

WEX Inc.  
Form 10-Q  
April 30, 2014  
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 March 31, 2014

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

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

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

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Class  
Common Stock, \$0.01 par value per share

Outstanding at April 24, 2014  
38,750,286 shares

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Table of Contents

## TABLE OF CONTENTS

	Page
PART I-FINANCIAL INFORMATION	
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	<u>3</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
Item 4. <u>Controls and Procedures</u>	<u>29</u>
PART II-OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>30</u>
Item 1A. <u>Risk Factors</u>	<u>30</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
Item 6. <u>Exhibits</u>	<u>31</u>

SIGNATURE

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for statements that are forward-looking and are not statements of historical facts. This Quarterly Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals, statements about the consummation of pending transactions. Any statements in this Quarterly Report that are not statements of historical facts are forward-looking statements. When used in this Quarterly Report, the words “may,” “could,” “anticipate,” “plan,” “continue,” “project,” “intend,” “estimate,” “believe,” “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns and the commercial activity of fleets; the effects of the Company’s business expansion and acquisition efforts; the Company’s failure to successfully integrate the businesses it has acquired; the Company’s failure to consummate a previously announced acquisition, including the acquisition of ExxonMobil’s European commercial fuel card program; the failure of corporate investments to result in anticipated strategic value; the impact and range of credit losses; the impact of changes to the Company’s credit standards; breaches of the Company’s technology systems and any resulting negative impact on our reputation, liability, or loss of relationships with customers or merchants; fuel price volatility; the Company’s failure to maintain or renew key agreements; failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors; the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking regulations impacting the Company’s industrial bank and the Company as the corporate parent; the impact of foreign currency exchange rates on the Company’s operations, revenue and income; changes in interest rates; the impact of the

Company's outstanding bonds on its operations; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract; the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes; the uncertainties of litigation; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2013, filed on Form 10-K with the Securities and Exchange Commission on February 27, 2014. Our forward-looking statements and these factors do not reflect the potential future impact of any, alliance, merger, acquisition, disposition or stock repurchases. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

Table of Contents

## PART I

## Item 1. Financial Statements.

## WEX INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$354,772	\$361,486
Accounts receivable (less reserve for credit losses of \$13,163 in 2014 and \$10,396 in 2013)	1,980,609	1,712,061
Available-for-sale securities	16,058	15,963
Property, equipment and capitalized software (net of accumulated depreciation of \$152,380 in 2014 and \$145,400 in 2013)	76,920	72,275
Deferred income taxes, net	78,285	88,965
Goodwill	828,823	819,892
Other intangible assets, net	201,737	206,744
Other assets	163,214	154,892
Total assets	\$3,700,418	\$3,432,278
Liabilities and Stockholders' Equity		
Accounts payable	\$646,721	\$512,878
Accrued expenses	86,423	92,335
Income taxes payable	22,424	16,066
Deposits	1,190,223	1,088,930
Revolving line-of-credit facilities and term loan	281,250	285,000
Deferred income taxes, net	13,444	13,528
Notes outstanding	400,000	400,000
Amounts due under tax receivable agreement	77,785	77,785
Fuel price derivatives, at fair value	4,535	7,358
Other liabilities	21,370	16,372
Total liabilities	2,744,175	2,510,252
Commitments and contingencies (Note 13)		
Redeemable non-controlling interest	19,338	18,729
Stockholders' Equity		
Common stock \$0.01 par value; 175,000 shares authorized; 42,971 in 2014 and 42,901 in 2013 shares issued; 38,877 in 2014 and 38,987 in 2013 shares outstanding	430	429
Additional paid-in capital	169,122	168,891
Non-controlling interest	228	519
Retained earnings	916,061	879,519
Accumulated other comprehensive loss	(1,422	) (15,495
Less treasury stock at cost; 4,188 shares in 2014 and 4,007 shares in 2013	(147,514	) (130,566
Total stockholders' equity	936,905	903,297
Total liabilities and stockholders' equity	\$3,700,418	\$3,432,278

See notes to unaudited condensed consolidated financial statements.



Table of ContentsWEX INC.  
CONDENSED CONSOLIDATED STATEMENTS OF  
INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended March 31,	
	2014	2013
Revenues		
Fleet payment solutions	\$ 135,435	\$ 126,039
Other payment solutions	46,633	39,331
Total revenues	182,068	165,370
Expenses		
Salary and other personnel	43,902	40,077
Service fees	26,305	23,805
Provision for credit losses	9,090	3,756
Technology leasing and support	7,027	5,485
Occupancy and equipment	4,366	3,805
Depreciation, amortization and impairment	15,018	14,607
Operating interest expense	1,288	1,147
Cost of hardware and equipment sold	948	1,074
Other	12,587	11,084
Total operating expenses	120,531	104,840
Operating income	61,537	60,530
Financing interest expense	(7,356	) (7,339
Net gain (loss) on foreign currency transactions	1,033	(232
Net realized and unrealized gain (loss) on fuel price derivatives	1,845	(7,755
Income before income taxes	57,059	45,204
Income taxes	20,979	16,627
Net income	36,080	28,577
Less: Net loss attributable to non-controlling interests	(462	) (112
Net earnings attributable to WEX Inc.	\$36,542	\$28,689
Net earnings attributable to WEX Inc. per share:		
Basic	\$0.94	\$0.74
Diluted	\$0.93	\$0.73
Weighted average common shares outstanding:		
Basic	38,966	38,888
Diluted	39,145	39,187

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2014	2013
Net income	\$36,080	\$28,577
Changes in available-for-sale securities, net of tax effect of \$(43) in 2014 and \$47 in 2013	74	(78 )
Foreign currency translation	14,779	458
Comprehensive income	50,933	28,957
Less: comprehensive income attributable to non-controlling interests	318	193
Comprehensive income attributable to WEX Inc.	\$50,615	\$28,764
See notes to unaudited condensed consolidated financial statements.		



Table of Contents

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

	Common Stock		Accumulated		Treasury	Retained	Non-control	Total
	Shares	Amount at par	Additional Paid-in Capital	Other Comprehensive Income (Loss)	Stock	Earnings	interest in subsidiaries	Stockholders' Equity
Balance at December 31, 2012	38,908	\$ 426	\$ 162,470	\$ 37,379	\$(112,655)	\$730,311	\$ —	\$ 817,931
Stock issued upon exercise of stock options	11	—	146	—	—	—	—	146
Tax benefit from stock option and restricted stock units	—	—	5,589	—	—	—	—	5,589
Stock issued upon vesting of restricted stock units	221	2	(2 )	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings	—	—	(7,576 )	—	—	—	—	(7,576 )
Purchase of shares of treasury stock	(241 )	—	—	—	(17,911 )	—	—	(17,911 )
Changes in available-for-sale securities, net of tax effect of \$(47)	—	—	—	(78 )	—	—	—	(78 )
Foreign currency translation	—	—	—	153	—	—	—	153
Net income	—	—	—	—	—	28,689	—	28,689
Balance at March 31, 2013	38,899	\$ 428	\$ 160,627	\$ 37,454	\$(130,566)	\$759,000	\$ —	\$ 826,943
Balance at December 31, 2013	38,987	\$ 429	\$ 168,891	\$ (15,495 )	\$(130,566)	\$879,519	\$ 519	\$ 903,297
Stock issued upon exercise of stock options	8	—	105	—	—	—	—	105
Tax benefit from stock option and restricted stock units	—	—	1,010	—	—	—	—	1,010
Stock issued upon vesting of restricted stock units	63	1	(1 )	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings	—	—	(883 )	—	—	—	—	(883 )
Purchase of shares of treasury stock	(181 )	—	—	—	(16,948 )	—	—	(16,948 )
	—	—	—	74	—	—	—	74

Changes in  
available-for-sale  
securities, net of tax effect  
of \$43

Foreign currency translation	—	—	—	13,999	—	—	4	14,003
Net income	—	—	—	—	—	36,542	(295 )	36,247
Balance at March 31, 2014	38,877	\$ 430	\$ 169,122	\$ (1,422 )	\$(147,514)	\$916,061	\$ 228	\$ 936,905

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## WEX INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three months ended		
	March 31,		
	2014	2013	
Cash flows from operating activities			
Net income	\$36,080	\$28,577	
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Fair value change of fuel price derivatives	(2,823	) 5,882	
Stock-based compensation	2,423	2,406	
Depreciation, amortization and impairment	15,612	15,156	
Deferred taxes	10,066	9,021	
Provision for credit losses	9,090	3,756	
Loss on disposal of property, equipment and capitalized software	338	63	
Changes in operating assets and liabilities, net of effects of acquisition:			
Accounts receivable	(271,782	) (228,297	)
Other assets	(8,455	) (2,971	)
Accounts payable	131,448	190,068	
Accrued expenses	(6,499	) 2,984	
Income taxes	5,708	776	
Other liabilities	1,038	1,145	
Net cash (used for) provided by operating activities	(77,756	) 28,566	
Cash flows from investing activities			
Purchases of property, equipment and capitalized software	(11,382	) (5,560	)
Purchases of available-for-sale securities	(70	) (65	)
Maturities of available-for-sale securities	93	502	
Net cash used for investing activities	(11,359	) (5,123	)
Cash flows from financing activities			
Excess tax benefits from equity instrument share-based payment arrangements	1,010	5,589	
Repurchase of share-based awards to satisfy tax withholdings	(3,306	) (9,985	)
Proceeds from stock option exercises	104	146	
Net change in deposits	101,288	135,276	
Net change in borrowed federal funds	—	(48,400	)
Other financing debt	3,429	787	
Loan origination fee	—	(12,023	)
Borrowings on notes outstanding	—	400,000	
Net activity on 2011 revolving line-of-credit	—	(438,500	)
Net activity on 2011 term loan	—	(182,500	)
Net activity on 2013 term loan	(3,750	) 296,250	
Purchase of shares of treasury stock	(16,948	) (17,911	)
Net cash provided by financing activities	81,827	128,729	
Effect of exchange rate changes on cash and cash equivalents	574	(114	)
Net change in cash and cash equivalents	(6,714	) 152,058	
Cash and cash equivalents, beginning of period	361,486	197,662	
Cash and cash equivalents, end of period	\$354,772	\$349,720	

Supplemental cash flow information

Interest paid	\$13,262	\$4,351
Income taxes paid	\$4,041	\$1,226

See notes to unaudited condensed consolidated financial statements.

7

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Table of Contents

WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

## 1. Basis of Presentation

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

2011 Credit Agreement	Credit agreement entered into on May 23, 2011 among the Company, as borrower, WEX Card Holdings Australia Pty Ltd, a wholly-owned subsidiary of the Company, as specified designated borrower, Bank of America, N.A., as administrative agent and letter of credit issuer, and the other lenders party thereto
2013 Credit Agreement	Amended and restated credit agreement entered into on January 18, 2013 by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate
Adjusted Net Income or ANI	A non-GAAP metric that adjusts net earnings attributable to WEX Inc. for fair value changes of derivative instruments, the amortization of purchased intangibles, expense associated with stock-based compensation, the net impact of tax rate changes on the Company's deferred tax asset and related changes in the tax-receivable agreement, deferred loan costs associated with the extinguishment of debt, certain non-cash asset impairment charges, the gains on the extinguishment of a portion of the tax receivable agreement and adjustments attributable to non-controlling interest, as well as the related tax impacts of the adjustments
ASU 2013-11	Accounting Standards Update No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists
ASU 2014-08	Accounting Standards Update 2014-08 Update No. 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
Company	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements
Esso Card	ExxonMobil's European commercial fuel card portfolio
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the United States
Indenture	The Notes were issued pursuant to an indenture dated as of January 30, 2013 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee
NCI	Non-controlling interest
NOL	Net operating loss
Notes	\$400 million notes with a 4.75% fixed rate, issued on January 30, 2013
NOW deposits	Negotiable order of withdrawal deposits
SEC	Securities and Exchange Commission
UNIK	UNIK S.A., the Company's Brazilian 51 percent majority-owned subsidiary
WEX	WEX Inc.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by GAAP for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to consolidated

financial statements included in the Annual Report on Form 10-K of WEX Inc. for the year ended December 31, 2013. 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, 2013, filed with the SEC on February 27, 2014. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014, are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2014.

## Table of Contents

### Fair Value of Financial Instruments

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

The notes outstanding as of March 31, 2014, have a carrying value of \$400,000 and fair value of \$376,000. As of December 31, 2013, the carrying value of the \$400,000 in notes outstanding had a fair value of \$365,000. The fair value is based on market rates for the issuance of our debt.

### 2. New Accounting Standards

In July 2013, the FASB issued ASU 2013-11. The amendments in ASU 2013-11 require entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a NOL carryforward, a similar tax loss, or a tax credit carryforward except when the following exist: (i) an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position, and (ii) the entity does not intend to use the deferred tax asset for this purpose (provided the tax law permits a choice). If either of these conditions exists, entities should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. The adoption of ASU 2013-11 in the first quarter of 2014 did not have a material impact on the Company's results of operations.

In April 2014, the FASB issued ASC 2014-08. Under the new guidance, only disposals representing a strategic shift in operations that has a major effect on the organization's operations and financial results, or a business activity classified as held for sale should be presented as discontinued operations. Additionally, these amendments expanded the disclosure requirements for discontinued operations that will provide financial statement users with more information regarding the assets, liabilities, income, and expenses of discontinued operations. This update is effective for interim and annual periods beginning after December 15, 2014. The adoption of this standard update affects presentation only and, as such, is not expected to have a material impact on the Company's consolidated financial statements.

### 3. Business Acquisitions

#### Acquisition of FastCred

On October 15, 2013, UNIK acquired all of the stock of FastCred, a provider of fleet cards to the heavy truck or over-the-road segment of the Brazilian fleet market, for approximately \$12,309, net of cash acquired. The Company purchased FastCred to expand its Fleet Payment Solutions segment. During the fourth quarter of 2013, the Company preliminarily allocated \$4,282 of the cost of the acquisition to goodwill and \$12,594 to other intangible assets, primarily customer relationships and acquired software. During the first quarter of 2014, the Company obtained additional information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the FastCred acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2013 comparative information resulting in an increase in goodwill of \$1,490, a decrease in intangible assets of \$2,253, a decrease in property plant and equipment of \$2, and a decrease in deferred income tax liabilities of \$765. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The allocation of the purchase price remains preliminary as the Company is still reviewing the intangible asset valuation. The total weighted average useful life of the intangible assets acquired from FastCred is four years for customer relationships and three years for acquired software. Goodwill recorded as a result of the FastCred acquisition is not currently deductible for income tax purposes. No pro forma information has been included in these financial statements as the operations of FastCred for the period that they were not part of the Company are

not material to the Company's revenues, net income or earnings per share.

4. Reserves for Credit Losses

In general, the Company's trade receivables provide for payment terms of 30 days or less. The Company does not extend revolving credit to its customers with respect to these receivables. The portfolio of receivables consists of a large group of smaller balance homogeneous amounts that are collectively evaluated for impairment. No customer makes up more than five percent of the outstanding receivables at March 31, 2014.



Table of Contents

WEX INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

At March 31, 2014, approximately 96 percent of the outstanding balance of total trade accounts receivable was current and approximately 99 percent of the outstanding balance of total trade accounts receivable was less than 60 days past due. At March 31, 2013, approximately 96 percent of the outstanding balance of total trade accounts receivable was current and approximately 99 percent of the outstanding balance was less than 60 days past due. The outstanding balance is made up of receivables from a wide range of industries.

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

	Three months ended	
	March 31,	
	2014	2013
Balance, beginning of period	\$10,396	\$11,709
Provision for credit losses	9,090	3,756
Charge-offs	(8,107	) (6,045
Recoveries of amounts previously charged-off	1,697	1,377
Currency translation	87	—
Balance, end of period	\$13,163	\$10,797

## 5. Goodwill and Other Intangible Assets

## Goodwill

The changes in goodwill during the first three months of 2014 were as follows:

	Fleet Payment Solutions Segment	Other Payment Solutions Segment	Total
Gross goodwill, January 1, 2014	\$754,886	\$82,514	\$837,400
Impact of foreign currency translation	7,765	1,166	8,931