FLEETCOR TECHNOLOGIES INC
Form 10-Q
November 08, 2018

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

FORM 10-Q

ý 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: 001-35004

FleetCor Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	72-1074903
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5445 Triangle Parkway, Peachtree Corners, Georgia	30092
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (770) 449-0479

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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer	ý	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 ý

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

Table of Contents

Class	Outstanding at November 1, 2018
Common Stock, $0.001 par value	122,850,784

Table of Contents

FLEETCOR TECHNOLOGIES, INC. AND SUBSIDIARIES
FORM 10-Q
For the Three and Nine Month Periods Ended September 30, 2018
INDEX

Table of Contents

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
FLEETCOR Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets
(In Thousands, Except Share and Par Value Amounts)

	September 30, 2018[1] (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$924,442	$913,595
Restricted cash	264,108	217,275
Accounts and other receivables (less allowance for doubtful accounts of $52,022 at September 30, 2018 and $46,031 at December 31, 2017)	1,811,339	1,420,011
Securitized accounts receivable—restricted for securitization investors	931,000	811,000
Prepaid expenses and other current assets	202,102	187,820
Total current assets	4,132,991	3,549,701
Property and equipment, net	184,979	180,057
Goodwill	4,517,348	4,715,823
Other intangibles, net	2,438,627	2,724,957
Investments	33,032	32,859
Other assets	143,913	114,962
Total assets	$11,450,890	$11,318,359
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$1,616,949	$1,437,314
Accrued expenses	252,069	238,472
Customer deposits	825,371	732,171
Securitization facility	931,000	811,000
Current portion of notes payable and lines of credit	768,548	805,512
Other current liabilities	90,531	71,033
Total current liabilities	4,484,468	4,095,502
Notes payable and other obligations, less current portion	2,773,378	2,902,104
Deferred income taxes	506,310	518,912
Other noncurrent liabilities	124,486	125,319
Total noncurrent liabilities	3,404,174	3,546,335
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.001 par value; 475,000,000 shares authorized; 122,823,669 shares issued and 88,648,486 shares outstanding at September 30, 2018; and 122,083,059 shares issued and 89,803,982 shares outstanding at December 31, 2017	123	122
Additional paid-in capital	2,316,753	2,214,224
Retained earnings	3,515,657	2,958,921
Accumulated other comprehensive loss	(944,746)	(551,857)
Less treasury stock (34,175,183 shares at September 30, 2018 and 32,279,077 shares at December 31, 2017)	(1,325,539)	(944,888)
Total stockholders' equity	3,562,248	3,676,522
Total liabilities and stockholders' equity	$11,450,890	$11,318,359

[1]Reflects the impact of the Company's adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606") and related cost capitalization guidance, which was adopted by the Company on January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 resulted in an adjustment to retained earnings in our consolidated balance sheet for the cumulative effect of applying the standard, which included costs incurred to obtain a contract, as well as presentation changes in our statements of income, including the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As a result of the application of the modified retrospective transition method, the Company's prior period results within its annual report on Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect the impact of ASC 606. See footnote 1, "Summary of Significant Accounting Policies", in the accompanying notes to the unaudited consolidated financial statements.
See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

FLEETCOR Technologies, Inc. and Subsidiaries
Unaudited Consolidated Statements of Income
(In Thousands, Except Per Share Amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018[1]	2017	2018[1]	2017
Revenues, net	$619,586	$577,877	$1,790,070	$1,639,547
Expenses:				
Merchant commissions	—	27,687	—	82,690
Processing	128,400	111,283	356,086	316,429
Selling	44,806	45,060	135,926	122,854
General and administrative	98,023	92,054	284,718	275,095
Depreciation and amortization	67,267	69,156	207,379	198,731
Operating income	281,090	232,637	805,961	643,748
Investment loss	7,147	47,766	7,147	52,497
Other expense (income), net	303	(175,271)	465	(173,626)
Interest expense, net	36,072	29,344	100,287	76,322
Loss on extinguishment of debt	—	3,296	—	3,296
Total other expense (income)	43,522	(94,865)	107,899	(41,511)
Income before income taxes	237,568	327,502	698,062	685,259
Provision for income taxes	79,874	124,679	188,579	227,756
Net income	$157,694	$202,823	$509,483	$457,503
Basic earnings per share	$1.78	$2.23	$5.72	$4.99
Diluted earnings per share	$1.71	$2.18	$5.50	$4.87
Weighted average shares outstanding:				
Basic shares	88,456	90,751	89,126	91,619
Diluted shares	92,081	93,001	92,671	93,923

[1] Reflects the impact of the Company's adoption of ASC 606 and related cost capitalization guidance, which was adopted by the Company on January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 resulted in an adjustment to retained earnings in our consolidated balance sheet for the cumulative effect of applying the standard, which included costs incurred to obtain a contract, as well as presentation changes in our statements of income, including the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As a result of the application of the modified retrospective transition method, the Company's prior period results within its annual report on Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect the impact of ASC 606. See footnote 1, "Summary of Significant Accounting Policies", in the accompanying notes to the unaudited consolidated financial statements.
See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FLEETCOR Technologies, Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Income
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$157,694	$202,823	$509,483	$457,503
Other comprehensive (loss) income:				
Foreign currency translation (losses) gains, net of tax	(74,058)	112,301	(392,889)	168,655
Reclassification of foreign currency translation loss to investment, net of tax	—	31,381	—	31,381
Total other comprehensive (loss) income	(74,058)	143,682	(392,889)	200,036
Total comprehensive income	$83,636	$346,505	$116,594	$657,539

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FLEETCOR Technologies, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(In Thousands)

	Nine Months Ended September 30,	
	2018[1]	2017[1]
Operating activities		
Net income	$509,483	$457,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,174	35,096
Stock-based compensation	54,207	68,897
Provision for losses on accounts receivable	43,520	35,949
Amortization of deferred financing costs and discounts	4,035	5,411
Amortization of intangible assets	165,002	158,897
Amortization of premium on receivables	4,202	4,738
Loss on extinguishment of debt	—	3,296
Deferred income taxes	(6,334)	(38,092)
Investment loss	7,147	52,497
Gain on disposition of business	—	(174,984)
Other non-cash operating income	(140)	(49)
Changes in operating assets and liabilities (net of acquisitions):		
Accounts and other receivables	(640,859)	(440,011)
Prepaid expenses and other current assets	(19,618)	(86,648)
Other assets	(19,922)	(15,378)
Accounts payable, accrued expenses and customer deposits	416,483	364,473
Net cash provided by operating activities	555,380	431,595
Investing activities		
Acquisitions, net of cash acquired	(3,799)	(602,298)
Purchases of property and equipment	(56,312)	(49,459)
Proceeds from disposal of a business	—	316,501
Other	(11,192)	(6,327)
Net cash used in investing activities	(71,303)	(341,583)
Financing activities		
Proceeds from issuance of common stock	48,322	20,192
Repurchase of common stock	(380,651)	(402,392)
Borrowings on securitization facility, net	120,000	203,000
Deferred financing costs paid and debt discount	(166)	(11,230)
Proceeds from issuance of notes payable	—	780,656
Principal payments on notes payable	(103,500)	(388,656)
Borrowings from revolver	834,019	845,000
Payments on revolver	(897,861)	(804,808)
Borrowings on swing line of credit, net	23,735	7,800
Other	(230)	537
Net cash (used in) provided by financing activities	(356,332)	250,099
Effect of foreign currency exchange rates on cash	(70,065)	34,390
Net increase in cash and cash equivalents and restricted cash	57,680	374,501
Cash and cash equivalents and restricted cash, beginning of period	1,130,870	643,770
Cash and cash equivalents and restricted cash, end of period	$1,188,550	$1,018,271
Supplemental cash flow information		

Cash paid for interest	$113,785	$79,144
Cash paid for income taxes	$162,563	$257,349

4

Table of Contents

[1] Reflects the impact of the Company's adoption of Accounting Standards Update 2016-18, "Statement of Cash Flows (Topic 230)", which was adopted by the Company on January 1, 2018 and applied retrospectively to results for 2017. The adoption of Topic 230 resulted in the statement of cash flows presenting the changes in the total of cash, cash equivalents and restricted cash. As a result, the Company will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows.
See accompanying notes to unaudited consolidated financial statements.

Table of Contents

FLEETCOR Technologies, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies

Basis of Presentation

Throughout this report, the terms "our," "we," "us," and the "Company" refers to FLEETCOR Technologies, Inc. and its subsidiaries. The Company prepared the accompanying interim consolidated financial statements in accordance with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP"). The unaudited consolidated financial statements reflect all adjustments considered necessary for fair presentation. These adjustments consist of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may differ from these estimates.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the rates of exchange in effect at period-end. The related translation adjustments are made directly to accumulated other comprehensive income. Income and expenses are translated at the average monthly rates of exchange in effect during the period. Gains and losses from foreign currency transactions of these subsidiaries are included in net income. The Company recognized foreign exchange losses of $0.2 million and foreign exchange gains of $0.6 million in the three months ended September 30, 2018 and 2017, respectively, which are recorded within other (income) expense, net in the Unaudited Consolidated Statements of Income. The Company recognized foreign exchange gains of $0.2 million and foreign exchange losses of $0.2 million in the nine months ended September 30, 2018 and 2017, respectively.

Derivatives

The Company, through its Cambridge Global Payments ("Cambridge") subsidiary, facilitates cross-currency corporate payments by writing derivatives to customers, which are not designated as hedging instruments. The majority of this business' revenue is from exchanges of currency at spot rates, which enable customers to make cross-currency payments. In addition, the Company also writes foreign currency forward and option contracts for its customers to facilitate future payments. The duration of these derivative contracts at inception is generally less than one year. The Company aggregates its foreign exchange exposures arising from customer contracts, including forwards, options and spot exchanges of currency, and hedges (economic hedge) the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties. The changes in fair value related to these contracts are recorded in the Unaudited Consolidated Statements of Income.

The Company recognizes all derivatives in "prepaid expenses and other current assets" and "other current liabilities" in the accompanying Unaudited Consolidated Balance Sheets at their fair value. All cash flows associated with derivatives are included in cash flows from operating activities in the Unaudited Consolidated Statements of Cash Flows.

Adoption of New Accounting Standards

Impact of Adoption of ASC 606

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. ASU 2014-09, as amended by ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", is effective for years beginning after December 15, 2017, including interim periods, with early adoption permitted for years beginning after December 15, 2016. Since the issuance of ASU 2014-09, the FASB has issued additional interpretive guidance, including new accounting standard updates, which clarifies certain points of the standard and modifies certain requirements.

Table of Contents

Effective January 1, 2018, we adopted ASC 606 using the modified retrospective method, for contracts that were not completed as of the date of initial application, resulting in a cumulative effect adjustment to retained earnings on January 1, 2018. For contracts that were modified before January 1, 2018, the Company has not retrospectively restated contracts for those modifications but instead reflected the aggregate effect of these modifications when identifying the satisfied and unsatisfied performance obligations, as allowed within the transition practical expedients. The cumulative impact to our retained earnings at January 1, 2018 was $30.9 million, due to the capitalization of costs to acquire contracts under the new standard, with a corresponding increase to prepaid expense and other current assets of $10.2 million, other assets of $30.3 million and deferred income taxes (liabilities) of $9.6 million. Additionally, under the new standard certain costs (e.g., merchant commissions and fees paid to credit card associations) will be presented net in revenues as the amounts represent payments to our customers that are not considered in exchange for a distinct good or service that the customer transfers to the Company.

The impact to the Company's revenue, operating expenses, income from continuing operations after taxes, net income and basic and diluted earnings per share (EPS) for the three and nine months ended September 30, 2018 was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018 As Reported	Impact of ASC 606	2018 Prior to Adoption	2018 As Reported	Impact of ASC 606	2018 Prior to Adoption
Revenues, net	$619,586	$27,958	$647,544	$1,790,070	$75,513	$1,865,583
Expenses:						
Merchant commissions	—	30,909	30,909	—	84,199	84,199
Processing	128,400	(2,498)	125,902	356,086	(7,282)	348,804
Selling	44,806	875	45,681	135,926	3,392	139,318
General and administrative	98,023	—	98,023	284,718	—	284,718
Depreciation and amortization	67,267	—	67,267	207,379	—	207,379
Operating income	281,090	(1,328)	279,762	805,961	(4,796)	801,165
Total other expense	43,522	—	43,522	107,899	—	107,899
Income before income taxes	237,568	(1,328)	236,240	698,062	(4,796)	693,266
Provision for income taxes	79,874	(498)	79,376	188,579	(1,346)	187,233
Net income	$157,694	$(830)	$156,864	$509,483	$(3,450)	$506,033
Basic earnings per share	$1.78	$(0.01)	$1.77	$5.72	$(0.04)	$5.68
Diluted earnings per share	$1.71	$(0.01)	$1.70	$5.50	$(0.04)	$5.46

The adoption of ASC 606 did not impact our accounting for revenues derived from late fees, finance charges, and certain other charge card fees or certain of our foreign currency contracts, which continue to be accounted for under existing authoritative guidance, as discussed further below.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, “Leases”, which requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. This ASU also requires disclosures to provide additional information about the amounts recorded in the financial statements. This ASU is effective for the Company for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted. On July 31, 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements”, which provides (1) an optional transition method that entities can use when adopting ASC 842 and (2) a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to elect this transition method at the adoption date of January 1, 2019 and will not restate comparative periods. The Company is assessing the practical expedients available for adoption under the new standard and expects to adopt the package of practical expedients. The Company is analyzing our lease portfolio and updating accounting policies and internal controls that will be impacted by the new guidance. The Company has also selected lease accounting software to support the new reporting requirements. The Company expects to record right of use assets and liabilities for its leases in the consolidated balance sheet upon adoption.

Accounting for Breakage

In March 2016, the FASB issued ASU 2016-04, "Liabilities-Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products", which requires entities that sell prepaid stored value products redeemable for goods, services or cash at third-party merchants to derecognize liabilities related to those products for breakage. This ASU is effective for the Company for reporting periods beginning after December 15, 2017. The ASU must be adopted using either a modified

Table of Contents

retrospective approach with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption or a full retrospective approach. The Company adopted this guidance on January 1, 2018, which did not have a material impact on the Company's results of operations, financial condition, or cash flows.

Intra-Entity Transfers

In October 2016, the FASB issued ASU 2016-16 “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” The new guidance requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The Company adopted this ASU on January 1, 2018, which resulted in an increase of approximately $17.1 million to retained earnings and deferred tax assets net of valuation allowances.

Cash Flow Classification

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", which amends the guidance in ASC 230, Statement of Cash Flows. This amended guidance reduces the diversity in practice that has resulted from the lack of consistent principles related to the classification of certain cash receipts and payments in the statement of cash flows. This ASU is effective for the Company for reporting periods beginning after December 15, 2017. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Company adopted this new guidance on January 1, 2018. The adoption of this new guidance did not have a material impact on the results of operations, financial condition, or cash flows.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash", which amends the guidance in ASC 230, Statement of Cash Flows, on the classification and presentation of restricted cash in the statement of cash flows. This ASU is effective for the Company for reporting periods beginning after December 15, 2017 and changes due to adoption are applied using a retrospective transition method to each period presented. The Company adopted this new guidance on January 1, 2018, and applied retrospectively to results for 2017. The adoption of Topic 230 resulted in the statement of cash flows presenting the changes in the total of cash, cash equivalents and restricted cash.

Intangibles - Goodwill and Other Impairment

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", which eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on Step 1). The standard has tiered effective dates, starting in 2020 for calendar-year public business entities that meet the definition of an SEC filer. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. The adoption of this ASU on January 1, 2018 did not have a material impact on the results of operations, financial condition, or cash flows.

Definition of a Business

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business", which amends the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. The guidance is effective for the Company for reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted this new guidance on January 1, 2018. The adoption of this new guidance did not have a material impact on the results of operations, financial condition, or cash flows.

Accounting for Modifications to Stock-Based Compensation

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting", which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. The guidance is effective for the Company for reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted this new guidance on January 1, 2018. The adoption of this new guidance did not have a material impact on the results of operations, financial condition, or cash flows.

Accounting for Derivative Financial Instruments

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", which amends the hedge accounting recognition and presentation requirements in ASC 815. The FASB issued accounting guidance to better align hedge accounting with a company’s risk management activities, simplify the

Table of Contents

application of hedge accounting and improve the disclosures of hedging arrangements. The guidance is effective for the Company for reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

Comprehensive Income Classification

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", that gives entities the option to reclassify to retained earnings tax effects related to items that have been stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the "Tax Act"). An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the Tax Act’s change in U.S. federal tax rate for all items accounted for in other comprehensive income. These entities can also elect to reclassify other stranded effects that relate to the Tax Act but do not directly relate to the change in the federal rate. For all entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance. Entities can choose whether to apply the amendments retrospectively to each period in which the effect of the Tax Act is recognized or to apply the amendments in the period of adoption. The Company's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

Non-Employee Share-Based Payments

In June 2018, the FASB issued ASU 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting", that supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both non-employees and employees. Under the new guidance, the existing employee guidance will apply to non-employee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of non-employee awards will continue to be recorded as if the grantor had paid cash for the goods or services. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for non-employee awards. The guidance is effective for the Company for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, including in interim periods, but no earlier than an entity’s adoption of ASC 606. The Company's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

Cloud Computing Arrangements

On August 29, 2018, the FASB issued ASU 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", that provides guidance on implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The ASU, which was released in response to a consensus reached by the EITF at its June 2018 meeting, aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of a CCA that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in such a CCA. The guidance is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including in interim periods. The guidance should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

Fair Value Measurement

On August 28, 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. The guidance is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The guidance on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other guidance should be applied retrospectively to all periods presented upon their effective date. The Company is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. The Company's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

2. Revenue Recognition

The Company provides payment solutions to our business, merchant, consumer and payment network customers. Our payment solutions are primarily focused on specific commercial spend categories, including fuel, lodging, tolls, and general corporate payments, as well as gift card solutions (stored value cards). The Company provides products that help businesses of all sizes control, simplify and secure payment of various domestic and cross-border payables using specialized payment products. The Company also provides other payment solutions for fleet maintenance, employee benefits and long haul transportation-related services.

Payment Services

The Company’s primary performance obligation for the majority of its payment solution products (fuel, lodging, tolls, corporate payments, among others) is to stand-ready to provide authorization and processing services ("payment services") for an unknown or unspecified quantity of transactions and the consideration received is contingent upon the customer’s use (e.g., number of transactions submitted and processed) of the related payment services. Accordingly, the total transaction price is variable. Payment services involve a series of distinct daily services that are substantially the same, with the same pattern of transfer to the customer. As a result, the Company allocates and recognizes variable consideration in the period it has the contractual right to invoice the customer.

The Company records revenue for its payment services net of (i) the cost of the underlying products and services; (ii) assessments and other fees charged by the credit and debit payment networks (along with any rebates provided by them); (iii) customer rebates and other discounts; and (iv) taxes assessed (e.g. VAT and VAT-like taxes) by a government, imposed concurrent with, a revenue producing transaction.

The majority of the transaction price the Company receives for fulfilling the Payment Services performance obligation are comprised of one or a combination of the following: 1) interchange fees earned from the payment networks; 2) discount fees earned from merchants; 3) fees calculated based on a number of transactions processed; and 4) fees calculated based upon a percentage of the transaction value for the underlying goods or services (i.e. fuel, food, toll and transportation cards and vouchers).

The Company recognizes revenue when the underlying transactions are complete and its performance obligations are satisfied. Transactions are considered complete depending upon the related payment solution but generally when the Company has authorized the transaction, validated that the transaction has no errors and accepted and posted the data to the Company’s records.

The Company's performance obligation for its foreign exchange payment services is providing a foreign currency payment to a customer’s designated recipient and therefore, the Company recognizes revenue on foreign exchange payment services when the underlying payment is made. Revenues from foreign exchange and payment services are primarily comprised of the difference between the exchange rate set by the Company to the customer and the rate available in the wholesale foreign exchange market.

Gift Card Products and Services

The Company’s Gift product line delivers both stored value cards and card-based services primarily in the form of gift cards to retailers. These activities each represent performance obligations that are separate and distinct. Revenue for stored valued cards are recognized (gross of the underlying cost of the related card) at the point in time when control passes to the Company's customer, which is generally upon shipment.

Card-based services consist of transaction processing and reporting of gift card transactions where the Company recognizes revenue based on an output measure of elapsed time for an unknown or unspecified quantity of transactions. As a result, the Company allocates and recognizes variable consideration over the estimated period of time over which the performance obligation is satisfied.

Other

The Company accounts for revenue from late fees and finance charges, in jurisdictions where permitted under local regulations, primarily in the U.S. and Canada in accordance with ASC 310, "Receivables". Such fees are recognized net of a provision for estimated uncollectible amounts, at the time the fees and finance charges are assessed and services are provided. The Company ceases billing and accruing for late fees and finance charges approximately 30 - 40 days after the customer’s balance becomes delinquent.

The Company also writes foreign currency forward and option contracts for its customers to facilitate future payments in foreign currencies, and recognizes revenue in accordance with authoritative fair value and derivative accounting (ASC 815, "Derivatives").

Revenue is also derived from the sale of equipment in certain of the Company’s businesses, which is recognized at the time the device is sold and control has passed to the customer. This revenue is recognized gross of the cost of sales related to the equipment in "revenues, net" within the Unaudited Consolidated Statements of Income. The related cost of sales for the equipment is recorded within "processing expenses" in the Unaudited Consolidated Statements of Income.

Table of Contents

Disaggregation of Revenues

The Company provides its services to customers across different payment solutions and geographies. Revenue by product (in millions) for the three and nine months ended September 30, 2018 was as follows:

Revenue, net by Product Category*	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	%	2018	%
Fuel	$276	45 %	$805	45 %
Corporate Payments	105	17 %	300	17 %
Tolls	78	13 %	250	14 %
Lodging	48	8 %	132	7 %
Gift	57	9 %	139	8 %
Other	56	9 %	164	9 %
Consolidated Revenues, net	$620	100%	$1,790	100%

*Columns may not calculate due to rounding.

Revenue by geography (in millions) for the three and nine months ended September 30, 2018 was as follows:

Revenue, net by Geography*	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	%	2018	%
United States	$391	63 %	1,082	60 %
Brazil	92	15 %	296	17 %
United Kingdom	63	10 %	192	11 %
Other	74	12 %	220	12 %
Consolidated Revenues, net	$620	100%	$1,790	100%

*Columns may not calculate due to rounding.

Revenues from contracts with customers, within the scope of Topic 606, represents approximately 90% of total consolidated revenues, net, in the three and nine month periods ended September 30, 2018.

Contract Liabilities

Deferred revenue contract liabilities for customers subject to ASC 606 were $19.9 million and $24.7 million as of September 30, 2018 and January 1, 2018, respectively. We expect to recognize substantially all of these amounts in revenues within approximately 12 months. Revenue recognized in the three and nine months ended September 30, 2018, that was included in the deferred revenue contract liability as of January 1, 2018 was approximately $17.1 million and $56.2 million, respectively.

Costs to Obtain or Fulfill a Contract

With the adoption of ASC 606, the Company began capitalizing the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission).

Costs incurred to fulfill a contract are capitalized if those costs meet all of the following criteria:

a. The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.

b. The costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

c. The costs are expected to be recovered.

In order to determine the appropriate amortization period for contract costs, the Company considered a combination of factors, including customer attrition rates, estimated terms of customer relationships, the useful lives of technology used by the Company to provide products and services to its customers, whether further contract renewals are expected and if there is any incremental commission to be paid on a contract renewal. Contract acquisition and fulfillment costs are amortized using the straight-line method over the expected period of benefit (ranging from five to ten years). Costs to obtain a contract with an expected period of benefit of one year or less are recognized as an expense when incurred. The amortization of contract acquisition costs associated with sales commissions that qualify for capitalization will be recorded as selling expense in the Company's Unaudited Consolidated Statements of Income. The amortization of contract acquisition costs associated with cash payments for client incentives is included as a reduction of revenues in the Company's Unaudited Consolidated Statements of Income. During the three and nine months ended September 30, 2018, amortization of capitalized contract costs recorded in selling expense was $3.0 million and $9 million, respectively.

Costs to obtain or fulfill a contract are classified as contract cost assets within "prepaid expenses and other current assets" and "other assets" in the Company's Unaudited Consolidated Balance Sheets. At September 30, 2018, the Company had capitalized costs to obtain a contract of $12.2 million within prepaid expenses and $32.6 million within "other assets" in the Company's Unaudited Consolidated Balance Sheets, respectively.

Practical Expedients

ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as allowed by ASC 606, the Company has elected to exclude this disclosure for any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. As described above, the Company's most significant performance obligations consist of variable consideration under a stand-ready series of distinct days of service. Such variable consideration meets the specified criteria for the disclosure exclusion; therefore, the majority of the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied is variable consideration that is not required for this disclosure. The aggregate fixed consideration portion of customer contracts with an initial contract duration greater than one year is not material.

The Company has elected to exclude all sales taxes and other similar taxes from the transaction price. Accordingly, the Company presents all collections from customers for these taxes on a net basis, rather than having to assess whether the Company is acting as an agent or a principal in each taxing jurisdiction.

In certain arrangements with customers, the Company has determined that certain promised services and products are immaterial in the context of the contract, both quantitatively and qualitatively.

As a practical expedient, the Company is not required to adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised service or product to a customer and when the customer pays for the service or product will be one year or less. As of September 30, 2018, the Company's contracts with customers did not contain a significant financing component.

The Company adopted Topic 606 as of January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company utilized a practical expedient to consider the aggregate effect of all modifications when identifying performance obligations and allocating transaction price.

3. Accounts Receivable

The Company maintains a $1.2 billion revolving trade accounts receivable Securitization Facility. Accounts receivable collateralized within our Securitization Facility relate to our U.S. trade receivables resulting from charge card activity. Pursuant to the terms of the Securitization Facility, the Company transfers certain of its domestic receivables, on a revolving basis, to FLEETCOR Funding LLC (Funding) a wholly-owned bankruptcy remote subsidiary. In turn, Funding transfers, on a revolving basis, up to $1.2 billion of undivided ownership interests in this pool of accounts receivable to a multi-seller, asset-backed commercial paper conduit (Conduit). Funding maintains a subordinated interest, in the form of over-collateralization, in a portion of the receivables sold to the Conduit. Purchases by the Conduit are financed with the sale of highly-rated commercial paper.

The Company utilizes proceeds from the transferred assets as an alternative to other forms of financing to reduce its overall borrowing costs. The Company has agreed to continue servicing the sold receivables for the financial institution at market rates, which approximates the Company's cost of servicing. The Company retains a residual interest in the accounts receivable sold as a form of credit enhancement. The residual interest’s fair value approximates carrying value due to its short-term nature. Funding determines the level of funding achieved by the sale of trade accounts receivable, subject to a maximum amount.

The Company’s Unaudited Consolidated Balance Sheets and Statements of Income reflect the activity related to securitized accounts receivable and the corresponding securitized debt, including interest income, fees generated from late payments, provision for losses on accounts receivable and interest expense. The cash flows from borrowings and repayments, associated with the securitized debt, are presented as cash flows from financing activities.

Table of Contents

The Company’s accounts receivable and securitized accounts receivable include the following at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Gross domestic accounts receivable	$951,331	$661,677
Gross domestic securitized accounts receivable	931,000	811,000
Gross foreign receivables	912,030	804,365
Total gross receivables	2,794,361	2,277,042
Less allowance for doubtful accounts	(52,022)	(46,031)
Net accounts and securitized accounts receivable	$2,742,339	$2,231,011

A rollforward of the Company’s allowance for doubtful accounts related to accounts receivable for the nine month period ended September 30 is as follows (in thousands):

	2018	2017
Allowance for doubtful accounts beginning of period	$46,031	$32,506
Provision for bad debts	43,520	35,949
Write-offs	(37,529)	(20,676)
Allowance for doubtful accounts end of period	$52,022	$47,779

4. Fair Value Measurements

Fair value is a market-based measurement that reflects assumptions that market participants would use in pricing an asset or liability. GAAP discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions.

As the basis for evaluating such inputs, a three-tier value hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Table of Contents

The following table presents the Company’s financial assets and liabilities which are measured at fair values on a recurring basis at September 30, 2018 and December 31, 2017, (in thousands).

	Fair Value	Level 1	Level 2	Level 3
September 30, 2018				
Assets:				
Repurchase agreements	$ 526,730	$ —	$ 526,730	$ —
Money market	50,395	—	50,395	—
Certificates of deposit	172	—	172	—
Foreign exchange contracts	28,293	—	28,293	—
Total assets	$ 605,590	$ —	$ 605,590	$ —
Cash collateral for foreign exchange contracts	$ 26,499	$ —	$—	$ —
Liabilities:				
Foreign exchange contracts	$ 28,626	$ —	$ 28,626	—
Total liabilities	$ 28,626	$ —	$ 28,626	$ —
Cash collateral obligation for foreign exchange contracts	$ 12,307	$ —	$—	$ —
December 31, 2017				
Assets:				
Repurchase agreements	$ 420,838	$ —	$ 420,838	$ —
Money market	50,423	—	50,423	—
Certificates of deposit	7,417	—	7,417	—
Foreign exchange contracts	39,045	10	39,035	—
Total assets	$ 517,723	$ 10	$ 517,713	$ —
Cash collateral for foreign exchange contracts	$ 12,540	$ —	$—	$ —
Liabilities:				
Foreign exchange contracts	$ 26,888	$ 67	$ 26,821	$ —
Total liabilities	$ 26,888	$ 67	$ 26,821	$ —
Cash collateral obligation for foreign exchange contracts	$ 10,882	$ —	$—	$ —

The Company has highly-liquid investments classified as cash equivalents, with original maturities of 90 days or less, included in our Unaudited Consolidated Balance Sheets. The Company utilizes Level 2 fair value determinations derived from directly or indirectly observable (market based) information to determine the fair value of these highly liquid investments. The Company has certain cash and cash equivalents that are invested on an overnight basis in repurchase agreements, money markets and certificates of deposit. The value of overnight repurchase agreements is determined based upon the quoted market prices for the treasury securities associated with the repurchase agreements. The value of money market instruments is the financial institutions' month-end statement, as these instruments are not tradeable and must be settled directly by us with the respective financial institution. Certificates of deposit are valued at cost, plus interest accrued. Given the short-term nature of these instruments, the carrying value approximates fair value. Foreign exchange derivative contracts are carried at fair value, with changes in fair value recognized in the Unaudited Consolidated Statements of Income. The fair value of the Company's derivatives is derived with reference to a valuation from a derivatives dealer operating in an active market, which approximates the fair value of these instruments. The fair value represents what would be received and or paid by the Company if the contracts were terminated as of the reporting date. Cash collateral received for foreign exchange derivatives is recorded within customer deposits in the Company's Unaudited Consolidated Balance Sheet at September 30, 2018. Cash collateral paid for foreign exchange derivatives is recorded within restricted cash in the Company's Unaudited Consolidated Balance Sheet at September 30, 2018.

The level within the fair value hierarchy and the measurement technique are reviewed quarterly. Transfers between levels are deemed to have occurred at the end of the quarter. There were no transfers between fair value levels during the periods presented for 2018 and 2017.

The Company’s assets that are measured at fair value on a nonrecurring basis or are evaluated with periodic testing for impairment include property, plant and equipment, investments, goodwill and other intangible assets. Estimates of the fair value of assets acquired and liabilities assumed in business combinations are generally developed using key inputs such as management’s projections of cash flows on a held-and-used basis (if applicable), discounted as appropriate, management’s

Table of Contents

projections of cash flows upon disposition and discount rates. Accordingly, these fair value measurements are in Level 3 of the fair value hierarchy.

The Company regularly evaluates the carrying value of its cost method investments and during the third quarter of 2018, determined that the fair value of its investment in Qui was impaired as a result of a decline in operating results and difficulty in obtaining financing. The Company concluded that this decline in fair value was other than temporary and recorded a full write-off of the investment of $7.1 million.

The fair value of the Company’s cash, accounts receivable, securitized accounts receivable and related facility, prepaid expenses and other current assets, accounts payable, accrued expenses, customer deposits and short-term borrowings approximate their respective carrying values due to the short-term maturities of the instruments. The carrying value of the Company’s debt obligations approximates fair value as the interest rates on the debt are variable market based interest rates that reset on a quarterly basis. These are each Level 2 fair value measurements, except for cash, which is a Level 1 fair value measurement.

5. Stockholders' Equity

On February 4, 2016, the Company's Board of Directors approved a stock repurchase program (the "Program") under which the Company may purchase up to an aggregate of $500 million of its common stock over the following 18 month period. On July 27, 2017, the Company's Board of Directors authorized an increase in the size of the Program by an additional $250 million and an extension of the Program by an additional 18 months. On November 1, 2017, the Company announced that its Board of Directors had authorized an increase in the size of the Program by an additional $350 million, and on July 17, 2018, our Board of Directors authorized an additional increase of $500 million in the size of the Program resulting in total aggregate repurchases authorized under the Program of $1.6 billion. With the increase and giving effect to the Company's $970.8 million of previous repurchases, the Company may repurchase up to $629.2 million in shares of its common stock at any time prior to February 1, 2019.

Any stock repurchases may be made at times and in such amounts as deemed appropriate. The timing and amount of stock repurchases, if any, will depend on a variety of factors including the stock price, market conditions, corporate and regulatory requirements, and any additional constraints related to material inside information the Company may possess. Any repurchases have been and are expected to be funded by a combination of available cash flow from the business, working capital and debt.

Since the beginning of the Program, 6,010,210 shares for an aggregate purchase price of $970.8 million have been repurchased. There were 1,896,106 shares totaling $380.7 million repurchased under the Program during the nine months ended September 30, 2018. No repurchases were made during the three months ended September 30, 2018.

6. Stock-Based Compensation

The Company has Stock Incentive Plans (the Plans) pursuant to which the Company’s board of directors may grant stock options or restricted stock to employees.

On February 7, 2018, the stockholders of the Company approved the FleetCor Technologies, Inc. Amended and Restated 2010 Equity Incentive Plan (the "Amended Plan"). The Amended Plan was authorized and approved by the Company's Board of Directors on December 20, 2017, and Company's stockholders at a meeting held on February 7, 2018. The Amended Plan amends the Registrant’s existing 2010 Equity Incentive Plan (as amended, the "Prior Plan") to, among other things, increase the number of shares of common stock available for issuance from 13,250,000 to 16,750,000 and make certain other amendments to the Prior Plan.

The table below summarizes the expense recognized related to share-based payments recognized for the three and nine month periods ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	$11,154	$16,212	$33,205	$42,254
Restricted stock	9,548	8,443	21,002	26,643
Stock-based compensation	$20,702	$24,655	$54,207	$68,897

The tax benefits recorded on stock based compensation were $31.2 million and $36.1 million for the nine month period ended September 30, 2018 and 2017, respectively.

Table of Contents

The following table summarizes the Company’s total unrecognized compensation cost related to stock-based compensation as of September 30, 2018 (cost in thousands):

	Unrecognized Compensation Cost	Weighted Average Period of Expense Recognition (in Years)
Stock options	$ 68,687	1.41
Restricted stock	13,456	0.53
Total	$ 82,143	

Stock Options

Stock options are granted with an exercise price estimated to be equal to the fair market value on the date of grant as authorized by the Company’s board of directors. Options granted have vesting provisions ranging from one to five years and vesting of the options is generally based on the passage of time or performance. Stock option grants are subject to forfeiture if employment terminates prior to vesting.

The following summarizes the changes in the number of shares of common stock under option for the nine month period ended September 30, 2018 (shares/options and aggregate intrinsic value in thousands):

	Shares	Weighted Average Exercise Price	Options Exercisable at End of Period	Weighted Average Exercise Price of Exercisable Options	Weighted Average Fair Value of Options Granted During the Period	Aggregate Intrinsic Value
Outstanding at December 31, 2017	8,031	$ 109.78	4,029	$ 75.80		$ 663,815
Granted	408	204.57			$ 50.04	
Exercised	(692)	71.50				108,164
Forfeited	(40)	149.22				
Outstanding at September 30, 2018	7,707	$ 118.03	4,588	$ 91.27		$ 846,395
Expected to vest as of September 30, 2018	7,707	$ 118.03				

The aggregate intrinsic value of stock options exercisable at September 30, 2018 was $626.5 million. The weighted average remaining contractual term of options exercisable at September 30, 2018 was 5.2 years.

The fair value of stock option awards granted was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for grants or modifications during the nine month periods ended September 30, 2018 and 2017:

	September 30, 2018	2017
Risk-free interest rate	2.57 %	1.65 %
Dividend yield	—	—
Expected volatility	26.93 %	28.02 %
Expected life (in years)	3.8	3.4

Restricted Stock

Awards of restricted stock and restricted stock units are independent of stock option grants and are subject to forfeiture if employment terminates prior to vesting. The vesting of shares granted is generally based on the passage of time, performance or market conditions, or a combination of these. Shares vesting based on the passage of time have vesting provisions of one to three years.

Table of Contents

The following table summarizes the changes in the number of shares of restricted stock and restricted stock units for the nine months ended September 30, 2018 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	365	$ 155.58
Granted	104	190.18
Vested	(49)	157.66
Canceled or forfeited	(26)	157.39
Outstanding at September 30, 2018	394	$ 173.21

7. Acquisitions

2018 Acquisitions

During the nine months ended September 2018, the Company made payments of $3.8 million related to acquisitions occurring in prior years.

2017 Acquisitions

During 2017, the Company completed acquisitions with an aggregate purchase price of $725.1 million, net of cash acquired of $96.3 million and inclusive of notes payable of $29.3 million. During 2017, the Company made investments in other businesses of $39 million.

Cambridge Global Payments

On August 9, 2017, the Company acquired Cambridge, a business to business (B2B) international payments provider, for approximately $616.0 million in cash, net of cash acquired of $94.5 million and inclusive of a note payable of $23.8 million. Cambridge processes B2B cross-border payments, assisting business clients in making international payments. The purpose of this acquisition is to further expand the Company's corporate payments footprint. The Company financed the acquisition using a combination of existing cash and borrowings under its existing credit facility. The results from Cambridge are reported in its North America segment. The following table summarizes the acquisition accounting for Cambridge (in thousands):

Restricted cash	$37,666
Trade and other receivables	61,806
Prepaid expenses and other	18,071
Property and equipment	7,106
Other long term assets	10,025
Goodwill	500,212
Customer relationships and other identifiable intangible assets	271,793
Liabilities assumed	(197,335)
Deferred tax liabilities	(93,364)
Aggregate purchase price	$615,980

The fair value of intangible assets acquired and the related estimated useful lives consisted of the following (in thousands):

	Useful Lives (in Years)	Value
Banking relationships	20	$705
Trade name and trademarks	Indefinite	35,110
Technology	5	16,039
Customer relationships - excluding Accounts Payable Solutions	7-18	178,190
Customer relationships - Accounts Payable Solutions	20	41,749
		$271,793

17

Table of Contents

Along with the Company's acquisition of Cambridge, the Company signed noncompete agreements with certain parties with an estimated fair value of $5.8 million. Goodwill recorded is comprised primarily of expected synergies from combining the operations of the Company and Cambridge, as well as assembled workforce.

Other

During 2017, the Company acquired Creative Lodging Solutions ("CLS"), a lodging business, and a fuel card provider in Russia for approximately $109.1 million, net of cash acquired of $1.8 million and inclusive of a note payable of $5.5 million. The Company financed the acquisitions using a combination of existing cash and borrowings under its existing credit facility. The following table summarizes the acquisition accounting for the acquisitions (in thousands):

Trade and other receivables	$38,038
Prepaid expenses and other	1,426
Property and equipment	5,745
Goodwill	59,946
Other intangible assets	53,459
Liabilities assumed	(32,274)
Deferred tax liabilities	(17,217)
Aggregate purchase prices	$109,123

The estimated fair value of intangible assets acquired and the related estimated useful lives consisted of the following (in thousands):

	Useful Lives (in Years)	Value
Trade name and trademarks	1	$180
Technology	4	1,750
Customer relationships	8	51,529
		$53,459

Along with the Company's acquisition of CLS, the Company signed noncompete agreements with certain parties with an estimated fair value of $3.9 million.

8. Goodwill and Other Intangible Assets

A summary of changes in the Company’s goodwill by reportable business segment is as follows (in thousands):

	December 31, 2017	Acquisition Accounting Adjustments	Foreign Currency	September 30, 2018
Segment				
North America	$3,084,123	$ 4,036	$(7,152)	$3,081,007
International	1,631,700	20	(195,379)	1,436,341
	$4,715,823	$ 4,056	$(202,531)	$4,517,348

Table of Contents

As of September 30, 2018 and December 31, 2017, other intangible assets consisted of the following (in thousands):

		September 30, 2018			December 31, 2017		
	Weighted-Avg Useful Lives (Years)	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Customer and vendor relationships	17.1	$2,609,056	$(734,726)	$1,874,330	$2,698,428	$(605,347)	$2,093,081
Trade names and trademarks—indefinite lived	N/A	476,820	—	476,820	499,587	—	499,587
Trade names and trademarks—other	13.8	2,963	(2,457)	506	2,986	(2,207)	779
Software	5.9	212,288	(144,880)	67,408	219,019	(116,654)	102,365
Non-compete agreements	4.2	45,786	(26,223)	19,563	48,221	(19,076)	29,145
Total other intangibles		$3,346,913	$(908,286)	$2,438,627	$3,468,241	$(743,284)	$2,724,957

Changes in foreign exchange rates resulted in a $125.2 million decrease to the carrying values of other intangible assets in the nine months ended September 30, 2018. Amortization expense related to intangible assets for the nine months ended September 30, 2018 and 2017 was $165.0 million and $158.9 million, respectively.

9. Debt

The Company’s debt instruments consist primarily of term notes, revolving lines of credit and a Securitization Facility as follows (in thousands):

	September 30, 2018	December 31, 2017
Term notes payable—domestic(a), net of discounts	$2,892,205	$2,993,667
Revolving line of credit A Facility—domestic(a)	440,000	635,000
Revolving line of credit B Facility—foreign(a)	140,717	28,334
Revolving line of credit B Facility—swing line(a)	29,407	6,879
Other debt(c)	39,597	43,736
Total notes payable and other obligations	3,541,926	3,707,616
Securitization Facility(b)	931,000	811,000
Total notes payable, credit agreements and Securitization Facility	$4,472,926	$4,518,616
Current portion	$1,699,548	$1,616,512
Long-term portion	2,773,378	2,902,104
Total notes payable, credit agreements and Securitization Facility	$4,472,926	$4,518,616

(a) The Company has a Credit Agreement, which has been amended multiple times, most recently on August 30, 2018, and provides for senior secured credit facilities consisting of a revolving A credit facility (Revolver) in the amount of $1.285 billion, a term loan A facility in the amount of $2.69 billion and a term loan B facility in the amount of $350 million as of September 30, 2018. The revolving credit facility consists of (a) a revolving A credit facility in the amount of $800 million, with sublimits for letters of credit and swing line loans, (b) a revolving B facility in the amount of $450 million for swing line loans and multi-currency borrowings and, (c) a revolving C facility in the amount of $35 million for multi-currency borrowings in Australian Dollars or New Zealand Dollars. The Credit Agreement also includes an accordion feature for borrowing an additional $750 million in term A, term B, revolver A or revolver B debt. Proceeds from the credit facilities may be used for working capital purposes, acquisitions, and other general corporate purposes. The maturity dates are August 2, 2022 for term A loan, revolving loans, and letters of credit under the Credit Agreement and August 2, 2024 for the term B loan.

Interest on amounts outstanding under the Credit Agreement (other than the term B loan) accrues based on the British Bankers Association LIBOR Rate (the Eurocurrency Rate), plus a margin based on a leverage ratio, or our option, the Base Rate (defined as the rate equal to the highest of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate

announced by Bank of America, N.A., or (c) the Eurocurrency Rate plus 1.00%) plus a margin based on a leverage ratio. Interest on the term B loan facility accrues based on the Eurocurrency Rate plus 2.00% for Eurocurrency Loans or 1.00% for Base Rate Loans. In addition, the Company pays a quarterly commitment fee at a rate per annum ranging from 0.20% to 0.40% of the daily unused portion of the credit facility. The Company has unamortized debt issuance costs of $8.0 million related to the Revolver as of September 30, 2018 recorded within other assets in the unaudited consolidated balance sheet. The Company has unamortized debt discounts of $4.9 million related to the term A facility and $0.6 million related to the term B facility, and deferred financings costs of $4.3 million at September 30, 2018.
At September 30, 2018, the interest rate on the term A loan and the domestic revolving A facility was 3.74%, the interest rate on the foreign revolving B facility was 2.23%, the interest rate on the revolving B facility foreign swing line of credit was 2.20% and the interest rate on the term B loan was 4.24%. The unused credit facility fee was 0.30% for all revolving facilities at September 30, 2018.

(b) The Company is party to a $1.2 billion receivables purchase agreement (Securitization Facility) that was amended on August 30, 2018. There is a program fee equal to one month LIBOR plus 0.90% or the Commercial Paper Rate plus 0.80%. The program fee was 2.28% plus 0.87% as of September 30, 2018 and 1.55% plus 0.86% as of December 31, 2017. The unused facility fee is payable at a rate of 0.40% per annum as of September 30, 2018 and December 31, 2017. The Company has unamortized debt issuance costs of $1.4 million related to the Securitization Facility as of September 30, 2018 recorded within other assets in the consolidated balance sheet.

(c) Other debt includes the long-term portion of deferred payments associated with business acquisitions.

The Company was in compliance with all financial and non-financial covenants at September 30, 2018.

10. Income Taxes

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.
On December 22, 2017, the U.S. government enacted tax legislation referred to as the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time Deemed Repatriation Transition Tax (“Transition Tax”) on certain unrepatriated earnings of foreign subsidiaries that can be paid over eight years; (3) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (4) the repeal of the domestic production activity deduction beginning January 1, 2018; (5) limitations on the deductibility of certain executive compensation; and (6) a new limitation on deductible interest expense beginning January 1, 2018.
The Company has not completed its accounting for the tax effects of enactment of the Tax Act. However, the Company has made a reasonable estimate of the effects on its existing deferred tax balances and the one-time Transition Tax. During the three month period ended September 30, 2018, the Company recognized adjustments totaling $22.7 million to the provisional amounts recorded at December 31, 2017 and included these adjustments as a component of income tax expense from continuing operations.
The Company will continue to make and refine its calculations as additional analysis is completed. The Company is continuing to gather additional information, including, but not limited to, finalizing the calculation of post-1986 prescribed foreign E&P, finalizing foreign tax pools for foreign tax credit purposes, and finalizing the amounts held in cash or other specified assets, to complete the Company's accounting for these items and expect to complete its accounting within the measurement period.

The SEC staff issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Table of Contents

For those items for which it was able to determine a reasonable estimate, the Company recognized a provisional net tax benefit of $128.2 million during 2017. This net benefit primarily consists of a net benefit for the corporate rate reduction on the deferred tax assets and liabilities of $210 million and a net expense for the Transition Tax of $81.8 million. After the adjustments recognized during the three months ended September 30, 2018, the provisional net tax benefit was adjusted to $105.5 million. This net benefit primarily consists of a net benefit on deferred tax assets and liabilities of $202.9 million and a net expense for the Transition Tax of $97.4 million.
Previously, the Company was not able to make a reasonable estimate of the impact of state taxes on adjustments made to federal temporary differences as a result of the Tax Act, or the impact of the new limitations on the deductibility of certain executive compensation. Included in the adjustments recognized during the three months ended September 30, 2018 in the amount of $22.7 million is an adjustment in the amount of $9.3 million. The adjustment is to recognize the impact of state taxes on adjustments made to federal temporary differences as a result of the Tax Act.
The provision for income taxes differs from amounts computed by applying the U.S. federal tax rate of 21% for 2018 and 35% for 2017 to income before income taxes for the three months ended September 30, 2018 and 2017 due to the following (in thousands):

	2018		2017	
Computed tax expense at the U.S. federal tax rate	$49,889	21.0 %	$114,626	35.0 %
Changes resulting from:				
Foreign income tax differential	2,359	1.0 %	(9,247)	(2.8)%
Excess tax benefits related to stock-based compensation	(7,562)	(3.2)%	(4,360)	(1.3)%
State taxes net of federal benefits	3,119	1.3 %	5,926	1.8 %
Foreign-sourced nontaxable income	(5,620)	(2.4)%	1,558	0.5 %
Foreign withholding taxes[1]	4,578	1.9 %	3,065	0.9 %
GILTI tax, net of foreign tax credits	5,576	2.4 %	—	— %
Valuation allowance on investment loss	—	— %	16,718	5.1 %
Transition tax, net of foreign tax credits	22,731	9.6 %	—	— %
Other[1]	4,804	2.0 %	(3,607)	(1.1)%
Provision for income taxes	$79,874	33.6 %	$124,679	38.1 %

[1]Certain amounts have been reclassified within the schedule above for comparative purposes.

11. Earnings Per Share

The Company reports basic and diluted earnings per share. Basic earnings per share is computed by dividing net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the reported period. Diluted earnings per share reflect the potential dilution related to equity-based incentives using the treasury stock method. The calculation and reconciliation of basic and diluted earnings per share for the three and nine month periods ended September 30 follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$157,694	$202,823	$509,483	$457,503
Denominator for basic earnings per share	88,456	90,751	89,126	91,619
Dilutive securities	3,625	2,250	3,545	2,304
Denominator for diluted earnings per share	92,081	93,001	92,671	93,923
Basic earnings per share	$1.78	$2.23	$5.72	$4.99
Diluted earnings per share	$1.71	$2.18	$5.50	$4.87

Diluted earnings per share for the three months ended September 30, 2018 and 2017 excludes the effect of 0.1 million and 3.5 million shares of common stock, respectively, that may be issued upon the exercise of employee stock options because such effect would be anti-dilutive. Diluted earnings per share also excludes the effect of 0.2 million and 0.3

million shares of performance based restricted stock for which the performance criteria have not yet been achieved for the three month periods ended September 30, 2018 and 2017, respectively.

Table of Contents

12. Segments

The Company reports information about its operating segments in accordance with the authoritative guidance related to segments. The Company's reportable segments represent components of the business for which separate financial information is evaluated regularly by the chief operating decision maker in determining how to allocate resources and in assessing performance. The Company operates in two reportable segments, North America and International. There were no inter-segment sales.

The Company's segment results are as follows for the three and nine month periods ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017[2]	2018	2017[2]
Revenues, net:[1]				
North America	$412,816	$368,006	$1,148,034	$1,040,949
International	206,770	209,871	642,036	598,598
	$619,586	$577,877	$1,790,070	$1,639,547
Operating income:[1]				
North America	$177,769	$138,480	$495,095	$394,378
International	103,321	94,157	310,866	249,370
	$281,090	$232,637	$805,961	$643,748
Depreciation and amortization:				
North America	$39,049	$38,399	$116,041	$104,960
International	28,218	30,757	91,338	93,771
	$67,267	$69,156	$207,379	$198,731
Capital expenditures:				
North America	$12,604	$9,167	$32,700	$30,901
International	9,094	7,692	23,612	18,558
	$21,698	$16,859	$56,312	$49,459

[1]Reflects the impact of the Company's adoption of ASC 606 and related cost capitalization guidance, which was adopted by the Company on January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 resulted in an adjustment to retained earnings in our consolidated balance sheet for the cumulative effect of applying the standard, which included costs incurred to obtain a contract, as well as presentation changes in our statements of income, including the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As a result of the application of the modified retrospective transition method, the Company's prior period results within its Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect ASC 606.

[2]The results from our Cambridge business acquired in the third quarter of 2017 are reported in our North America segment. As we have concluded that this business is part of our North America segment, the results for this business have been recast from International segment into our North America segment for the three and nine month periods ended September 30, 2017.

13. Commitments and Contingencies

In the ordinary course of business, the Company is involved in various pending or threatened legal actions, arbitration proceedings, claims, subpoenas, and matters relating to compliance with laws and regulations (collectively, legal proceedings). Based on our current knowledge, management presently does not believe that the liabilities arising from these legal proceedings will have a material adverse effect on our consolidated financial condition, results of operations or cash flows. However, it is possible that the ultimate resolution of these legal proceedings could have a material adverse effect on our results of operations and financial condition for any particular period.

Shareholder Class Action and Derivative Lawsuits

On June 14, 2017, a shareholder filed a class action complaint in the United States District Court for the Northern District of Georgia against the Company and certain of its officers and directors on behalf of all persons who purchased or otherwise acquired the Company's stock between February 5, 2016 and May 2, 2017. On October 13, 2017, the shareholder filed an amended complaint asserting claims on behalf of a putative class of all persons who purchased or otherwise acquired the Company's common stock between February 4, 2016 and May 3, 2017. The complaint alleges that the defendants made false or misleading statements regarding fee charges and the reasons for its earnings and growth in certain press releases and other public statements in violation of the federal securities laws. Plaintiff seeks class certification, unspecified monetary damages, costs, and attorneys’ fees. The Company disputes the allegations in the complaint and intends to vigorously defend against the claims.

On July 10, 2017, a shareholder derivative complaint was filed against the Company and certain of the Company’s directors and officers in the United States District Court for the Northern District of Georgia seeking recovery on behalf of the Company. The derivative complaint alleges that the defendants issued a false and misleading proxy statement in violation of the federal securities laws; that defendants breached their fiduciary duties by causing or permitting the Company to make allegedly false and misleading public statements concerning the Company’s fee charges, and financial and business prospects; and that certain defendants breached their fiduciary duties through allegedly improper sales of stock. The complaint seeks unspecified monetary damages on behalf of the Company, corporate governance reforms, disgorgement of profits, benefits and compensation by the defendants, restitution, costs, and attorneys’ and experts’ fees. The defendants dispute the allegations in the complaint and intend to vigorously defend against the claims.

Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult and requires an extensive degree of judgment, particularly where, as here, the matters involve indeterminate claims for monetary damages, and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, the Company is currently unable to predict the ultimate timing or outcome of, or reasonably estimate the possible losses or a range of possible losses resulting from the matters described above.

14. Asset Dispositions

Telematics Businesses

As part of the Company's plan to exit the telematics business, on July 27, 2017, the Company sold NexTraq, a U.S. fleet telematics business, to Michelin Group for $316 million. The Company recorded a pre-tax gain on the disposal of NexTraq of $175.0 million during the third quarter of 2017, which was net of transaction closing costs. The Company recorded tax on the gain of disposal of $65.8 million. NexTraq was historically included in the Company's North America segment.

On September 30, 2017, the Company entered into an amended Masternaut investment agreement that resulted in the loss of significant influence, and the Company began accounting for the Masternaut investment by applying the cost method.

Additionally, in October 2018, the Company reached an agreement on the terms for the sale and transition of the Chevron portfolio for approximately $160 million, which will be recorded as a pre-tax gain, less any transaction costs.

Table of Contents

15. Derivative Financial Instruments

As a result of the Cambridge acquisition during 2017, the Company writes derivatives, primarily foreign currency forward contracts, option contracts, and swaps, mostly with small and medium size enterprises that are customers and derives a currency spread from this activity. Derivative transactions include:

- Forward contracts, which are commitments to buy or sell at a future date a currency at a contract price and will be settled in cash.
- Option contracts, which gives the purchaser, the right, but not the obligation to buy or sell within a specified time a currency at a contracted price that may be settled in cash.
- Swap contracts, which are commitments to settlement in cash at a future date or dates, usually on an overnight basis.

The credit risk inherent in derivative agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review of the credit risk of these counterparties at the inception of the contract and on an ongoing basis. The Company also monitors the concentration of its contracts with any individual counterparty against limits at the individual counterparty level. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements, but takes action when doubt arises about the counterparties' ability to perform. These actions may include requiring customers to post or increase collateral, and for all counterparties, the possible termination of the related contracts. The Company does not designate any of its foreign exchange derivatives as hedging instruments in accordance with ASC 815.

The aggregate equivalent U.S. dollar notional amount of foreign exchange derivative customer contracts held by the Company as of September 30, 2018 and December 31, 2017 (in millions) is presented in the table below. Notional amounts do not reflect the netting of offsetting trades, although these offsetting positions may result in minimal overall market risk. Aggregate derivative notional amounts can fluctuate from period to period in the normal course of business based on market conditions, levels of customer activity and other factors.

	Notional	
	September 30, 2018	December 31, 2017
Foreign exchange contracts:		
Swaps	$330.4	$515.4
Futures, forwards and spot	2,905.7	3,274.5
Written options	3,033.1	2,934.2
Purchased options	2,435.8	2,314.1
Total	$8,705.0	$9,038.1

The majority of customer foreign exchange contracts are written in currencies such as the U.S. Dollar, Canadian Dollar, British Pound, Euro and Australian Dollar.

The following table summarizes the fair value of derivatives reported in the Unaudited Consolidated Balance Sheet as of September 30, 2018 and December 31, 2017 (in millions):

	September 30, 2018				December 31, 2017			
	Fair Value, Gross		Fair Value, Net		Fair Value, Gross		Fair Value, Net	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives - undesignated:								
Over the counter	$75.3	$ 75.6	$28.3	$ 28.6	$80.4	$ 68.2	$39.0	$ 26.8
Exchange traded	—	—	—	—	—	0.1	—	0.1
Foreign exchange contracts	75.3	75.6	28.3	28.6	80.4	68.3	39.0	26.9
Cash collateral	26.5	12.3	26.5	12.3	12.5	10.9	12.5	10.9
Total net derivative assets and liabilities	$48.8	$ 63.3	$1.8	$ 16.3	$67.9	$ 57.4	$26.5	$ 16.0

The fair values of derivative assets and liabilities associated with contracts which include netting language that the Company believes to be enforceable have been netted to present the Company's net exposure with these counterparties. The Company

Table of Contents

recognizes all derivative assets, net in prepaid expense and other current assets and all derivative liabilities, net in other current liabilities, after netting at the customer level, as right of offset exists, in its Unaudited Consolidated Balance Sheets at their fair value. The gain or loss on the fair value is recognized immediately within revenues, net in the Unaudited Consolidated Statements of Income. The Company does not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. The derivative assets and derivative liabilities in the preceding table were recorded in "other current assets" and "other current liabilities" at each balance sheet date, respectively, in the Unaudited Consolidated Balance Sheet. The Company receives cash from customers as collateral for trade exposures, which is recorded within "cash and cash equivalents: and "customer deposits" in the Unaudited Consolidated Balance Sheet. The customer has the right to recall their collateral in the event exposures move in their favor, they unwind all outstanding trades or they cease to do business with the Company.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and related notes appearing elsewhere in this report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. See "Special Cautionary Notice Regarding Forward-Looking Statements". All foreign currency amounts that have been converted into U.S. dollars in this discussion are based on the exchange rate as reported by OANDA for the applicable periods.

This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

General Business

FLEETCOR is a leading global provider of commercial payment solutions. We help businesses of all sizes control, simplify and secure payment of various domestic and cross-border payables using specialized payment products. We serve businesses, merchants and partners in North America, Latin America, Europe, and Australasia. FLEETCOR's predecessor company was organized in the United States in 1986, and FLEETCOR had its initial public offering in 2010 (NYSE: FLT).

FLEETCOR has two reportable segments, North America and International. We report these two segments as they align with our senior executive organizational structure, reflect how we organize and manage our employees around the world, manage operating performance, contemplate the differing regulatory environments in North America versus other geographies, and help us isolate the impact of foreign exchange fluctuations on our financial results.

Our payment solutions provide our customers with a payment method designed to be superior to and more robust and effective than what they use currently, whether they use a competitor's product or another alternative method such as cash or check. Our solutions are comprised of payment products, networks and associated services.

Our payment products function like a charge card or prepaid card and tend to be specialized for specific spend categories, such as fuel or lodging, and/or specific customer groups, such as long haul transportation. FLEETCOR's five primary product lines are Fuel, Lodging, Tolls, Corporate Payments and Gift. Additionally, we provide other payment products including fleet maintenance, employee benefits and long haul transportation-related services. Our products are used in 56 countries around the world, with our primary geographies being the U.S., Brazil and the United Kingdom, which combined accounted for approximately 90% of our revenue in 2017.

FLEETCOR uses both proprietary and third-party networks to deliver our payment solutions. FLEETCOR owns and operates proprietary networks with well-established brands throughout the world, bringing incremental sales and loyalty to affiliated merchants. Third-party networks are used to broaden payment product acceptance and use. In 2017, we processed approximately 3 billion transactions within these networks, of which approximately 1.4 billion were related to our Gift product line.

FLEETCOR capitalizes on its products' specialization with sales and marketing efforts by deploying product-dedicated sales forces to target specific customer segments. We market our products directly through multiple sales channels, including field sales, telesales and digital marketing, and indirectly through our partners, which include major oil companies, leasing companies, petroleum marketers, value-added resellers and referral partners.

We believe that our size and scale, product breadth and specialization, geographic reach, proprietary networks, robust distribution capabilities and advanced technology contribute to our industry leading position.

Executive Overview

We operate in two segments, which we refer to as our North America and International segments. Our revenue is generally reported net of the cost for underlying products and services. In this report, we refer to this net revenue as "revenues, net". See "Results of Operations" for additional segment information.

Results presented for 2018 reflects the impact of the Company's adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("Topic 606") ("ASC 606") and related cost capitalization guidance, which was adopted by the Company on January 1, 2018, using the modified retrospective transition method. The adoption of

Topic 606 resulted in the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As

Table of Contents

a result of the application of the modified retrospective transition method, the Company's prior period results within its annual report on Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect the impact of Topic 606.

The adoption of Topic 606 had the impact of reducing revenues by approximately $28.0 million and $75.5 million for the three and nine months ended September 30, 2018, respectively. Such expenses were not reflected as a reduction of revenues in the 2017 amounts presented. This lack of comparability should be considered in reviewing the transaction analysis and the various breakdowns of revenue by geography, product and source in this discussion and analysis.
Revenues, net, by Segment. For the three and nine months ended September 30, 2018 and 2017, our North America and International segments generated the following revenue (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017[1]		2018		2017[1]	
(Unaudited)	Revenues, net	% of total revenues, net	Revenues, net	% of total revenues, net	Revenues, net	% of total revenues, net	Revenues, net	% of total revenues, net
North America	$412.8	66.6 %	$368.0	63.7 %	$1,148.0	64.1 %	$1,040.9	63.5 %
International	206.8	33.4 %	209.9	36.3 %	642.0	35.9 %	598.6	36.5 %
	$619.6	100.0 %	$577.9	100.0 %	$1,790.1	100.0 %	$1,639.5	100.0 %

[1]The results from our Cambridge business acquired in the third quarter of 2017 are reported in our North America segment. As we have concluded that this business is part of our North America segment, the results for this business have been recast from our International segment into our North America segment for the three and nine month periods ended September 30, 2017.

Revenues, net, Net Income and Net Income Per Diluted Share. Set forth below are revenues, net, net income and net income per diluted share for the three and nine months ended September 30, 2018 and 2017 (in millions, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2018	2017	2018	2017
Revenues, net	$619.6	$577.9	$1,790.1	$1,639.5
Net income	$157.7	$202.8	$509.5	$457.5
Net income per diluted share	$1.71	$2.18	$5.50	$4.87

Adjusted Net Income and Adjusted Net Income Per Diluted Share. Set forth below are adjusted net income and adjusted net income per diluted share for the three and nine months ended September 30, 2018 and 2017 (in millions, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2018	2017	2018	2017
Adjusted net income	$246.6	$202.8	$717.9	$574.8
Adjusted net income per diluted share	$2.68	$2.18	$7.75	$6.12

Adjusted net income and adjusted net income per diluted share are supplemental non-GAAP financial measures of operating performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.” We use adjusted net income and adjusted net income per diluted share to eliminate the effect of items that we do not consider indicative of our core operating performance on a consistent basis.

Sources of Revenue

Transactions. In both of our segments, we derive revenue from transactions. A transaction is defined as a purchase by a customer utilizing one of our payment products at a participating merchant. The following diagram illustrates a typical transaction flow, which is representative of many, but not all, of our businesses.

Table of Contents

Illustrative Transaction Flow

The revenue we derive from transactions is generated from both customers and merchants. Customers may include commercial businesses (obtained through direct and indirect channels), as well as partners for whom we manage payment programs. Merchants, who may also be customers under relevant accounting guidance, may include those merchants affiliated with our proprietary networks or those participating in the third-party networks we utilize.
From our customers and partners, we generate revenue through a variety of program fees, including transaction fees, card fees, network fees and charges. These fees may be charged as fixed amounts, costs plus a mark-up, or based on a percentage of the transaction purchase amounts, or a combination thereof. Our programs include other fees and charges associated with late payments and based on customer credit risk.
From our merchants and third-party networks, we generate revenue mostly from the difference between the amount charged to a customer and the amount paid to the merchant or network for a given transaction, as well as network fees and charges in certain businesses. The amount paid to a merchant or network may be calculated as (i) the merchant’s wholesale product cost plus a markup; (ii) the transaction purchase amount less a percentage discount; or (iii) the transaction purchase amount less a fixed fee per unit. The following table provides illustrations of these three merchant payment models, which are representative of many, but not all, of our businesses.
Illustrative Merchant Payment Models

i) Cost Plus Mark-up:		ii) Percentage Discount:		iii) Fixed Fee:	
Wholesale Cost	$2.86	Retail Price	$3.00	Retail Price	$3.00
Mark-up	0.05	Discount (3%)	(0.09)	Fixed Fee	(0.09)
Price Paid to Merchant	$2.91	Price Paid to Merchant	$2.91	Price Paid to Merchant	$2.91

For a transaction involving the purchase of fuel where the amount paid to the merchant is calculated under the cost plus markup model, we refer to the difference between the amount charged to the customer and the amount paid to the merchant as revenue tied to fuel-price spreads. In all other cases, we refer to the difference between the amount charged to the customer and the amount paid to the merchant for a given transaction as interchange revenue.

Table of Contents

Revenue per transaction. Set forth below is revenue per transaction by segment information for the three and nine months ended September 30, 2018 and 2017. Revenue per transactions by segment is affected by the mix of products and acquisitions, as well as the impact of the adoption of ASC 606, which may result in revenue per transaction by product providing more meaningful data for analysis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2018	2017	2018	2017
Transactions (in millions)				
North America	380.8	398.4	1,257.5	1,256.9 [1]
International[2]	277.8	275.9	810.6	806.1
Total transactions	658.6	674.3	2,068.1	2,062.9
Revenue per transaction				
North America	$1.08	$0.92	$0.91	$ 0.83
International	0.74	0.76	0.79	0.74
Consolidated revenue per transaction	0.94	0.86	0.87	0.79

[1] For purposes of comparability, reflects adjustment for 44.3 million non-recurring transactions at SVS in the first quarter of 2017 due to system driven balance inquiries.

[2] Reflects adjustments from previously disclosed amounts for the prior period to conform to current presentation.

Table of Contents

The following table provides a breakdown of revenue per transaction by product for the three months ended September 30, 2018 and 2017.

	As Reported Three Months Ended September 30,				Pro Forma and Macro Adjusted Three Months Ended September 30,			
(Unaudited)*	2018[1]	2017	Change	% Change	2018[1]	2017[1]	Change	% Change
FUEL [4]								
'- Transactions	122.9	119.3	3.6	3 %	122.9	121.1	1.9	2 %
'- Revenues, net per transaction	$2.25	$2.32	$(0.07)	(3)%	$2.15	$2.07	$0.08	4 %
'- Revenues, net	$276.0	$276.2	$(0.3)	— %	$263.8	$250.5	$13.3	5 %
CORPORATE PAYMENTS								
'- Transactions	13.1	10.9	2.2	20 %	13.1	11.1	2.0	18 %
'- Revenues, net per transaction	$8.05	$6.63	$1.42	21 %	$8.10	$7.52	$0.59	8 %
'- Revenues, net	$105.5	$72.2	$33.3	46 %	$106.2	$83.2	$23.0	28 %
TOLLS								
'- Transactions[2]	221.9	226.1	(4.2)	(2)%	221.9	226.1	(4.2)	(2)%
'- Revenues, net per transaction	$0.35	$0.37	$(0.02)	(4)%	$0.44	$0.37	$0.07	19 %
'- Revenues, net	$77.8	$82.9	$(5.2)	(6)%	$97.0	$82.9	$14.1	17 %
LODGING								
'- Transactions	4.5	4.1	0.4	11 %	4.5	4.6	(0.1)	(3)%
'- Revenues, net per transaction	$10.64	$8.14	$2.49	31 %	$10.64	$8.53	$2.10	25 %
'- Revenues, net	$48.0	$33.2	$14.8	45 %	$48.0	$39.6	$8.4	21 %
GIFT								
'- Transactions	277.6	294.1	(16.5)	(6)%	277.6	294.1	(16.5)	(6)%
'- Revenues, net per transaction	$0.20	$0.19	$0.02	10 %	$0.20	$0.19	$0.02	10 %
'- Revenues, net	$56.7	$54.8	$1.9	4 %	$56.7	$54.8	$1.9	4 %
OTHER[3,4]								
'- Transactions	18.6	19.7	(1.2)	(6)%	18.6	19.7	(1.1)	(6)%
'- Revenues, net per transaction	$3.00	$2.97	$0.03	1 %	$3.13	$2.84	$0.29	10 %
'- Revenues, net	$55.7	$58.5	$(2.9)	(5)%	$58.1	$55.8	$2.3	4 %
FLEETCOR CONSOLIDATED REVENUES								
'- Transactions	658.6	674.3	(15.7)	(2)%	658.6	676.7	(18.1)	(3)%
'- Revenues, net per transaction	$0.94	$0.86	$0.08	10 %	$0.96	$0.84	$0.12	14 %
'- Revenues, net	$619.6	$577.9	$41.7	7 %	$629.8	$566.8	$63.0	11 %

* Columns may not calculate due to rounding.

[1] Reflects the impact of the Company's adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606") and related cost capitalization guidance, which was adopted by the Company on January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 resulted in an adjustment to retained earnings in our consolidated balance sheet for the cumulative effect of applying the standard, which included costs incurred to obtain a contract, as well as presentation changes in our statements of income, including the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As a result of the application of the modified retrospective transition method, the Company's prior period results within its annual report on Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect the impact of ASC 606. For purposes of comparability, 2017 has been recast and is reconciled to GAAP in the section entitled "Management's Use of Non-GAAP Financial Measures", which includes certain estimates and assumptions made by the Company for the impact of ASC 606 on 2017 revenues, as the Company did not apply a full retrospective adoption.

[2] Reflects adjustments from previously disclosed amounts for the prior period to conform to current presentation.

[3] Other includes telematics, maintenance, food, and transportation related businesses.
[4] Fuel Cards product category further refined to Fuel, to reflect different ways that fuel is paid for by our customers and as a result, reflects immaterial reclassifications from previously disclosed amounts for the prior period.

Revenue per transaction is derived from the various revenue types as discussed above and can vary based on geography, the relevant merchant relationship, the payment product utilized and the types of products or services purchased, the mix of which would be influenced by our acquisitions, organic growth in our business, and the overall macroeconomic environment, including fluctuations in foreign currency exchange rates, fuel prices and fuel spread margins. Revenue per transaction per customer changes as the level of services we provide to a customer increases or decreases, as macroeconomic factors change

Table of Contents

and as adjustments are made to merchant and customer rates. See "Results of Operations" for further discussion of transaction volumes and revenue per transaction.

Sources of Expenses

We incur expenses in the following categories:

- Merchant commissions—In certain of our card programs, we incur merchant commissions expense when we reimburse merchants with whom we have direct, contractual relationships for specific transactions where a customer purchases products or services from the merchant. In the card programs where it is paid, merchant commissions equal the difference between the price paid by us to the merchant and the merchant's wholesale cost of the underlying products or services. The adoption of ASC 606 on January 1, 2018, resulted in a change in the presentation of amounts previously classified as merchant commissions, resulting in these amounts being recorded within revenues, net in periods beginning in 2018.
- Processing—Our processing expense consists of expenses related to processing transactions, servicing our customers and merchants, bad debt expense and cost of goods sold related to our hardware sales in certain businesses. Effective with the adoption of ASC 606 on January 1, 2018, certain third party processing expenses are netted with consolidated revenues, where the network is considered to be our customer.
- Selling—Our selling expenses consist primarily of wages, benefits, sales commissions (other than merchant commissions) and related expenses for our sales, marketing and account management personnel and activities.
- General and administrative—Our general and administrative expenses include compensation and related expenses (including stock-based compensation) for our executives, finance and accounting, information technology, human resources, legal and other administrative personnel. Also included are facilities expenses, third-party professional services fees, travel and entertainment expenses, and other corporate-level expenses.
- Depreciation and amortization—Our depreciation expenses include depreciation of property and equipment, consisting of computer hardware and software (including proprietary software development amortization expense), card-reading equipment, furniture, fixtures, vehicles and buildings and leasehold improvements related to office space. Our amortization expenses include amortization of intangible assets related to customer and vendor relationships, trade names and trademarks, software and non-compete agreements. We are amortizing intangible assets related to business acquisitions and certain private label contracts associated with the purchase of accounts receivable.
- Other operating, net—Our other operating, net includes other operating expenses and income items that do not relate to our core operations or that occur infrequently.
- Investment loss—Our investment results relate to our minority interest in Masternaut, a provider of telematics solutions to commercial fleets in Europe, which we historically accounted for using the equity method and recorded our share of earnings and losses. On September 30, 2017, we entered into an amended Masternaut investment agreement that resulted in the loss of significant influence, and we began accounting for the Masternaut investment by applying the cost method. Also includes impairment charges related to Masternaut and other cost method investments.
- Other expense (income), net—Our other expense (income), net includes proceeds/costs from the sale of assets, foreign currency transaction gains or losses and other miscellaneous operating costs and revenue.
- Interest expense, net—Our interest expense, net includes interest income on our cash balances and interest expense on our outstanding debt and on our Securitization Facility. We have historically invested our cash primarily in short-term money market funds.
- Loss on extinguishment of debt—Loss on extinguishment of debt relates to our write-off of debt issuance costs associated with the refinancing of our existing Credit Facility.
- Provision for income taxes—Our provision for income taxes consists primarily of corporate income taxes related to profits resulting from the sale of our products and services on a global basis.

Factors and Trends Impacting our Business

We believe that the following factors and trends are important in understanding our financial performance:

- Global economic conditions—Our results of operations are materially affected by conditions in the economy generally, both in North America and internationally. Factors affected by the economy include our transaction volumes, the credit risk of our customers and changes in tax laws across the globe. These factors affected our businesses in both our North America and International segments.

- Foreign currency changes—Our results of operations are significantly impacted by changes in foreign currency rates; namely, by movements of the Australian dollar, Brazilian real, British pound, Canadian dollar, Czech koruna, Euro, Mexican peso, New Zealand dollar and Russian ruble, relative to the U.S. dollar. Approximately 60% and 63% of our revenue in the nine months ended September 30, 2018 and 2017, respectively, was derived in U.S. dollars and was not

Table of Contents

affected by foreign currency exchange rates. See “Results of Operations” for information related to foreign currency impact on our total revenue, net.

- Fuel prices—Our fleet customers use our products and services primarily in connection with the purchase of fuel. Accordingly, our revenue is affected by fuel prices, which are subject to significant volatility. A change in retail fuel prices could cause a decrease or increase in our revenue from several sources, including fees paid to us based on a percentage of each customer’s total purchase. Changes in the absolute price of fuel may also impact unpaid account balances and the late fees and charges based on these amounts. See “Sources of Revenue” above for further information related to the absolute price of fuel.
- Fuel-price spread volatility—A portion of our revenue involves transactions where we derive revenue from fuel-price spreads, which is the difference between the price charged to a fleet customer for a transaction and the price paid to the merchant for the same transaction. In these transactions, the price paid to the merchant is based on the wholesale cost of fuel. The merchant’s wholesale cost of fuel is dependent on several factors including, among others, the factors described above affecting fuel prices. The fuel price that we charge to our customer is dependent on several factors including, among others, the fuel price paid to the merchant, posted retail fuel prices and competitive fuel prices. We experience fuel-price spread contraction when the merchant’s wholesale cost of fuel increases at a faster rate than the fuel price we charge to our customers, or the fuel price we charge to our customers decreases at a faster rate than the merchant’s wholesale cost of fuel. See “Sources of Revenue” above for further information related to fuel-price spreads.
- Acquisitions—Since 2002, we have completed over 75 acquisitions of companies and commercial account portfolios. Acquisitions have been an important part of our growth strategy, and it is our intention to continue to seek opportunities to increase our customer base and diversify our service offering through further strategic acquisitions. The impact of acquisitions has, and may continue to have, a significant impact on our results of operations and may make it difficult to compare our results between periods.
- Interest rates—Our results of operations are affected by interest rates. We are exposed to market risk to changes in interest rates on our cash investments and debt.
- Expenses— Over the long term, we expect that our general and administrative expense will decrease as a percentage of revenue as our revenue increases. To support our expected revenue growth, we plan to continue to incur additional sales and marketing expense by investing in our direct marketing, third-party agents, internet marketing, telemarketing and field sales force.
- Taxes— We pay taxes in many different taxing jurisdictions, including the U.S., most U.S. states and many non-U.S. jurisdictions. The tax rates in certain non-U.S. taxing jurisdictions are higher than the U.S. tax rate. Consequently, as our earnings fluctuate between taxing jurisdictions, our effective tax rate fluctuates.

Acquisitions and Investments

During the nine months ended September 30, 2018, the Company made deferred payments of $3.8 million related to acquisitions occurring in prior years.

During 2017, the Company completed acquisitions with an aggregate purchase price of $725.1 million, net of cash acquired of $96.3 million. During 2017, the Company made investments in other businesses of $39 million.

- On August 9, 2017, we acquired Cambridge, a business to business (B2B) international payments provider, for approximately $616.0 million in cash, net of cash acquired of $94.5 million and inclusive of a note payable of $23.8 million. Cambridge processes B2B cross-border payments, assisting business clients in making international payments. The purpose of this acquisition is to further expand our corporate payments footprint.
- On September 26, 2017, we acquired a fuel card provider in Russia.
- On October 13, 2017, we completed the acquisition of CLS, a small lodging business, in the United States.

We report our results from Cambridge and CLS acquired in the third and fourth quarters of 2017, respectively, in our North America segment, from the date of acquisition. The results of operations from the fuel card business in Russia are included within our International segment, from the date of acquisition.

Asset Dispositions

Telematics Businesses

As part of our plan to exit the telematics business, on July 27, 2017, we sold NexTraq, a U.S. fleet telematics business, to Michelin Group for $316 million. We recorded a pre-tax gain on the disposal of NexTraq of $175.0 million during the third quarter of 2017, which was net of transaction closing costs. We recorded tax on the gain of disposal of $65.8 million. NexTraq was historically included in our North America segment.

Table of Contents

On September 30, 2017, we entered into an amended Masternaut investment agreement that resulted in the loss of significant influence, and we began accounting for the Masternaut investment by applying the cost method.

Chevron Portfolio

In October 2018, we reached an agreement on the terms for the sale and transition of the Chevron portfolio for approximately $160 million, which will be recorded as a pre-tax gain, less any transaction costs.

Table of Contents

Results of Operations

Three months ended September 30, 2018 compared to the three months ended September 30, 2017

The following table sets forth selected consolidated statement of income and selected operational data for the three months ended September 30, 2018 and 2017 (in millions, except percentages)*.

(Unaudited)	Three Months Ended June 30, 2018[1]	% of total revenue	Three Months Ended September 30, 2017[2]	% of total revenue	Increase (decrease)	% Change
Revenues, net:						
North America	$412.8	66.6 %	$368.0	63.7 %	$44.8	12.2 %
International	206.8	33.4 %	209.9	36.3 %	(3.1)	(1.5)%
Total revenues, net	619.6	100.0 %	577.9	100.0 %	41.7	7.2 %
Consolidated operating expenses:						
Merchant commissions	—	— %	27.7	4.8 %	(27.7)	(100.0)%
Processing	128.4	20.7 %	111.3	19.3 %	17.1	15.4 %
Selling	44.8	7.2 %	45.1	7.8 %	(0.3)	(0.6)%
General and administrative	98.0	15.8 %	92.1	15.9 %	6.0	6.5 %
Depreciation and amortization	67.3	10.9 %	69.2	12.0 %	(1.9)	(2.7)%
Operating income	281.1	45.4 %	232.6	40.3 %	48.5	20.8 %
Investment loss	7.1	1.2 %	47.8	8.3 %	(40.6)	(85.0)%
Other expense (income), net	0.3	— %	(175.3)	(30.3)%	(175.6)	NM
Interest expense, net	36.1	5.8 %	29.3	5.1 %	6.7	22.9 %
Loss on extinguishment of debt	—	— %	3.3	0.6 %	(3.3)	(100.0)%
Provision for income taxes	79.9	12.9 %	124.7	21.6 %	(44.8)	(35.9)%
Net income	$157.7	25.5 %	$202.8	35.1 %	$(45.1)	(22.3)%
Operating income for segments:						
North America	$177.8		$138.5		$39.3	28.4 %
International	103.3		94.2		9.2	9.7 %
Operating income	$281.1		$232.6		$48.5	20.8 %
Operating margin for segments:						
North America	43.1 %		37.6 %		5.4 %	
International	50.0 %		44.9 %		5.1 %	
Total	45.4 %		40.3 %		5.1 %	

NM = Not Meaningful

*The sum of the columns and rows may not calculate due to rounding.

[1] Reflects the impact of the Company's adoption of ASC 606 and related cost capitalization guidance, which was adopted by the Company on January 1, 2018, using the modified retrospective transition method. The adoption of ASC 606 resulted in an adjustment to retained earnings in our consolidated balance sheet for the cumulative effect of applying the standard, which included costs incurred to obtain a contract, as well as presentation changes in our statements of income, including the classification of certain amounts previously classified as merchant commissions and processing expense net with revenues. As a result of the application of the modified retrospective transition method, the Company's prior period results within its annual report on Form 10-K and quarterly reports on Form 10-Q will not be restated to reflect the impact of ASC 606.

[2]The results from our Cambridge business acquired in the third quarter of 2017 are reported in our North America segment. As we have concluded that this business is part of our North America segment, the results for this business have been recast from our International segment into our North America segment for the three and nine month periods ended September 30, 2017.

34

Table of Contents

Revenues

Our consolidated revenues were $619.6 million in the three months ended September 30, 2018, an increase of $41.7 million or 7.2%, from $577.9 million in the three months ended September 30, 2017. The increase in our consolidated revenue was primarily due to:

- Organic growth of approximately 11% on a constant fuel price, fuel spread margin, foreign currency and acquisition and disposition basis, driven by increases in both volume and revenue per transaction in certain of our payment programs. Organic revenue growth has been calculated assuming ASC 606 was implemented on January 1, 2017, in order to calculate organic growth using comparable revenue results in each period.
- The impact of acquisitions during 2017, which contributed approximately $20 million in additional revenue.
- Although we cannot precisely measure the impact of the macroeconomic environment, in total we believe it had a negative impact on our consolidated revenue for the three months ended September 30, 2018 over the comparable period in 2017 of approximately $9 million. Foreign exchange rates had an unfavorable impact on consolidated revenues in the three months ended September 30, 2018 over the comparable period in 2017 of approximately $26 million, primarily due to unfavorable changes in foreign exchange rates mostly in Brazil, partially offset by the favorable impact of higher fuel prices of approximately $14 million and favorable fuel spread margins of approximately $3 million, in the three months ended September 30, 2018 over the comparable period in 2017.

These increases were partially offset by the impact of the adoption of ASC 606, which decreased consolidated revenues, net by netting approximately $28 million of amounts previously classified as merchant commissions and processing expense against revenues and by approximately $2 million due to the disposition of the NexTraq business in July 2017.

North America segment revenues

North America revenues were $412.8 million in the three months ended September 30, 2018, an increase of $44.8 million or 12.2%, from $368.0 million in the three months ended September 30, 2017. The increase in our North America segment revenue was primarily due to: