

FLEETCOR TECHNOLOGIES INC

Form 10-Q

August 09, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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, Norcross, 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

Class	Outstanding at July 22, 2016
Common Stock, \$0.001 par value	120,928,888

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 FORM 10-Q
 For the Three and Six Month Periods Ended June 30, 2016
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FleetCor Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, Except Share and Par Value Amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$493,085	\$ 447,152
Restricted cash	156,014	167,492
Accounts receivable (less allowance for doubtful accounts of \$25,236 and \$21,903, at June 30, 2016 and December 31, 2015, respectively)	908,385	638,954
Securitized accounts receivable—restricted for securitization investors	713,000	614,000
Prepaid expenses and other current assets	73,355	68,113
Deferred income taxes	7,106	8,913
Total current assets	2,350,945	1,944,624
Property and equipment	189,665	163,569
Less accumulated depreciation and amortization	(99,242)	(82,809)
Net property and equipment	90,423	80,760
Goodwill	3,557,446	3,546,034
Other intangibles, net	2,112,238	2,183,595
Equity method investment	90,803	76,568
Other assets	66,853	58,225
Total assets	\$8,268,708	\$ 7,889,806
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$904,151	\$ 669,528
Accrued expenses	160,566	150,677
Customer deposits	503,112	507,233
Securitization facility	713,000	614,000
Current portion of notes payable and lines of credit	111,158	261,100
Other current liabilities	40,303	44,936
Total current liabilities	2,432,290	2,247,474
Notes payable and other obligations, less current portion	2,007,918	2,059,900
Deferred income taxes	705,130	713,428
Other noncurrent liabilities	40,665	38,957
Total noncurrent liabilities	2,753,713	2,812,285
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.001 par value; 475,000,000 shares authorized; 120,911,444 shares issued and 92,556,276 shares outstanding at June 30, 2016; and 120,539,041 shares issued and 92,376,335 shares outstanding at December 31, 2015	121	121
Additional paid-in capital	2,032,687	1,988,917
Retained earnings	1,990,492	1,766,336
Accumulated other comprehensive loss	(559,741)	(570,811)
Less treasury stock, 28,355,168 and 28,162,706 shares at June 30, 2016 and December 31, 2015, respectively	(380,854)	(354,516)

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Total stockholders' equity	3,082,705	2,830,047
Total liabilities and stockholders' equity	\$8,268,708	\$7,889,806
See accompanying notes to unaudited consolidated financial statements.		

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues, net	\$417,905	\$404,605	\$832,167	\$820,771
Expenses:				
Merchant commissions	22,308	21,725	50,541	49,051
Processing	80,691	74,564	160,505	155,920
Selling	31,947	27,297	58,500	53,628
General and administrative	63,586	63,388	131,180	133,110
Depreciation and amortization	48,436	48,827	84,764	96,909
Other operating, net	(231)	(347)	(446)	(772)
Operating income	171,168	169,151	347,123	332,925
Equity method investment (income) loss	(7,184)	5,118	(4,991)	7,818
Other expense, net	104	653	763	2,513
Interest expense, net	15,900	18,089	32,091	37,655
Total other expense	8,820	23,860	27,863	47,986
Income before income taxes	162,348	145,291	319,260	284,939
Provision for income taxes	48,163	46,613	95,103	92,108
Net income	\$114,185	\$98,678	\$224,157	\$192,831
Earnings per share:				
Basic earnings per share	\$1.23	\$1.07	\$2.42	\$2.10
Diluted earnings per share	\$1.21	\$1.05	\$2.37	\$2.05
Weighted average shares outstanding:				
Basic weighted average shares outstanding	92,665	91,904	92,591	91,828
Diluted weighted average shares outstanding	94,549	94,050	94,437	93,992

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$ 114,185	\$ 98,678	\$ 224,157	\$ 192,831
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain, net of tax	(20,132)	59,016	11,070	(100,938)
Total other comprehensive (loss) income	(20,132)	59,016	11,070	(100,938)
Total comprehensive income	\$ 94,053	\$ 157,694	\$ 235,227	\$ 91,893

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2016		2015
Operating activities			
Net income	\$ 224,157		\$ 192,831
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	16,311		15,096
Stock-based compensation	32,620		30,500
Provision for losses on accounts receivable	13,729		13,022
Amortization of deferred financing costs and discounts	3,651		3,517
Amortization of intangible assets	66,114		80,186
Amortization of premium on receivables	2,339		1,627
Deferred income taxes	(9,248)	)	(40,894)
Equity method investment (income) loss	(4,991)	)	7,818
Other non-cash operating income	(446)	)	(772)
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	13,555		5,790
Accounts receivable	(392,545)	)	(233,528)
Prepaid expenses and other current assets	(4,636)	)	24
Other assets	(9,362)	)	(2,961)
Excess tax benefits related to stock-based compensation	(3,186)	)	(9,639)
Accounts payable, accrued expenses and customer deposits	260,794		135,795
	208,856		198,412

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Net cash provided by operating activities				
Investing activities				
Acquisitions, net of cash acquired	(13,167)	(7,954)
Purchases of property and equipment	(24,757	)	(16,234)
Net cash used in investing activities	(37,924	)	(24,188)
Financing activities				
Excess tax benefits related to stock-based compensation	3,186		9,639	
Proceeds from issuance of common stock	7,964		7,105	
Repurchase of common stock	(26,037)	—	
Borrowings on securitization facility, net	99,000		89,000	
Principal payments on notes payable	(51,750	)	(51,750)
Borrowings from revolver – A Facility	140,000		—	
Payments on revolver – A Facility	(290,000	)	(276,818)
Borrowings from swing line of credit, net	—		9,441	
Payment of contingent consideration	—		(39,808)
Other	(666	)	(145)
Net cash used in financing activities	(118,303	)	(253,336)
Effect of foreign currency exchange rates on cash	(6,696	)	(13,782)
Net increase (decrease) in cash and cash equivalents	45,933		(92,894)
Cash and cash equivalents, beginning of period	447,152		477,069	
Cash and cash equivalents, end of period	\$ 493,085		\$ 384,175	
Supplemental cash flow information				
Cash paid for interest	\$ 30,361		\$ 38,883	

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Cash paid for income taxes	\$	64,345	\$	30,234
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See accompanying notes to unaudited consolidated financial statements.

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FleetCor Technologies, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
June 30, 2016

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 primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may differ from these estimates. Operating results for the three and six month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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, 2015.

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 \$0.7 million for the three months ended June 30, 2016 and 2015, respectively. The Company recognized foreign exchange losses of \$0.8 million and \$2.6 million for the six months ended June 30, 2016 and 2015, respectively, which are recorded within other expense, net in the Unaudited Consolidated Statements of Income.

Revision of Previously Issued Financial Statements

As discussed in footnote 2 to the Company’s 2015 consolidated financial statements, the Company corrected a misstatement and other comprehensive income to properly reflect the translation of certain acquired intangibles. Other comprehensive income for the three and six months ended June 30, 2015 has been revised from our previously reported gain of \$6.8 million and loss of \$86.2 million, respectively, to be consistent with the presentation in the December 31, 2015 financial statements. The Company does not believe this revision is material to any prior period financial statements.

Adoption of New Accounting Standards

Going Concern

In August 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-15 “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern”, which requires entities to perform interim and annual assessments of the entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s financial statements. This ASU is effective for fiscal years ending after December 15, 2016 and interim periods thereafter, with early adoption 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, as it is disclosure based.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers”, which amends the guidance in former ASC 605, Revenue Recognition. This amended guidance requires revenue to be recognized in an amount that reflects the consideration to which the company expects to be entitled for those goods and services when the performance obligation has been satisfied. This amended guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date”, which defers the effective date of the new revenue recognition standard by

one year. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing", which clarifies the accounting for intellectual property licenses and identifying performance obligations. In May 2016, the FASB issued ASU 2016-11, "Rescission of SEC Guidance Because of Accounting

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Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting", which rescinds certain SEC guidance in response to announcements made by the SEC staff at the EITF's March 3, 2016 meeting and ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", which clarifies the guidance on collectibility, non-cash consideration, the presentation of sales and other similar taxes collected from customers and contract modifications and completed contracts at transition. Additionally, ASU 2016-12 clarifies that entities electing the full retrospective transition method would no longer be required to disclose the effect of the change in accounting principle on the period of adoption; however, entities would still be required to disclose the effects on preadoption periods that were retrospectively adjusted. These ASUs are effective for the Company for reporting periods beginning after December 15, 2017, but permit companies the option to adopt as of the original effective date. The Company is currently evaluating the impact of the provisions of ASC 606. The guidance permits the use of either a retrospective or cumulative effect transition method. The Company anticipates selecting the modified retrospective method during transition and is currently evaluating the impact of the provisions of ASC 605 on the results of operations, financial condition, and cash flows.

Simplification of Guidance on Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-3, "Interest—Imputation of Interest", which changes the presentation of debt issuance costs in financial statements as a direct deduction from the related debt liability rather than as an asset. This ASU is effective for us for fiscal years ending after December 15, 2015 and interim periods. Early adoption is permitted. In August 2015, the FASB issued ASU 2015-15, "Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which is effective immediately. The SEC staff clarified that entities may continue presenting unamortized debt issuance costs for line-of-credit arrangements as an asset. The Company adopted this new guidance on January 1, 2016. As a result of the adoption of this ASU, \$0.6 million and \$1.5 million of unamortized debt issuance costs were retrospectively adjusted from prepaid expenses and other current assets to the current portion of notes payable and lines of credit and other assets to notes payable and other obligations, less current portion, respectively, in the Company's Consolidated Balance Sheet as of December 31, 2015.

Simplification of Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which requires entities to present deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as noncurrent in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or noncurrent in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. This ASU is effective for the Company for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. 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.

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. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance for leases that exist or are entered into after the beginning of the earliest comparative period presented. The Company is currently evaluating the impact of this ASU on the results of operations, financial condition, or cash flows.

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. Early adoption is permitted. The ASU must be adopted using either a modified 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's adoption of this ASU is not expected to have a material impact on the results of operations, financial condition, or cash flows.

Accounting for Employee Share-Based Payment

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting", which requires entities to record all tax effects of share-based awards to employees in the income statement when the awards vest or are settled. The ASU also allows an employer to repurchase more of an employee's shares than currently allowed for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This ASU is effective for the Company for reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company expects to early adopt this ASU in the third quarter of 2016, reflecting any adjustments as of January 1, 2016. The adoption of this ASU will result in excess tax benefits being recorded as a reduction of income tax expense and an increase in the number of dilutive

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shares outstanding at the end of each period, which may result in an increase to diluted earnings per share, depending on the volume of share-based payment award activity during the respective period.

2. Accounts Receivable

The Company maintains a \$950 million revolving trade accounts receivable Securitization Facility. Accounts receivable collateralized within our Securitization Facility relate to 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 sells, without recourse, on a revolving basis, up to \$950 million 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 sale of its accounts receivable 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 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.

The Company's accounts receivable and securitized accounts receivable include the following at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Gross domestic accounts receivable	\$531,656	\$338,275
Gross domestic securitized accounts receivable	713,000	614,000
Gross foreign receivables	401,965	322,582
Total gross receivables	1,646,621	1,274,857
Less allowance for doubtful accounts	(25,236)	(21,903)
Net accounts and securitized accounts receivable	\$1,621,385	\$1,252,954

A rollforward of the Company's allowance for doubtful accounts related to accounts receivable for six months ended June 30 is as follows (in thousands):

	2016	2015
Allowance for doubtful accounts beginning of period	\$21,903	\$23,842
Provision for bad debts	13,729	13,022
Write-offs	(10,396)	(14,464)
Allowance for doubtful accounts end of period	\$25,236	\$22,400

Foreign receivables are not included in the Company's accounts receivable securitization program. At June 30, 2016 and December 31, 2015, there was \$713 million and \$614 million, respectively, of short-term debt outstanding under the Company's accounts receivable Securitization Facility.

3. 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.

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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.

The following table presents the Company's financial assets and liabilities which are measured at fair values on a recurring basis as of June 30, 2016 and December 31, 2015, (in thousands).

	Fair Value	Level 1	Level 2	Level 3
June 30, 2016				
Assets:				
Repurchase agreements	\$ 144,185	\$	—\$144,185	\$ —
Money market	50,176	—	50,176	—
Certificates of deposit	14,138	—	14,138	—
Total cash equivalents	\$ 208,499	\$	—\$208,499	\$ —
December 31, 2015				
Assets:				
Repurchase agreements	\$ 144,082	\$	—\$144,082	\$ —
Money market	55,062	—	55,062	—
Certificates of deposit	9,373	—	9,373	—
Total cash equivalents	\$ 208,517	\$	—\$208,517	\$ —

The Company has highly liquid investments classified as cash equivalents, with original maturities of 90 days or less, included in our 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 tradable 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. 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 2016 and 2015.

The Company's nonfinancial assets that are measured at fair value on a nonrecurring basis in connection with periodic testing for impairment include property, plant and equipment, equity method investment, goodwill and other intangible assets. As necessary, the Company generally uses projected cash flows, discounted as appropriate, to estimate the fair values of the assets using key inputs such as management's projections of cash flows on a held-and-used basis (if applicable), management's projections of cash flows upon disposition and discount rates. Accordingly, these fair value measurements are in Level 3 of the fair value hierarchy. These assets and liabilities are recognized at fair value on a nonrecurring basis if an impairment is identified.

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.

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4. Stockholders' Equity

On February 4, 2016, the Company's Board of Directors approved a stock repurchase program (the "Program") under which the Company may begin purchasing up to an aggregate of \$500 million of its common stock over the next 18 months. 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 that the Company may possess. Any repurchases are expected to be funded by available cash flow from the business and working capital. There were 191,291 shares totaling \$26 million repurchased under the Program during the three and six months ended June 30, 2016.

5. Share 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. The table below summarizes the expense recognized related to share-based payments recognized for the three and six month periods ended June 30 (in thousands):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Stock options	\$8,394	\$4,484	\$17,638	\$8,842
Restricted stock	9,041	9,065	14,982	21,658
Stock-based compensation	\$17,435	\$13,549	\$32,620	\$30,500

The tax benefits recorded on stock based compensation were \$11.0 million and \$10.8 million for the six month periods ended June 30, 2016 and 2015, respectively.

The following table summarizes the Company's total unrecognized compensation cost related to stock-based compensation as of June 30, 2016 (cost in thousands):

	Unrecognized Compensation Cost	Weighted Average Period of Expense Recognition (in Years)
Stock options	\$ 55,128	1.46
Restricted stock	16,493	0.83
Total	\$ 71,621	

Stock Options

Stock options are granted with an exercise price estimated to be equal to the fair market value of the Company's stock on the date of grant as authorized by the Company's board of directors. Options granted have vesting provisions ranging from one to six 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 six month period ended June 30, 2016 (shares 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, 2015	5,003	\$ 72.72	2,545	\$ 26.82		\$351,277
Granted	1,281	119.89			\$ 25.50	
Exercised	(154)	51.68				14,095

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Forfeited	(94)	143.17			
Outstanding at June 30, 2016	6,036	\$ 82.15	3,144	\$ 45.24	\$ 368,093
Expected to vest as of June 30, 2016	6,036	\$ 82.15			

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The aggregate intrinsic value of stock options exercisable at June 30, 2016 was \$307.8 million. The weighted average remaining contractual term of options exercisable at June 30, 2016 was 5.3 years.

The fair value of stock option awards granted was estimated using the Black-Scholes option pricing model during the six months ended June 30, 2016 and 2015, with the following weighted-average assumptions for grants or modifications during the period:

	June 30	
	2016	2015
Risk-free interest rate	1.10 %	1.28 %
Dividend yield	—	—
Expected volatility	27.37%	28.47%
Expected life (in years)	3.4	4.0

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 or performance, or a combination of these. Shares vesting based on the passage of time have vesting provisions of one year.

The following table summarizes the changes in the number of shares of restricted stock and restricted stock units for the six months ended June 30, 2016 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2015	497	\$ 149.40
Granted	111	120.41
Vested	(227)	151.68
Cancelled	(38)	147.02
Outstanding at June 30, 2016	343	\$ 138.96

6. Acquisitions**2016 Acquisitions**

On March 14, 2016, the Company signed a definitive agreement to acquire all of the outstanding stock of Serviços e Tecnologia de Pagamentos S.A. ("STP"), from a shareholder group including concessionaires CCR S.A., and Arteris S.A., Raizen Combustiveis S.A. (a joint venture between Shell and Cosan), and others (the "Acquisition"). STP is an electronic toll payments company in Brazil and provides cardless fuel payments at a number of Shell sites throughout Brazil. The purpose of this acquisition is to strengthen the Company's presence in the Brazilian marketplace. The transaction price is denominated in Reals and is stated in the agreement at R\$4.086 billion, which is subject to adjustment through closing. The Company anticipates the price at closing to be approximately R\$4.4 billion, including adjustments, or approximately US\$1.36 billion at exchange rates at June 30, 2016. The Company will finance the acquisition using a combination of existing cash and borrowings under its existing credit facility. The Company received regulatory approvals for the acquisition in August 2016 and expects to close the acquisition in the third quarter of 2016.

During the six months ended June 30, 2016, the Company made additional investments of \$7.9 million related to its equity method investment at Masternaut Group Holdings Limited ("Masternaut"). During the six months ended June 30, 2016, the Company also made deferred payments related to prior acquisitions and acquired Shell portfolios related to our fuel card products in Europe and a small business in Brazil for total payments of \$5.3 million.

During the six months ended June 30, 2016, the Company recorded an approximately \$11 million non-recurring net recovery of purchase price within operating results.

2015 Acquisitions

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During 2015, the Company completed acquisitions of Shell portfolios related to its fuel card businesses in Europe, as well as a small acquisition internationally, with an aggregate purchase price of \$46.4 million, made additional investments of \$8.4 million related to Masternaut and deferred payments of \$3.4 million related to acquisitions occurring in prior years.

The following table summarizes the preliminary acquisition accounting for the acquisitions completed during 2015 (in thousands):

Trade and other receivables	\$521
Prepaid expenses and other	996
Property and equipment	197
Goodwill	9,561
Other intangible assets	39,876
Deferred tax liabilities	(2,336)
Liabilities assumed	(2,437)
Aggregate purchase prices	\$46,378

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
Customer relationships	14-20	\$39,876
		\$39,876

The 2015 acquisitions were not material individually or in the aggregate to the Company's consolidated financial statements. The accounting for certain of these acquisitions is preliminary pending completing the valuation of intangible assets, income taxes and evaluation of acquired contingencies.

7. Goodwill and Other Intangible Assets

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

Segment	December 31, 2015	Dispositions	Purchase Price Adjustments	Foreign Currency	June 30, 2016
North America	\$2,640,409	\$ —	\$ —	\$—	\$2,640,409
International	905,625	(684)	163	11,933	917,037
	\$3,546,034	\$ (684)	\$ 163	\$ 11,933	\$3,557,446

As of June 30, 2016 and December 31, 2015, other intangible assets consisted of the following (in thousands):

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	Weighted-Avg Useful Lives (Years)	June 30, 2016			December 31, 2015		
		Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Customer and vendor agreements	18.4	\$2,067,293	\$(380,353)	\$1,686,940	\$2,071,928	\$(329,664)	\$1,742,264
Trade names and trademarks— <i>indefinite lived</i>	N/A	321,342	—	321,342	318,048	—	318,048
Trade names and trademarks— <i>other</i>	14.6	2,815	(1,947)	868	3,067	(2,058)	1,009
Software	5.1	167,641	(68,953)	98,688	170,085	(54,250)	115,835
Non-compete agreements	5.0	14,003	(9,603)	4,400	15,209	(8,770)	6,439
Total other intangibles		\$2,573,094	\$(460,856)	\$2,112,238	\$2,578,337	\$(394,742)	\$2,183,595

Changes in foreign exchange rates resulted in a \$6.9 million decrease to the carrying values of other intangible assets in the six months ended June 30, 2016. Amortization expense related to intangible assets for the six months ended June 30, 2016 and 2015 was \$66.1 million and \$80.2 million, respectively.

8. Debt

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

	June 30, 2016	December 31, 2015
Term note payable—domestic(a), net of discounts	\$2,106,840	\$2,157,376
Revolving line of credit A Facility—domestic(a)	10,000	160,000
Revolving line of credit A Facility—foreign(a)	—	—
Other debt(c)	2,236	3,624
Total notes payable and other obligations	2,119,076	2,321,000
Securitization Facility(b)	713,000	614,000
Total notes payable, credit agreements and Securitization Facility	\$2,832,076	\$2,935,000
Current portion	\$824,158	\$875,100
Long-term portion	2,007,918	2,059,900
Total notes payable, credit agreements and Securitization Facility	\$2,832,076	\$2,935,000

On October 24, 2014, the Company entered into a \$3.355 billion Credit Agreement, which provides for senior secured credit facilities consisting of (a) a revolving A credit facility in the amount of \$1.0 billion, with sublimits for letters of credit, swing line loans and multi-currency borrowings, (b) a revolving B facility in the amount of \$35 million for loans in Australian Dollars or New Zealand Dollars, (c) a term loan A facility in the amount of \$2.02 (a) billion and (d) a term loan B facility in the amount of \$300 million. The Credit Agreement also contains an accordion feature for borrowing an additional \$500 million in term A or revolver A and term B. The stated maturity dates for the term loan A, revolving loans, and letters of credit under the New Credit Agreement is November 14, 2019 and November 14, 2021 for the term loan B. The Company has unamortized debt discounts of \$5.0 million related to the term A facility and \$1.1 million related to the term B facility at June 30, 2016.

(b) The Company is party to a \$950 million receivables purchase agreement ("Securitization Facility") that was amended and restated on December 1, 2015. There is a program fee equal to one month LIBOR and the Commercial Paper Rate of 0.51% plus 0.90% and 0.43% plus 0.90% as of June 30, 2016 and December 31, 2015, respectively. The unused facility fee is payable at a rate of 0.40% per annum as of June 30, 2016 and December 31,

2015.

(c) Other debt includes the long-term portion of contingent consideration and deferred payments associated with certain of our businesses.

The Company was in compliance with all financial and non-financial covenants at June 30, 2016.

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9. Income Taxes

The provision for income taxes differs from amounts computed by applying the U.S. federal tax rate of 35% to income before income taxes for the three months ended June 30, 2016 and 2015 due to the following (in thousands):

	2016		2015	
Computed "expected" tax expense	\$56,822	35.0 %	\$50,852	35.0 %
Changes resulting from:				
Foreign income tax differential	(4,424)	(2.7)%	(5,747)	(4.0)%
State taxes net of federal benefits	1,909	1.2 %	2,022	1.4 %
Foreign-sourced nontaxable income	(2,020)	(1.2)%	(4,061)	(2.8)%
Other	(4,124)	(2.6)%	3,547	2.5 %
Provision for income taxes	\$48,163	29.7 %	\$46,613	32.1 %

10. 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 six months ended June 30 (in thousands, except per share data) follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$114,185	\$98,678	\$224,157	\$192,831
Denominator for basic earnings per share	92,665	91,904	92,591	91,828
Dilutive securities	1,884	2,146	1,846	2,164
Denominator for diluted earnings per share	94,549	94,050	94,437	93,992
Basic earnings per share	\$1.23	\$1.07	\$2.42	\$2.10
Diluted earnings per share	\$1.21	\$1.05	\$2.37	\$2.05

Diluted earnings per share for the three month period ended June 30, 2016 and 2015, respectively, excludes the effect of 1.5 million and 31 thousand shares of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive. Diluted earnings per share also excludes the effect of 0.3 million and 0.5 million shares of performance based restricted stock for which the performance criteria have not yet been achieved for the three month period ended June 30, 2016 and 2015, respectively.

11. 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 six month periods ended June 30 (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues, net:				
North America	\$301,126	\$284,576	\$604,674	\$583,389
International	116,779	120,029	227,493	237,382
	\$417,905	\$404,605	\$832,167	\$820,771
Operating income:				
North America	\$117,611	\$109,584	\$231,461	\$219,350
International	53,557	59,567	115,662	113,575
	\$171,168	\$169,151	\$347,123	\$332,925
Depreciation and amortization:				
North America	\$32,180	\$32,021	\$63,612	\$63,943
International	16,256	16,806	21,152	32,966
	\$48,436	\$48,827	\$84,764	\$96,909
Capital expenditures:				
North America	\$8,579	\$3,793	\$16,521	\$8,017
International	4,439	4,336	8,236	8,217
	\$13,018	\$8,129	\$24,757	\$16,234

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12. Commitments and Contingencies

In the ordinary course of business, the Company is involved in various pending or threatened legal actions. The Company has recorded reserves for certain legal proceedings. The amounts recorded are estimated and as additional information becomes available, the Company will reassess the potential liability related to legal actions and revise its estimate in the period that information becomes known. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

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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, 2015.

General Business

FleetCor is a leading independent global provider of fuel cards, commercial payment and data solutions, stored value solutions, and workforce payment products and services to businesses, retailers, commercial fleets, major oil companies, petroleum marketers and government entities in countries throughout North America, South America, Europe, Australia and New Zealand. Our payment programs enable our customers to better manage and control their commercial payments, card programs, and employee spending and provide card-accepting merchants with a high volume customer base that can increase their sales and customer loyalty. We also provide a suite of fleet related and workforce payment solution products, including a mobile telematics service, fleet maintenance management and employee benefit and transportation related payments. In 2015, we processed approximately 1.9 billion transactions on our proprietary networks and third-party networks (which includes approximately 1.3 billion transactions related to our Stored Value Solutions ("SVS") product, acquired with Comdata). We believe that our size and scale, geographic reach, advanced technology and our expansive suite of products, services, brands and proprietary networks contribute to our leading industry position.

We provide our payment products and services in a variety of combinations to create customized payment solutions for our customers and partners. We collectively refer to our suite of product offerings as workforce productivity enhancement products for commercial businesses. We sell a range of customized fleet and lodging payment programs directly and indirectly to our customers through partners, such as major oil companies, leasing companies and petroleum marketers. We refer to these major oil companies, leasing companies, petroleum marketers, value-added resellers (VARs) and other referral partners with whom we have strategic relationships as our "partners." We provide our customers with various card products that typically function like a charge card to purchase fuel, lodging, food, toll, transportation and related products and services at participating locations.

We support our products with specialized issuing, processing and information services that enable us to manage card accounts, facilitate the routing, authorization, clearing and settlement of transactions, and provide value-added functionality and data, including customizable card-level controls and productivity analysis tools. In order to deliver our payment programs and services and process transactions, we own and operate proprietary "closed-loop" networks through which we electronically connect to merchants and capture, analyze and report customized information in North America and internationally. We also use third-party networks to deliver our payment programs and services in order to broaden our card acceptance and use. To support our payment products, we also provide a range of services, such as issuing and processing, as well as specialized information services that provide our customers with value-added functionality and data. Our customers can use this data to track important business productivity metrics, combat fraud and employee misuse, streamline expense administration and lower overall workforce and fleet operating costs. Depending on our customer's and partner's needs, we provide these services in a variety of outsourced solutions ranging from a comprehensive "end-to-end" solution (encompassing issuing, processing and network services) to limited back office processing services.

Executive Overview

Segments

We operate in two segments, which we refer to as our North America and International segments. Our revenue is reported net of the wholesale cost for underlying products and services. In this report, we refer to this net revenue as

“revenue.” See “Results of Operations” for additional segment information.

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For the three and six months ended June 30, 2016 and 2015, our North America and International segments generated the following revenue:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015		2016	2015	
(dollars in millions)	Revenue, net	% of total revenues, net	% of total revenues, net	Revenue, net	% of total revenues, net	% of total revenues, net
North America	\$301.1	72.1 %	\$284.6	\$604.7	72.7 %	\$583.4
International	116.8	27.9 %	120.0	227.5	27.3 %	237.4
	\$417.9	100.0 %	\$404.6	\$832.2	100.0 %	\$820.8

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 six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except per share amounts)				
Revenues, net	\$417,905	\$404,605	\$832,167	\$820,771
Net income	\$114,185	\$98,678	\$224,157	\$192,831
Net income per diluted share	\$1.21	\$1.05	\$2.37	\$2.05

Sources of Revenue

Transactions. In both of our segments, we derive revenue from transactions. As illustrated in the diagram below, a transaction is defined as a purchase by a customer. Our customers include holders of our card products and those of our partners, for whom we manage card programs, members of our proprietary networks who are provided access to our products and services and commercial businesses to whom we provide workforce payment productivity solutions. Revenue from transactions is derived from our merchant and network relationships, as well as our customers and partners. Through our merchant and network relationships we primarily offer fuel cards, corporate cards, virtual cards, purchasing cards, T&E cards, gift cards, stored value payroll cards, vehicle maintenance, food, fuel, toll and transportation cards and vouchers and lodging services to our customers.

The following diagram illustrates a typical card transaction flow, but may also be applied to our vehicle maintenance, lodging and food, fuel, toll and transportation card and voucher products, substituting transactions for gallons. This representative model may not include all of our businesses.

Illustrative Transaction Flow

From our customers and partners, we derive revenue from a variety of program fees, including transaction fees, card fees, network fees and charges, which can be fixed fees, cost plus a mark-up or based on a percentage discount from retail prices. Our programs include other fees and charges associated with late payments and based on customer credit risk.

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From our merchant and network relationships, we derive revenue mostly from the difference between the price charged to a customer for a transaction and the price paid to the merchant or network for the same transaction, as well as network fees and charges in certain businesses. As illustrated in the table below, the price paid to a merchant or network may be calculated as (i) the merchant's wholesale cost of the product plus a markup; (ii) the transaction purchase price less a percentage discount; or (iii) the transaction purchase price less a fixed fee per unit.

The following table presents an illustrative revenue model for transactions with the merchant, which is primarily applicable to fuel based product transactions, but may also be applied to our vehicle maintenance, lodging and food, fuel, toll and transportation card and voucher products, substituting transactions for gallons. This representative model may not include all of our businesses.

Illustrative Revenue Model for Fuel Purchases

(unit of one gallon)

Illustrative

Revenue Model	Merchant Payment Methods						
Retail Price	\$3.00	i) Cost Plus Mark-up:		ii) Percentage Discount:		iii) Fixed Fee:	
Wholesale Cost	(2.86)	Wholesale Cost	\$2.86	Retail Price	\$3.00	Retail Price	\$3.00
		Mark-up	0.05	Discount (3%)	(0.09)	Fixed Fee	(0.09)
FleetCor Revenue	\$0.14						
Merchant Commission	\$(0.05)	Price Paid to Merchant	\$2.91	Price Paid to Merchant	\$2.91	Price Paid to Merchant	\$2.91
Price Paid to Merchant	\$2.91						

Set forth below are our sources of revenue for the three and six months ended June 30, 2016 and 2015, expressed as a percentage of consolidated revenues:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Revenue from customers and partners	54.2 %	52.7 %	54.4 %	52.1 %
Revenue from merchants and networks	45.8 %	47.3 %	45.6 %	47.9 %
	100.0%	100.0%	100.0%	100.0%
Revenue directly tied to fuel-price spreads ¹	9.8 %	10.3 %	11.2 %	12.0 %
Revenue directly influenced by the absolute price of fuel ¹	15.0 %	16.5 %	14.4 %	15.6 %
Revenue from program fees, late fees, interest and other	75.2 %	73.2 %	74.4 %	72.4 %
	100.0%	100.0%	100.0%	100.0%

¹ Although we cannot precisely calculate the absolute impact of fuel price spreads and the absolute price of fuel on our consolidated revenues, we believe these percentages approximate their relative impacts.

Revenue per transaction. Set forth below is revenue per transaction information for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Transactions (in millions) ²				
North America	411.6	389.4	846.1	774.2
International	53.4	45.7	106.0	92.5
Total transactions	465.0	435.1	952.0	866.6

Revenue per transaction				
North America	\$0.73	\$0.73	\$0.71	\$0.75
International	2.19	2.63	2.15	2.57
Consolidated revenue per transaction	0.90	0.93	0.87	0.95
Consolidated adjusted revenue per transaction ³	0.85	0.88	0.82	0.89

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SVS, Stored Value Solutions, is our global provider of gift card and stored value solutions, which is part of the Comdata business acquired in November 2014, and has a low revenue per transaction product. Transactions in the three month periods ended June 30, 2016 and 2015 include approximately 313 million and 296 million transactions, respectively, and approximately 655 million and 597 million transactions in the six months ended June 30, 2016 and 2015, respectively.

Adjusted revenues is a non-GAAP financial measure defined as revenues, net less merchant commissions. We believe this measure is a more effective way to evaluate our revenue performance. We use adjusted revenues as a basis to evaluate our revenues, net of the commissions that are paid to merchants to participate in our card programs. Adjusted revenues is a supplemental non-GAAP financial measure of operating performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.”

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. Revenue per transaction per customer changes as the level of services we provide to a customer increases or decreases, as macroeconomic factors change and as adjustments are made to merchant and customer rates. See “Results of Operations” for further discussion of transaction volumes and revenue per transaction.

For the three months ended June 30, 2016, transaction volumes increased 6.9% to 465.0 million transactions from 435.1 million transactions in the comparable period of 2015. For the six months ended June 30, 2016, transaction volumes increased 9.9% to 952.0 million from 866.6 million transactions in the comparable period of 2015. North American segment transactions grew 5.7% and 9.3% in the three and six months ended June 30, 2016, respectively, over the comparable periods in 2015, primarily due to growth in our MasterCard, SVS and corporate payments businesses. Transaction volumes in our international segment increased by 16.9% and 14.6% in the three and six months ended June 30, 2016, respectively, over the comparable periods in 2015, primarily due to the addition of new Shell markets in 2015 and 2016 and additional transactions from a small acquisition in Brazil in the first quarter of 2016.

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.

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.

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 unusual to the period and presented separately.

Equity method investment (income) loss—Our equity method investment results relate to our minority interest in Masternaut, a provider of telematics solutions to commercial fleets in Europe, which we account for using the equity method.

- Other expense, net—Our other (income) expense, net includes foreign currency transaction gains or losses, proceeds/costs from the sale of assets and other miscellaneous operating costs and revenue.

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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.

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 in the United States and internationally. Our worldwide effective tax rate is lower than the U.S. statutory rate of 35%, due primarily to lower rates in foreign jurisdictions and foreign-sourced non-taxable income.

Adjusted Revenues, Adjusted Net Income and Adjusted Net Income Per Diluted Share. Set forth below are adjusted revenues, adjusted net income and adjusted net income per diluted share for the three and six months ended June 30, 2016 and 2015.

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Adjusted revenues	\$395,597	\$382,880	\$781,626	\$771,720
Adjusted net income	\$147,101	\$138,898	\$291,354	\$274,854
Adjusted net income per diluted share	\$1.56	\$1.48	\$3.09	\$2.92

We use adjusted revenues as a basis to evaluate our revenues, net of the commissions that are paid to merchants that participate in certain of our card programs. The commissions paid to merchants can vary when market spreads fluctuate in much the same way as revenues are impacted when market spreads fluctuate. Thus, we believe this is a more effective way to evaluate our revenue performance on a consistent basis. 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. Adjusted revenues, 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.”

Factors and Trends Impacting our Business

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

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 65 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.

• Global economic environment—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 and the credit risk of our customers. 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,

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Mexican peso, New Zealand dollar and Russian ruble, relative to the U.S. dollar. Approximately 73% and 71% of our revenue in the six months ended June 30, 2016 and 2015, respectively, was derived in U.S. dollars and was not affected by foreign currency exchange rates. See “Results of Operations” for information related to foreign currency impact on our total revenue, net.

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.

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Results of Operations

Three months ended June 30, 2016 compared to the three months ended June 30, 2015

The following table sets forth selected consolidated statement of income data for the three months ended June 30, 2016 and 2015 (in thousands).

	Three Months Ended June 30, 2016	% of total revenue		Three Months Ended June 30, 2015	% of total revenue	Increase (decrease)	% Change	
Revenues, net:								
North America	\$301,126	72.1 %		\$284,576	70.3 %	\$16,550	5.8	%
International	116,779	27.9 %		120,029	29.7 %	(3,250)	(2.7)	%
Total revenues, net	417,905	100.0 %		404,605	100.0 %	13,300	3.3	%
Consolidated operating expenses:								
Merchant commissions	22,308	5.3 %		21,725	5.4 %	583	2.7	%
Processing	80,691	19.3 %		74,564	18.4 %	6,127	8.2	%
Selling	31,947	7.6 %		27,297	6.7 %	4,650	17.0	%
General and administrative	63,586	15.2 %		63,388	15.7 %	198	0.3	%
Depreciation and amortization	48,436	11.6 %		48,827	12.1 %	(391)	(0.8)	%
Other operating, net	(231)	(0.1)%						