

^(b) The fair value of these instruments is recorded in other assets.

^(c) The fair value of these instruments is recorded in prepaid expenses and other current assets or other assets depending on the timing of expected discounted cash flows.

^(d) The fair value of these instruments is recorded in other current liabilities based on the timing of expected discounted cash flows.

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of investment securities; such inputs are classified as Level 1 of the fair-value hierarchy. These securities primarily consist of an open-ended mutual fund which is invested in fixed-income securities and is held in order to satisfy the regulatory requirements of WEX Bank. For mortgage-backed and asset-backed debt securities and municipal bonds, the Company generally uses quoted prices for recent trading activity of assets with similar characteristics to the debt security or bond being valued. The securities and bonds priced using such methods are generally valued using Level 2 inputs.

Executive Deferred Compensation Plan Trust

The obligations related to the deferred compensation plan trust are classified as Level 1 in the fair value hierarchy because the fair value is determined using quoted prices for identical instruments in active markets.

Interest Rate Swaps

The Company determines the fair value of its interest rate swaps based on the discounted cash flows of the difference between the projected fixed payments on the swaps and the implied floating payments using the current LIBOR curve, which are Level 2 inputs of the fair value hierarchy.

Notes Outstanding

The Notes outstanding had a fair value of \$402.0 million and \$410.0 million as of June 30, 2018 and December 31, 2017, respectively. The fair value of the Notes is based on market rates for the issuance of our debt and is classified as Level 2 in the fair value hierarchy.

2016 Credit Agreement

The Company determines the fair value of the amount outstanding under its 2016 Credit Agreement based on the market rates for the issuance of the Company's debt, which are Level 2 inputs in the fair value hierarchy. As of both June 30, 2018 and December 31, 2017, the carrying value of the 2016 Credit Agreement approximated its fair value.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Other Assets and Liabilities

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, securitized debt, participation debt and borrowed federal funds approximate their respective fair values as the interest rates on these financial instruments are variable market-based rates. All other financial instruments are reflected at fair value on the unaudited condensed consolidated balance sheets.

12. Income Taxes

The Company's effective tax rate was 26.1 percent and 25.0 percent for the second quarter and first half of 2018, respectively, as compared to 39.0 percent and 35.5 percent for the second quarter and first half of 2017, respectively. The decline in our tax rate was primarily due to the 2017 Tax Act, which reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018.

During the fourth quarter of 2017, the Company recorded a provisional amount of one-time income tax benefit of \$60.6 million associated with the 2017 Tax Act and it has not changed at June 30, 2018. This estimate may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations and state tax conformity to federal tax changes. As of June 30, 2018, we are still evaluating the effects of the Global Intangible Low Taxed Income ("GILTI") provisions as guidance and interpretations continue to emerge. However, we do not expect the impact to be material to our financial statements. We have not determined the accounting policy of either treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred, or factoring such amounts into the Company's measurement of its deferred taxes. However, the standard requires that we reflect the impact of the GILTI provisions as a period expense until the accounting policy is finalized. Therefore, we have included the provisional estimate of GILTI related to current year operations in our estimated annual effective tax rate and will update the impact and accounting policy as the analysis related to the GILTI provisions is completed.

Undistributed earnings and profits of certain foreign subsidiaries of the Company amounted to \$76.6 million and \$58.7 million at June 30, 2018 and December 31, 2017, respectively. These earnings and profits are considered to be indefinitely reinvested. The 2017 Tax Act imposes a one-time "transition tax" on foreign undistributed earnings and profits, which will be included with our 2017 U.S. Income Tax Return. At December 31, 2017, the Company estimated the transition tax and recorded a provisional transition tax obligation of \$9.1 million. However, the Company is continuing to gather additional information to more precisely compute the amount of the transition tax and our provisional estimate could change. The Company intends to offset the "transition tax" liability with tax attributes. For the period ending June 30, 2018, except for GILTI, as indicated above, the Company did not record United States federal income tax on its share of the income of its foreign subsidiaries. Upon distribution of these earnings and profits in the form of dividends or otherwise, the Company would be subject to withholding taxes payable to foreign countries, where applicable, and to certain state income taxes, but would have no further federal income tax liability.

13. Commitments and Contingencies

Litigation

The Company is subject to legal proceedings and claims in the ordinary course of business. As of the date of this filing, the current estimate of a reasonably possible loss contingency from all legal proceedings is not material to the Company's consolidated financial position, results of operations, cash flows or liquidity.

Commitments

Significant commitments and contingencies as of June 30, 2018 are consistent with those discussed in Note 18, Commitments and Contingencies, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017.

14. Stock-Based Compensation

The fair value of restricted stock units (“RSUs”), deferred stock units (“DSUs”), performance-based restricted stock units (“PBRsUs”), service-based stock options and market performance-based stock options awarded during the three and six months ended June 30, 2018 totaled \$2.7 million and \$30.1 million, respectively, as compared to \$17.2 million and \$45.3 million, respectively, for the three and six months ended June 30, 2017. Grant activity during the three and six months ended June 30, 2017 includes certain market performance-based stock options awarded to members of senior management.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The fair value of RSUs, DSUs and PBRsUs is based on the closing market price of the Company's stock on the grant date as reported by the NYSE. The fair value of each service-based stock option award is estimated on the grant date using a Black-Scholes-Merton option-pricing model. During the first half of 2017, we granted performance-based stock options for which we estimated the grant date fair value using a Monte-Carlo simulation model that simulated a distribution of future stock price paths based on historical volatility levels.

The table below summarizes the assumptions used to calculate the fair value of service-based options by year of grant:

	2018	2017
Weighted average expected life (in years)	6.0	6.0
Weighted average exercise price	\$ 158.23	\$ 104.95
Expected stock price volatility	27.35 %	30.67 %
Risk-free interest rate	2.69 %	2.13 %
Weighted average fair value	\$51.27	\$35.58

15. Restructuring Activities

Restructuring

In the first quarter of 2015, the Company commenced a restructuring initiative (the "2015 Restructuring Initiative") as a result of its global review of operations. The review of operations identified certain initiatives to further streamline the business, improve the Company's efficiency and globalize the Company's operations, all with an objective to improve scale and increase profitability going forward. The Company continued its efforts to improve its overall operational efficiency and began a second restructuring initiative (the "2016 Restructuring Initiative") during the second quarter of 2016. In connection with the EFS acquisition, the Company initiated a third restructuring program in the third quarter of 2016 (the "Acquisition Integration Restructuring Initiative").

The restructuring expenses related to these initiatives primarily consist of employee costs and office closure costs directly associated with the respective programs. The Company has determined the amount of expenses related to these initiatives is probable and reasonably estimable. As such, the Company has recorded the impact on the unaudited condensed consolidated statements of income and in accrued expenses and current liabilities on the unaudited condensed consolidated balance sheets. Restructuring charges incurred to date under these initiatives were \$24.7 million as of June 30, 2018.

The majority of the balances under these initiatives are expected to be paid through 2018. Based on current plans, which are subject to change, the amount of additional restructuring costs that the Company expects to incur under these initiatives is immaterial.

The following table presents the Company's 2015 Restructuring Initiative liability:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(In thousands)	2018	2017	2018	2017
Balance, beginning of period	\$2,337	\$5,231	\$2,680	\$5,231
Restructuring (reversals) charges	(33)	1,223	(47)	1,533
Cash paid	(1,082)	(2,488)	(1,491)	(2,836)
Liability transfer to 2016 Restructuring Initiative	—	(1,158)	—	(1,158)
Impact of foreign currency translation	(79)	200	1	238
Balance, end of period	\$1,143	\$3,008	\$1,143	\$3,008

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following table presents the Company's 2016 Restructuring Initiative liability:

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$438	\$3,202	\$738	\$3,662
Restructuring charges	34	219	30	(314)
Cash paid	(41)	(487)	(356)	(487)
Liability transfer from 2015 Restructuring Initiative	—	1,158	—	1,158
Impact of foreign currency translation	(21)	250	(2)	323
Balance, end of period	\$410	\$4,342	\$410	\$4,342

The following table presents the Company's Acquisition Integration Restructuring Initiative liability:

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$201	\$2,139	\$5,093	\$1,764
Restructuring charges	54	234	239	941
Cash paid	(222)	(889)	(5,323)	(1,479)
Other	—	(151)	22	107
Impact of foreign currency translation	(1)	—	1	—
Balance, end of period	\$32	\$1,333	\$32	\$1,333

The following table presents the Company's total restructuring liability:

(In thousands)	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$2,976	\$10,572	\$8,511	\$10,657
Restructuring charges	55	1,676	222	2,160
Cash paid	(1,345)	(3,864)	(7,170)	(4,802)
Other	—	(151)	22	107
Impact of foreign currency translation	(101)	450	—	561
Balance, end of period	\$1,585	\$8,683	\$1,585	\$8,683

16. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM is its Chief Executive Officer. The operating segments are aggregated into the three reportable segments described below.

Fleet Solutions provides customers with payment and transaction processing services specifically designed for the needs of commercial and government fleets. This segment also provides information management services to these fleet customers.

Travel and Corporate Solutions focuses on the complex payment environment of business-to-business payments, providing customers with payment processing solutions for their corporate payment and transaction monitoring needs.

Health and Employee Benefit Solutions provides healthcare payment products and SaaS consumer directed platforms, as well as payroll related benefits to customers.

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The following tables present the Company's reportable segment results:

Three Months Ended June 30, 2018

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Revenues				
Payment processing revenue	\$ 112,895	\$ 51,289	\$ 14,554	\$ 178,738
Account servicing revenue	43,019	8,995	26,702	78,716
Finance fee revenue	45,188	228	6,157	51,573
Other revenue	40,368	15,252	6,229	61,849
Total revenues	\$ 241,470	\$ 75,764	\$ 53,642	\$ 370,876

Interest income

Three Months Ended June 30, 2017

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Revenues				
Payment processing revenue	\$ 87,678	\$ 40,276	\$ 13,400	\$ 141,354
Account servicing revenue	41,311	167	24,199	65,677
Finance fee revenue	36,552	159	5,374	42,085
Other revenue	34,763	14,398	5,607	54,768
Total revenues	\$ 200,304	\$ 55,000	\$ 48,580	\$ 303,884

Interest income

Six Months Ended June 30, 2018

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Revenues				
Payment processing revenue	\$ 219,873	\$ 96,066	\$ 31,253	\$ 347,192
Account servicing revenue	85,229	18,464	53,727	157,420
Finance fee revenue	88,792	487	11,976	101,255
Other revenue	77,941	27,526	14,371	119,838
Total revenues	\$ 471,835	\$ 142,543	\$ 111,327	\$ 725,705

Interest income

Six Months Ended June 30, 2017

(In thousands)	Fleet Solutions	Travel and Corporate Solutions	Health and Employee Benefit Solutions	Total
Interest income	\$ 2,035	\$ 543	\$ 13,089	\$ 15,667

Revenues

Payment processing revenue	\$173,940	\$75,151	\$28,641	\$277,732
Account servicing revenue	77,380	322	49,514	127,216
Finance fee revenue	72,981	382	12,094	85,457
Other revenue	66,826	26,858	11,152	104,836
Total revenues	\$391,127	\$102,713	\$101,401	\$595,241
Interest income	\$1,820	\$361	\$12,354	\$14,535

31

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

In evaluating the financial performance of each segment, the CODM reviews segment adjusted operating income, which excludes: (i) acquisition and divestiture related items (including acquisition-related intangible amortization); (ii) debt restructuring costs; (iii) stock-based compensation; (iv) restructuring and other costs; and (v) certain impairment charges. Additionally, we do not allocate foreign currency gains and losses, financing interest expense, unrealized and realized gains and losses on derivative instruments, income taxes and net gains or losses from non-controlling interest to our operating segments.

Effective January 1, 2018, the Company revised how it allocates certain costs in its measure of segment adjusted operating income. The primary change is how the Company allocates information technology and corporate related costs to its segments. Certain information technology and corporate related costs that support multiple segments, which were previously included in Fleet Solutions, are now being allocated to the segment that they support. Certain residual unallocated corporate costs represent the portion of expenses relating to general corporate functions including acquisition expenses, certain finance, legal, information technology, human resources, administrative, executive and other expenses. These expenses are recorded in unallocated corporate expenses, as these items are centrally and directly controlled and are not included in internal measures of segment operating performance. Segment results for the three and six months ended June 30, 2017 have been recast to conform to the current presentation as described above.

The following table reconciles segment adjusted operating income to income before income taxes:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Segment adjusted operating income				
Fleet Solutions	\$ 113,725	\$ 91,037	\$ 215,633	\$ 175,020
Travel and Corporate Solutions	34,448	21,516	59,697	40,702
Health and Employee Benefit Solutions	13,323	12,191	31,962	30,390
Total segment adjusted operating income	\$ 161,496	\$ 124,744	\$ 307,292	\$ 246,112
Reconciliation:				
Total segment adjusted operating income	\$ 161,496	\$ 124,744	\$ 307,292	\$ 246,112
Less:				
Unallocated corporate expenses	15,044	12,823	28,964	25,121
Acquisition-related intangible amortization	34,921	38,114	70,157	76,093
Other acquisition and divestiture related items	619	239	1,256	2,374
Debt restructuring costs	466	—	3,481	—
Stock-based compensation	6,905	7,414	15,860	13,871
Restructuring and other costs	630	2,398	6,301	4,145
Impairment charge	—	16,175	—	16,175
Operating income	102,911	47,581	181,273	108,333
Financing interest expense	(25,505)	(28,547)	(52,842)	(55,695)
Net foreign currency (loss) gain	(26,734)	10,525	(26,344)	18,967
Net unrealized gain (loss) on financial instruments	2,706	(2,264)	16,214	(699)
Income before income taxes	\$ 53,378	\$ 27,295	\$ 118,301	\$ 70,906

Table of Contents

WEX INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

17. Supplementary Regulatory Capital Disclosure

The Company's subsidiary, WEX Bank, is subject to various regulatory capital requirements administered by the FDIC and the Utah Department of Financial Institutions. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WEX Bank must meet specific capital guidelines that involve quantitative measures of WEX Bank's assets, liabilities and certain off-balance sheet items. WEX Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our business, results of operations and financial condition.

As of June 30, 2018 and December 31, 2017, WEX Bank met all the requirements to be deemed "well-capitalized" pursuant to FDIC regulation and for purposes of the Federal Deposit Insurance Act.

WEX Bank's actual and regulatory minimum capital amounts and ratios are presented in the following table:

(In thousands)	Actual Amount	Ratio	Minimum for Capital Adequacy Purposes Amount	Ratio	Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
June 30, 2018						
Total Capital to risk-weighted assets	\$334,555	12.09%	\$221,347	8.0%	\$276,683	10.0%
Tier 1 Capital to average assets	\$					