WEX Inc.
Form 10-Q
November 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 September 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 incorporation or organization)	(I.R.S. Employer Identification No.)
97 Darling Avenue, South Portland, Maine	04106
(Address of principal executive offices)	(Zip Code)

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

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 every Interactive Data File required to be submitted 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 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 Accelerated filer
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 October 31, 2018 was 43,103,426.

Table of Contents

TABLE OF CONTENTS

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 a 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 Company’s ability to successfully acquire, integrate, operate and expand commercial fuel card programs
- 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 the Company’s 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 commercial 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
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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, impairment charges, 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, impairment charges, 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.
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 2016–09	Accounting Standards Update No. 2016–09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
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
ASU 2018–15	Accounting Standards Update No. 2018–15 Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350–40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract
Australian Securitization Subsidiary	Southern Cross WEX 2015–1 Trust, a bankruptcy-remote subsidiary consolidated by the Company
Company	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements
EBITDA	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
GILTI	Global Intangible Low Taxed Income
ICS	Insured Cash Sweep
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 purchase volume	Total amount paid by customers for transactions
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
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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Payment processing revenue	$182,871	$145,702	$530,063	$423,434
Account servicing revenue	78,748	71,322	236,168	198,538
Finance fee revenue	53,703	50,879	154,958	136,336
Other revenue	67,368	56,099	187,206	160,935
Total revenues	382,690	324,002	1,108,395	919,243
Cost of services				
Processing costs	79,580	69,119	235,508	202,682
Service fees	13,818	19,658	39,847	57,413
Provision for credit losses	21,435	19,614	46,930	47,927
Operating interest	10,268	7,537	28,281	17,049
Depreciation and amortization	19,013	18,879	60,058	54,639
Total cost of services	144,114	134,807	410,624	379,710
General and administrative	51,799	51,538	155,720	133,788
Sales and marketing	54,611	41,585	168,849	121,726
Depreciation and amortization	29,054	32,349	88,817	95,788
Impairment charges	2,424	—	2,424	16,175
Operating income	100,688	63,723	281,961	172,056
Financing interest expense	(25,718)	(25,754)	(78,560)	(81,449)
Net foreign currency (loss) gain	(1,094)	14,611	(27,438)	33,578
Net unrealized gain (loss) on financial instruments	2,157	(150)	18,371	(849)
Income before income taxes	76,033	52,430	194,334	123,336
Income taxes	18,751	18,570	48,278	43,760
Net income	57,282	33,860	146,056	79,576
Less: Net (loss) income from non-controlling interest	(40)	(111)	803	(886)
Net income attributable to shareholders	$57,322	$33,971	$145,253	$80,462
Net income attributable to WEX Inc. per share:				
Basic	$1.33	$0.79	$3.37	$1.87
Diluted	$1.31	$0.79	$3.33	$1.87
Weighted average common shares outstanding:				
Basic	43,191	43,014	43,141	42,963
Diluted	43,615	43,101	43,558	43,092

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.

5

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$57,282	$33,860	$146,056	$79,576
Changes in investment securities, net of tax (benefit) expense of $(10) and $53 for the three and nine months ended September 30, 2017, respectively	—	(12)	—	97
Foreign currency translation	(9,250)	11,042	(32,728)	33,744
Comprehensive income	48,032	44,890	113,328	113,417
Less: Comprehensive (loss) income attributable to non-controlling interest	(109)	122	540	(112)
Comprehensive income attributable to WEX Inc.	$48,141	$44,768	$112,788	$113,529

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)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 533,361	$ 508,072
Restricted cash	22,696	18,866
Accounts receivable (net of allowances of $38,103 in 2018 and $30,207 in 2017)	3,124,204	2,517,980
Securitized accounts receivable, restricted	142,575	150,235
Prepaid expenses and other current assets	85,842	69,413
Total current assets	3,908,678	3,264,566
Property, equipment and capitalized software (net of accumulated depreciation of $312,921 in 2018 and $264,928 in 2017)	166,999	163,908
Goodwill	1,838,909	1,876,132
Other intangible assets (net of accumulated amortization of $480,950 in 2018 and $392,827 in 2017)	1,069,116	1,154,047
Investment securities	24,088	23,358
Deferred income taxes, net	8,610	7,752
Other assets	143,342	253,088
Total assets	$ 7,159,742	$ 6,742,851
Liabilities and Stockholders' Equity		
Accounts payable	$ 1,160,661	$ 811,362
Accrued expenses	308,021	315,346
Short-term deposits	878,071	986,989
Short-term debt, net	238,864	397,218
Other current liabilities	26,848	24,795
Total current liabilities	2,612,465	2,535,710
Long-term debt, net	2,140,875	2,027,752
Long-term deposits	386,770	306,865
Deferred income taxes, net	140,478	119,283
Other liabilities	29,897	32,683
Total liabilities	5,310,485	5,022,293
Commitments and contingencies (Note 13)		
Stockholders' Equity		
Common Stock $0.01 par value; 175,000 shares authorized; 47,528 shares issued in 2018 and 47,352 in 2017; 43,100 shares outstanding in 2018 and 43,022 in 2017	475	473
Additional paid-in capital	584,047	569,319
Retained earnings	1,550,577	1,404,683
Accumulated other comprehensive loss	(123,260)	(90,795)
Treasury stock at cost; 4,428 shares in 2018 and 2017	(172,342)	(172,342)
Total WEX Inc. stockholders' equity	1,839,497	1,711,338
Non-controlling interest	9,760	9,220
Total stockholders' equity	1,849,257	1,720,558
Total liabilities and stockholders' equity	$ 7,159,742	$ 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.

Table of Contents

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

	Common Stock Issued Shares	Common Stock Issued 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]	—	—	—	—	—	261	—	261
Balance at January 1, 2017	47,173	$ 472	$ 547,627	$ (122,839)	$ (172,342)	$ 1,244,532	$ 8,558	$ 1,506,008
Stock issued	176	1	594	—	—	—	—	595
Share repurchases for tax withholdings	—	—	(9,420)	—	—	—	—	(9,420)
Stock-based compensation expense	—	—	22,354	—	—	—	—	22,354
Changes in investment securities, net of tax expense of $53	—	—	—	97	—	—	—	97
Foreign currency translation	—	—	—	32,970	—	—	774	33,744
Net income (loss)	—	—	—	—	—	80,462	(886)	79,576
Balance at September 30, 2017	47,349	$ 473	$ 561,155	$ (89,772)	$ (172,342)	$ 1,324,994	$ 8,446	$ 1,632,954
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	176	2	2,243	—	—	—	—	2,245
Share repurchases for tax withholdings	—	—	(12,172)	—	—	—	—	(12,172)
Stock-based compensation expense	—	—	24,657	—	—	—	—	24,657
Foreign currency translation	—	—	—	(32,465)	—	—	(263)	(32,728)
Net income	—	—	—	—	—	145,253	803	146,056
Balance at September 30, 2018	47,528	$ 475	$ 584,047	$ (123,260)	$ (172,342)	$ 1,550,577	$ 9,760	$ 1,849,257

[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.

Table of Contents

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$ 146,056	$ 79,576
Adjustments to reconcile net income to net cash used for operating activities:		
Net unrealized loss	3,871	6,411
Stock-based compensation	24,657	22,354
Depreciation and amortization	148,875	150,428
Debt restructuring and debt issuance cost amortization	7,717	5,935
Provision for deferred taxes	20,127	29,924
Provision for credit losses	46,930	47,927
Impairment charge	2,424	16,175
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable and securitized receivables	(685,441)	(595,804)
Prepaid expenses and other current and other long-term assets	111,489	(17,590)
Accounts payable	371,421	228,284
Accrued expenses	(5,385)	(7,740)
Income taxes	4,530	(2,799)
Other current and other long-term liabilities	(8,411)	1,300
Amounts due under tax receivable agreement	(5,727)	(8,927)
Net cash provided by (used for) operating activities	183,133	(44,546)

Cash flows from investing activities				
Purchases of property, equipment and capitalized software	(53,416	)	(56,095	)
Purchase of equity investment	(2,617	)	—	
Purchases of investment securities	(1,627	)	(355	)
Maturities of investment securities	181		445	
Net cash used for investing activities	(57,479	)	(56,005	)
Cash flows from financing activities				
Repurchase of share-based awards to satisfy tax withholdings	(12,172	)	(9,420	)
Proceeds from stock option exercises	2,245		595	
Net change in deposits	(28,485	)	(29,052	)
Increase in borrowed federal funds	—		28,462	
Net activity on other debt	(44,201	)	39,554	
Borrowings on revolving credit facility	1,219,693		3,385,316	
Repayments of revolving credit facility	(1,355,931	)	(3,241,719	)
Borrowings on term loans	178,000		—	
Repayments on term loans	(26,971	)	(26,063	)
Debt issuance costs	(5,310	)	(438	)
Net change in securitized debt	(7,826	)	29,874	
Net cash (used for) provided by financing activities	(80,958	)	177,109	
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(15,577	)	(15,247	)
Net change in cash, cash equivalents and restricted cash	29,119		61,311	
Cash, cash equivalents and restricted cash,	526,938		213,342	

beginning of period [a]				
Cash, cash equivalents and restricted cash, end of period [a]	$	556,057	$	274,653
Supplemental disclosure of non-cash investing and financing activities				
Capital expenditures incurred but not paid	$	5,608	$	7,553

[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 nine months ended September 30, 2018 and 2017:

9

Table of Contents

	Nine Months Ended September 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	$533,361	$251,118
Restricted cash at end of period	22,696	23,535
Cash, cash equivalents and restricted cash at end of period	$556,057	$274,653

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 nine months ended September 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 and 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 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 nine months ended September 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 Nine Months Ended September 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.	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. 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 nine months ended September 30, 2018 by approximately \$13.8 million and \$44.9 million, respectively. 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 \$3.4 million and \$13.5 million for the three and nine months ended September 30, 2018, respectively.

			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 nine months ended September 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.
ASU 2017–07	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.	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	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.	The Company retrospectively adopted ASU 2016–18 effective January 1, 2018.	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. 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.
ASU 2016–01	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.	The Company adopted ASU 2016–01 effective January 1, 2018.	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.
Not Yet Adopted as of September 30, 2018			
ASU 2016–02	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.	The Company plans to adopt ASU 2016–02 effective January 1, 2019 using the modified retrospective method provided under ASU 2018–11 Leases (Topic 842): Targeted Improvements.	The Company has established an ASU 2016–02 committee whose primary objectives include implementing a new software solution, reviewing and summarizing lease contracts, establishing completeness over the lease population, determining which practical expedients, if any, we will utilize to facilitate compliance and updating the Company’s accounting policies and procedures. The Company expects 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. The Company is also evaluating the impact the standard will have on its consolidated statement of operations, consolidated statement of cash flows and related disclosures
ASU 2016–13	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 January 1, 2020.	The Company is evaluating the impact the standard will have on its consolidated financial statements and related disclosures.
ASU 2018–15	This standard clarifies the accounting for capitalizing implementation costs in a cloud computing arrangement that is a service contract. The standard provides that implementation costs be treated using the same criteria used for internal-use software development costs, with amortization expense being recorded in the same income statement expense line as the hosted service costs and over the expected term of the hosting arrangement.	The standard is effective January 1, 2020.	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 Accounting Standards Codification ("ASC") 605, Revenue Recognition. 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 nine months ended September 30, 2018 was as follows:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
(In thousands)	Prior to Adoption	Impact of Topic 606	As Reported	Prior to Adoption	Impact of Topic 606	As Reported
Revenues						