

EVERTEC, Inc.
Form 10-Q
November 03, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 September 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 001-35872

EVERTEC, Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico
(State or other jurisdiction of
incorporation or organization)

66-0783622
(I.R.S. employer
identification number)

Cupey Center Building, Road 176, Kilometer 1.3,

San Juan, Puerto Rico
(Address of principal executive offices)
(787) 759-9999

00926
(Zip Code)

(Registrant's telephone number, including area code)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 (as defined 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.

At October 28, 2016, there were 73,256,772 outstanding shares of common stock of EVERTEC, Inc.

Table of Contents

Explanatory Note

This Quarterly Report on Form 10-Q for the period ended September 30, 2016 (this Form 10-Q) is being filed by EVERTEC, Inc. (EVERTEC , we, us , our , our Company and the Company) subsequent to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the Securities and Exchange Commission (the SEC) on May 26, 2016 (the 2015 Form 10-K), to meet the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act).

On March 17, 2016, Management and the Audit Committee of our Board of Directors concluded that our Consolidated Financial Statements for the years ended December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, and as of the end of and for each quarterly period in 2014 and 2015 should no longer be relied upon and should be restated.

The 2015 Form 10-K includes restated audited results as of and for the years ended December 31, 2014 and 2013, as well as restated unaudited condensed consolidated financial information for the quarterly periods in 2015 and 2014, which we refer to as the Restatement. Our consolidated financial statements as of and for the years ended December 31, 2014 and 2013 included in the 2015 Form 10-K have been restated from the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

The Restatement corrects material errors involved with the accounting for tax positions taken in the 2010 tax year. The Restatement corrects an error in the recognition of a deferred tax asset originating from 2010 tax deductions and the corresponding net operating loss for transaction costs that were based on an uncertain tax position and corrects an error related to the accounting for 2010 debt issuance cost tax deductions based on an uncertain tax position that affected book tax temporary differences and differences in the applicable tax rates over the affected period. These differences impacted deferred tax liability calculations over the affected period. The Restatement also establishes a liability for potential tax liabilities including penalties and interest related to these uncertain tax positions. In the third quarter of 2015, the liability for exposure to potential tax, interest and penalties with respect to the referenced 2010 debt issuance cost deductions was reversed in full as the related statute of limitations expired in such period. This tax liability reversal triggered recognition of a tax benefit of \$11.8 million in the third quarter of 2015.

The Restatement also corrects other miscellaneous insignificant accounting errors. These errors, individually and in the aggregate, would not have required a restatement.

The interim unaudited financial information for the three and nine month periods ended September 30, 2015 contained herein are presented on a restated basis, consistent with the restated financial statements for the years ended December 31, 2014 and 2013 contained in the 2015 Form 10-K, and reflects corrections that were made during the Restatement process impacting such periods.

For more information on the matters that led to the Restatement and data previously reported, see Note 2 Restatement of Previously Reported Financial Information to our unaudited consolidated condensed financial statements contained herein.

Table of Contents**TABLE OF CONTENTS**

	Page
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Unaudited Consolidated Condensed Balance Sheets as of September 30, 2016 and December 31, 2015</u>	1
<u>Unaudited Consolidated Condensed Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 (As restated)</u>	2
<u>Unaudited Consolidated Condensed Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2016</u>	3
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (As restated)</u>	4
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	34
Part II. OTHER INFORMATION	35
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity in Securities and Use of Proceeds</u>	35
Item 3. <u>Defaults Upon Senior Securities</u>	35
Item 4. <u>Mine Safety Disclosures</u>	35
Item 5. <u>Other Information</u>	35
Item 6. <u>Exhibits</u>	36
<u>SIGNATURES</u>	37

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of, and subject to the protection of, the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as believes, expects, may, estimates, will, should, plans or anticipates negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. Among the factors that significantly impact our business and could impact our business in the future are:

the effect of the Restatement of our previously issued financial results for the years ended December 31, 2014 and 2013 as described in Note 2 to the quarterly unaudited financial statements, and any claims, investigations or proceedings arising as a result;

the effectiveness of our efforts to remediate the material weakness in our internal controls over financial reporting described in Item 4 of this Quarterly Report and our ability to maintain effective internal controls and procedures in the future;

our reliance on our relationship with Popular, Inc. (Popular) for a significant portion of our revenues and with Banco Popular de Puerto Rico (Banco Popular), Popular's principal banking subsidiary, to grow our merchant acquiring business;

for as long as we are deemed to be controlled by Popular, we will be subject to supervision and examination by U.S. federal banking regulators, and our activities will be limited to those permissible for Popular. Furthermore, as a technology service provider to regulated financial institutions, we are subject to additional regulatory oversight and examination. As a regulated institution, we most likely will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition;

our ability to renew our client contracts on terms favorable to us;

our dependence on our processing systems, technology infrastructure, security systems and fraudulent payment detection systems, as well as on our personnel and certain third parties with whom we do business, and the risks to our business if our systems are hacked or otherwise compromised;

our ability to develop, install and adopt new software, technology and computing systems;

a decreased client base due to consolidations and failures in the financial services industry;

the credit risk of our merchant clients, for which we may also be liable;

the continuing market position of the ATH network;

a reduction in consumer confidence, whether as a result of a global economic downturn or otherwise, which leads to a decrease in consumer spending;

our dependence on credit card associations, including any adverse changes in credit card association or network rules or fees;

changes in the regulatory environment and changes in international, legal, political, administrative or economic conditions;

the geographical concentration of our business in Puerto Rico, including our business with the government of Puerto Rico, which is facing severe fiscal challenges;

additional adverse changes in the general economic conditions in Puerto Rico, including the continued migration of Puerto Ricans to the U.S. mainland, which could negatively affect our customer base, general consumer spending, our cost of operations and our ability to hire and retain qualified employees;

operating an international business in multiple regions with potential political and economic instability, including Latin America;

our ability to execute our geographic expansion and acquisition strategies;

our ability to protect our intellectual property rights against infringement and to defend ourselves against claims of infringement brought by third parties;

our ability to recruit and retain the qualified personnel necessary to operate our business;

our ability to comply with U.S. federal, state, local and foreign regulatory requirements;

evolving industry standards and adverse changes in global economic, political and other conditions;

our high level of indebtedness and restrictions contained in our debt agreements, including the senior secured credit facilities, as well as debt that could be incurred in the future;

our ability to prevent a cybersecurity attack or breach in our information security;

Table of Contents

our ability to generate sufficient cash to service our indebtedness and to generate future profits;

our ability to refinance our debt;

our exposure to climate risks in Puerto Rico;

the risk that the counterparty to our interest rate swap agreement fails to satisfy its obligations under the agreement, and

other factors discussed in this Report, included in the section titled Risk Factors.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. The Company does not undertake, and specifically disclaims any obligation, to update any of the forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws. Investors should refer to the Company's Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K) for a discussion of factors that could cause events to differ from those suggested by the forward-looking statements, including factors set forth in the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations .

Table of Contents**EVERTEC, Inc. Unaudited Consolidated Condensed Balance Sheets****(Dollar amounts in thousands, except for share information)**

	September 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash	\$ 44,985	\$ 28,747
Restricted cash	8,281	11,818
Accounts receivable, net	67,453	73,715
Deferred tax asset		1,685
Prepaid expenses and other assets	22,625	18,758
Total current assets	143,344	134,723
Investment in equity investee	12,247	12,264
Property and equipment, net	37,697	34,128
Goodwill	371,385	368,133
Other intangible assets, net	297,870	312,059
Long-term deferred tax asset	615	
Other long-term assets	3,883	2,347
Total assets	\$ 867,041	\$ 863,654
Liabilities and stockholders equity		
Current Liabilities:		
Accrued liabilities	\$ 37,447	\$ 37,308
Accounts payable	27,169	21,216
Unearned income	6,404	2,877
Income tax payable	2,851	1,350
Current portion of long-term debt	28,375	22,750
Short-term borrowings	16,000	17,000
Total current liabilities	118,246	102,501
Long-term debt	597,155	619,297
Long-term deferred tax liability	16,648	20,614
Unearned income - long term	13,952	10,939
Other long-term liabilities	15,393	12,089
Total liabilities	761,394	765,440

Commitments and contingencies (Note 12)

Stockholders equity

Preferred stock, par value \$0.01; 2,000,000 shares authorized; none issued

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Common stock, par value \$0.01; 206,000,000 shares authorized; 73,256,772 shares issued and outstanding at September 30, 2016 (December 31, 2015 - 74,988,210)	732	750
Additional paid-in capital		9,718
Accumulated earnings	116,123	95,328
Accumulated other comprehensive loss, net of tax	(14,666)	(7,582)
Total EVERTEC, Inc stockholders equity	102,189	98,214
Non-controlling interest	3,458	
Total equity	105,647	98,214
Total liabilities and equity	\$ 867,041	\$ 863,654

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents**EVERTEC, Inc. Unaudited Consolidated Condensed Statements of Income and Comprehensive Income****(Dollar amounts in thousands, except per share information)**

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
		(As restated)		(As restated)
Revenues				
Merchant acquiring, net	\$ 21,970	\$ 20,784	\$ 68,137	\$ 62,041
Payment processing (from affiliates: \$7,913, \$7,664, \$23,718 and \$22,680)	27,584	27,502	82,716	80,638
Business solutions (from affiliates: \$35,109, \$34,440, \$106,068 and \$103,795)	44,913	44,655	136,765	135,165
Total revenues	94,467	92,941	287,618	277,844
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	41,753	44,141	127,127	125,095
Selling, general and administrative expenses	10,818	10,392	34,226	27,043
Depreciation and amortization	14,889	16,934	44,500	49,767
Total operating costs and expenses	67,460	71,467	205,853	201,905
Income from operations	27,007	21,474	81,765	75,939
Non-operating income (expenses)				
Interest income	87	140	266	371
Interest expense	(6,276)	(6,003)	(18,292)	(18,414)
Earnings (losses) of equity method investment	43	(3)	(58)	196
Other income	489	381	1,747	1,430
Total non-operating expenses	(5,657)	(5,485)	(16,337)	(16,417)
Income before income taxes	21,350	15,989	65,428	59,522
Income tax expense (benefit)	1,639	(9,347)	6,316	(3,926)
Net income	19,711	25,336	59,112	63,448
Less: Net income attributable to non-controlling interest	31		49	
Net income attributable to EVERTEC, Inc. s common stockholders	19,680	25,336	59,063	63,448

Other comprehensive (loss) income, net of tax of \$(6), \$3, \$439 and \$37				
Foreign currency translation adjustments	(1,041)	84	(2,620)	473
Gain (loss) on cash flow hedge	83		(4,464)	
Total comprehensive income attributable to EVERTEC, Inc. s common stockholders	\$ 18,722	\$ 25,420	\$ 51,979	\$ 63,921
Net income per common share - basic attributable to EVERTEC, Inc. s common stockholders				
	\$ 0.27	\$ 0.33	\$ 0.79	\$ 0.82
Net income per common share - diluted attributable to EVERTEC, Inc. s common stockholders				
	\$ 0.26	\$ 0.33	\$ 0.79	\$ 0.82
Cash dividends declared per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents**EVERTEC, Inc. Unaudited Consolidated Condensed Statement of Changes in Stockholders' Equity****(Dollar amounts in thousands, except share information)**

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Comprehensive Loss	Other Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2015	74,988,210	\$ 750	\$ 9,718	\$ 95,328	\$ (7,582)	\$	\$ 98,214
Share-based compensation recognized			4,569				4,569
Repurchase of common stock	(1,878,664)	(19)	(13,781)	(15,896)			(29,696)
Restricted stock units delivered, net of cashless	138,833	1	(445)				(444)
Stock options exercised, net of cashless	8,393		(79)				(79)
Net income				59,063		49	59,112
Cash dividends declared on common stock				(22,372)			(22,372)
Non-controlling interest on acquisition						3,409	3,409
Dividend reversal for forfeited options			18				18
Other comprehensive loss					(7,084)		(7,084)
Balance at September 30, 2016	73,256,772	732		116,123	(14,666)	\$ 3,458	\$ 105,647

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents**EVERTEC, Inc. Unaudited Consolidated Condensed Statements of Cash Flows****(Dollar amounts in thousands)**

	Nine months ended September 30,	
	2016	2015
		(As restated)
Cash flows from operating activities		
Net income	\$ 59,112	\$ 63,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,500	49,767
Amortization of debt issue costs and accretion of discount	2,965	2,488
Provision for doubtful accounts and sundry losses	1,525	1,302
Deferred tax benefit	(2,458)	(2,166)
Share-based compensation	4,569	3,748
Unrealized gain on indemnification assets		(14)
Loss on disposition of property and equipment and other intangibles	112	124
Losses (earnings) of equity method investment	58	(196)
Decrease (increase) in assets:		
Accounts receivable, net	7,358	3,745
Prepaid expenses and other assets	(3,623)	2,630
Other long-term assets	(1,163)	199
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	3,686	8,982
Income tax payable	1,501	(1,894)
Unearned income	6,541	1,364
Other long-term liabilities	(82)	(9,203)
Total adjustments	65,489	60,876
Net cash provided by operating activities	124,601	124,324
Cash flows from investing activities		
Net decrease (increase) in restricted cash	3,536	(7,828)
Additions to software	(17,469)	(13,462)
Acquisitions, net of cash acquired	(5,947)	
Property and equipment acquired	(14,016)	(15,643)
Proceeds from sales of property and equipment	44	14
Net cash used in investing activities	(33,852)	(36,919)
Cash flows from financing activities		
Statutory minimum withholding taxes paid on share-based compensation	(522)	(31)

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Net decrease in short-term borrowings	(1,000)	(5,000)
Repayment of short-term borrowing for purchase of equipment and software	(1,209)	(1,542)
Dividends paid	(22,372)	(23,322)
Credit amendment fees	(3,587)	
Repurchase of common stock	(29,696)	(34,973)
Repayment of long-term debt	(16,125)	(14,250)
Net cash used in financing activities	(74,511)	(79,118)
Net increase in cash	16,238	8,287
Cash at beginning of the period	28,747	32,114
Cash at end of the period	\$ 44,985	\$ 40,401
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 12,014	\$ 16,838
Cash paid for income taxes	4,855	4,600
Supplemental disclosure of non-cash activities:		
Foreign currency translation adjustments	\$ (2,620)	\$ 473
Payable due to vendor related to software acquired	2,800	1,125

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents

Notes to Unaudited Consolidated Condensed Financial Statements

<u>Note 1</u>	<u>The Company and Basis of Presentation</u>	6
<u>Note 2</u>	<u>Restatement of Previously Reported Financial Information</u>	6
<u>Note 3</u>	<u>Recent Accounting Pronouncements</u>	9
<u>Note 4</u>	<u>Property and Equipment, net</u>	10
<u>Note 5</u>	<u>Goodwill and Other Intangible Assets</u>	10
<u>Note 6</u>	<u>Debt and Short-Term Borrowings</u>	11
<u>Note 7</u>	<u>Financial Instruments and Fair Value Measurements</u>	13
<u>Note 8</u>	<u>Equity</u>	15
<u>Note 9</u>	<u>Share-based Compensation</u>	15
<u>Note 10</u>	<u>Income Tax</u>	16
<u>Note 11</u>	<u>Net Income Per Common Share</u>	17
<u>Note 12</u>	<u>Commitments and Contingencies</u>	18
<u>Note 13</u>	<u>Related Party Transactions</u>	18
<u>Note 14</u>	<u>Segment Information</u>	19
<u>Note 15</u>	<u>Subsequent Events</u>	20

Table of Contents

Note 1 The Company and Basis of Presentation

The Company

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the Company, or EVERTEC) is a leading full-service transaction processing business in Latin America and the Caribbean. The Company is based in Puerto Rico and provides a broad range of merchant acquiring, payment processing and business process management services across 18 countries in the region. EVERTEC owns and operates the ATH network, one of the leading automated teller machine (ATM) and personal identification number (PIN) debit networks in Latin America. In addition, EVERTEC provides a comprehensive suite of services for core bank processing, cash processing and technology outsourcing in the regions the Company serves. EVERTEC serves a broad and diversified customer base of leading financial institutions, merchants, corporations and government agencies with solutions that are essential to their operations, enabling them to issue, process and accept transactions securely.

Basis of Presentation

The unaudited consolidated condensed financial statements of EVERTEC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the accompanying unaudited consolidated condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited consolidated condensed financial statements. Actual results could differ from these estimates.

Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these consolidated condensed financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2015, included in the Company's 2015 Form 10-K. In the opinion of management, the accompanying consolidated condensed financial statements, prepared in accordance with GAAP, contain all adjustments necessary for a fair presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2 Restatement of Previously Issued Financial Information

This Note 2 to the unaudited consolidated condensed financial statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement for the quarter and nine month period ended September 30, 2015, which is referred to as the Restatement.

The Restatement corrects material errors involved with the accounting for tax positions taken in the 2010 tax year. The Restatement corrects an error in the recognition of a deferred tax asset originating from 2010 tax deductions and the corresponding net operating loss for transaction costs that were based on an uncertain tax position and corrects an error related to the accounting for 2010 debt issuance cost tax deductions based on an uncertain tax position that affected book tax temporary differences and differences in the applicable tax rates over the affected period. These differences impacted deferred tax liability calculations over the affected period. The Restatement also establishes a liability for potential tax liabilities including penalties and interest related to these uncertain tax positions. In the third quarter of 2015, the liability for exposure to potential tax, interest and penalties with respect to the referenced 2010 debt issuance cost deductions was reversed in full as the related statute of limitations expired in such period. This tax liability reversal triggered recognition of a tax benefit of \$11.8 million in the third quarter of 2015.

The Restatement also corrects other miscellaneous insignificant accounting errors. These errors, individually and in the aggregate, would not have required a restatement.

Restatement Background - Restatement adjustments needed to correct errors in accounting for 2010 uncertain tax positions

During the preparation of the consolidated financial statements for the year ended December 31, 2015, Management became aware of a potential misapplication of *Accounting Standards Codification Topic 740 Income Taxes* (ASC 740) in relation to the accounting for the tax benefit of certain 2010 transaction costs associated with the acquisition in September 2010 when Apollo acquired a 51% indirect ownership interest in EVERTEC as part of a merger (the Merger). Certain transaction costs were deducted for tax purposes, increasing the Company's net operating loss and the corresponding deferred tax asset (DTA) by \$14.3 million at December 31, 2010. In accordance with ASC 740 if a tax deduction is not more likely than not of being sustained upon examination by the tax authority, based on its technical merits, a liability must be recognized to reflect the potential obligation to the taxing authority, including penalties and interest. Upon review, Management determined that its original conclusion that the tax benefit of the 2010 transaction cost tax deductions was not an uncertain tax position was incorrect. This erroneous conclusion created a material error requiring a restatement of prior periods.

Table of Contents

As part of its restatement preparation and diligence, Management reviewed the accounting for tax positions taken with respect to the amount and timing of tax deductions for 2010 debt issuance costs. Those costs were deducted entirely in 2010. Upon review, Management concluded that the immediate deduction of these costs represented an uncertain tax position. As the deduction was not accounted for as an uncertain tax position, Management concluded there was an error that required correction. In order to correct this error, Management determined the portion of the debt issuance costs that were more likely than not of being allowed as a deduction in 2010 and calculated the resulting liability for unrecognized tax benefits as of December 31, 2010 and subsequent periods. A liability was established for potential tax liabilities including penalties and interest related to the uncertain tax position over the period of exposure. In the third quarter of 2015, the liability for exposure to potential tax, interest and penalties with respect to the 2010 debt issuance cost deduction was reversed in full as the related statute of limitations expired in such period. This tax liability reversal triggered recognition of a tax benefit of \$11.8 million in the third quarter of 2015.

The Restatement reflects the accounting for the referenced 2010 tax deductions as uncertain tax positions following ASC 740 and its impact on the affected years through 2014.

Other insignificant corrective adjustments

In addition to the above Restatement adjustments, Management elected to correct previously uncorrected misstatements included within Management's Staff Accounting Bulletin No. 99 (SAB 99) analysis wherein individual insignificant adjustments are tracked, aggregated and measured for purposes of determining whether in the aggregate such errors are material for the years ended December 31, 2014 and 2013 and for adjustments that affect the beginning balance as of January 1, 2013.

A brief summary of the restatement adjustments and the referenced SAB 99 corrective adjustments and other insignificant miscellaneous adjustments is described below and reflected and quantified, as applicable, in the table below. The adjustments are cross-referenced to the table below.

Restatement Adjustments (a)

Accounting for uncertain tax positions related to 2010 tax deductions The Company corrected an error to reflect an uncertain tax position with respect to a 2010 tax deduction for certain transaction costs that increased the net operating loss and related DTA. The tax position created a \$14.3 million increase to the deferred tax asset as of December 31, 2010. The deferred tax asset was based on a tax position that did not meet the required recognition threshold under ASC 740 of more likely than not of being sustained upon examination. Thus, the Company has derecognized the deferred tax asset in accordance with ASC 740 and, in addition, established a reserve for the exposure to potential penalties and interest. The Company corrected an error pertaining to the accounting for a 2010 tax deduction for debt issuance costs, the timing of which constituted an uncertain tax position. To correct the error over the restatement period, the Company established a reserve for potential penalties and interest due to the premature deduction of the costs. This reserve was reversed in the third quarter of 2015 as the statute of limitations lapsed in such period. In addition the Company calculated the tax impact of the other corrective adjustments related to revenue and expenses detailed below.

Other insignificant corrective adjustments

1. *Revenue recognition* The Company corrected errors related to revenue recognition of certain multiple element arrangements, by deferring certain revenues and recognizing such revenues over the expected

customer life in accordance with ASC 605-25, Revenue Recognition-Multiple Element Arrangements.

2. *Cost of revenues and intangible assets* The Company corrected certain errors related to the timing of capitalization of internally developed software.
3. *Cost of revenues and deferred costs* The Company corrected the timing of expense recognition pertaining to certain completed projects for which costs had been previously deferred and not timely recognized on the income statement at completion.
4. *Compensation expense* The Company corrected an error related to the timing of recognition of certain termination agreements with former employees.
5. *Selling, general and administrative expenses and Cost of revenues* The Company corrected the timing of recognition of certain adjustments to loss exposure for medical insurance.

Table of Contents

The table below summarizes the effects of the Restatement adjustments and reclassifications on the unaudited consolidated condensed statement of income for the quarter and nine month period ended September 30, 2015:

	Three month period ended September 30, 2015				
	As previously reported	Restatement Adjustment	Other insignificant corrective adjustments	As restated	Reference
Revenues					
Merchant Acquiring, net	\$ 20,784	\$	\$	\$ 20,784	
Payment Processing	27,502			27,502	
Business Solutions	44,492		163	44,655	1
Total revenues	92,778		163	92,941	
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	44,821		(680)	44,141	3, 4, 5
Selling, general and administrative expenses	10,428		(36)	10,392	5
Depreciation and amortization	16,934			16,934	
Total operating costs and expenses	72,183		(716)	71,467	
Income from operations	20,595		879	21,474	
Non-operating income (expenses)					
Interest income	140			140	
Interest expense	(6,003)			(6,003)	
Losses of equity method investment	(3)			(3)	
Other income	381			381	
Total non-operating expenses	(5,485)			(5,485)	
Income before income taxes	15,110		879	15,989	
Income tax expense (benefit)	1,687	(11,034)		(9,347)	a
Net income	13,423	11,034	879	25,336	
Other comprehensive income, net of tax					
Foreign currency translation adjustments	84			84	

Total comprehensive income	\$ 13,507	\$ 11,034	\$ 879	\$ 25,420
Net income per common share - basic	\$ 0.17	\$ 0.15	\$ 0.01	\$ 0.33
Net income per common share - diluted	\$ 0.17	\$ 0.15	\$ 0.01	\$ 0.33

Nine month period ended September 30, 2015

<i>(Dollar amounts in thousands)</i>	As previously reported	Restatement Adjustment	Other insignificant corrective adjustments	As restated	Reference
Revenues					
Merchant Acquiring, net	\$ 62,041	\$	\$	\$ 62,041	
Payment Processing	80,638			80,638	
Business Solutions	134,672		493	135,165	1
Total revenues	277,351		493	277,844	
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	125,280		(185)	125,095	2, 3, 4, 5
Selling, general and administrative expenses	27,079		(36)	27,043	5
Depreciation and amortization	49,767			49,767	
Total operating costs and expenses	202,126		(221)	201,905	
Income from operations	75,225		714	75,939	
Non-operating income (expenses)					
Interest income	371			371	
Interest expense	(18,414)			(18,414)	
Earnings of equity method investment	196			196	
Other income	1,430			1,430	
Total non-operating expenses	(16,417)			(16,417)	
Income before income taxes	58,808		714	59,522	
Income tax expense	6,053	(9,979)		(3,926)	a
Net income	52,755	9,979	714	63,448	
Other comprehensive income, net of tax	473			473	

Foreign currency translation
adjustments

Total comprehensive income	\$ 53,228	\$ 9,979	\$ 714	\$ 63,921
-----------------------------------	-----------	----------	--------	-----------

Net income per common share - basic	\$ 0.68	\$ 0.13	\$ 0.01	\$ 0.82
--	---------	---------	---------	---------

Net income per common share - diluted	\$ 0.68	\$ 0.13	\$ 0.01	\$ 0.82
--	---------	---------	---------	---------

Table of Contents

The Restatement adjustments affecting the unaudited consolidated condensed statement of cash flows for the nine month period ended September 30, 2015 are insignificant and predominantly included in the Company's net income from operations, offset by non-cash adjustments to net income and changes in operating assets and liabilities. The non-cash adjustments include adjustments to deferred taxes and the other corrective adjustments described in the table above and in Note 1 to the Audited Consolidated Financial Statements included in the 2015 Form 10-K. There were no significant adjustments related to cash used in investing and financing activities.

Note 3 Recent Accounting Pronouncements*Recent Accounting Pronouncements*

The Financial Accounting Standards Board (FASB) has issued the following accounting pronouncements and guidance relevant to the Company's operations:

In August 2016, the FASB issued updated guidance for the classification of certain cash receipts and cash payments on the statement of cash flows. The amendments in this update provide specific guidance for the classification of eight issues: debt prepayment or extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of an insurance claim; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and applications of the predominance principle. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, if any.

In October 2016, the FASB issued updated guidance for tax treatment of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The Board decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this Update do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in this Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In October 2016, the FASB issued updated guidance for the consolidation of variable interest entities (VIEs) for which interests are held through related parties that are under common control. The amendments in this Update affect

reporting entities that are required to evaluate whether they should consolidate a VIE within the Variable Interest Entities Subsections of Subtopic 810-10, Consolidation Overall, in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether a reporting entity is the primary beneficiary of a VIE by changing how a reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, if any.

Table of Contents**Note 4 Property and Equipment, net**

Property and equipment, net consists of the following:

<i>(Dollar amounts in thousands)</i>	Useful life	September 30, 2016	December 31, 2015
	in years		
Buildings	30	\$ 1,564	\$ 1,606
Data processing equipment	3 - 5	107,969	94,523
Furniture and equipment	3 - 20	7,989	8,170
Leasehold improvements	5 -10	3,937	3,649
		121,459	107,948
Less - accumulated depreciation and amortization		(85,149)	(75,244)
Depreciable assets, net		36,310	32,704
Land		1,387	1,424
Property and equipment, net		\$ 37,697	\$ 34,128

Depreciation and amortization expense related to property and equipment for the three and nine months ended September 30, 2016 amounted to \$3.7 million and \$10.5 million, respectively, compared to \$3.9 million and \$11.3 million, respectively, for the same periods in 2015.

Note 5 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill, allocated by reportable segments, were as follows (See Note 13):

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Total
Balance at December 31, 2015	\$ 138,121	\$ 183,496	\$ 46,516	\$ 368,133
Goodwill attributable to acquisition		4,991		4,991
Foreign currency translation adjustments		(1,438)	(301)	(1,739)
Balance at September 30, 2016	\$ 138,121	\$ 187,049	\$ 46,215	\$ 371,385

Goodwill is tested for impairment on an annual basis, or more often if events or changes in circumstances indicate there may be impairment. The goodwill impairment test is a two-step process at each reporting unit level. The first step (Step 1) compares the estimated fair value of the reporting units to their carrying values, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second step of the impairment test is unnecessary. If needed, the second step (Step 2) consists of comparing the implied fair value of the reporting units with the carrying amount of that goodwill. There were no triggering events or changes in circumstances that, subsequent to the impairment test, would have required an additional impairment evaluation. No impairment losses were recognized for the nine months ended September 30, 2016 or 2015.

Table of Contents

The carrying amount of other intangible assets at September 30, 2016 and December 31, 2015 was as follows:

<i>(Dollar amounts in thousands)</i>	Useful life in years	Gross amount	September 30, 2016	
			Accumulated amortization	Net carrying amount
Customer relationships	10 - 14	\$ 325,384	\$ (135,855)	\$ 189,529
Trademark	10 - 15	39,950	(20,784)	19,166
Software packages	3 - 10	172,628	(117,376)	55,252
Non-compete agreement	15	56,539	(22,616)	33,923
Other intangible assets, net		\$ 594,501	\$ (296,631)	\$ 297,870

<i>(Dollar amounts in thousands)</i>	Useful life in years	Gross amount	December 31, 2015	
			Accumulated amortization	Net carrying amount
Customer relationships	10 - 14	\$ 322,632	\$ (117,963)	\$ 204,669
Trademark	10 - 15	39,950	(18,186)	21,764
Software packages	3 - 10	155,611	(106,735)	48,876
Non-compete agreement	15	56,539	(19,789)	36,750
Other intangible assets, net		\$ 574,732	\$ (262,673)	\$ 312,059

For the three and nine months ended September 30, 2016, the Company recorded amortization expense related to other intangibles of \$11.3 million and \$34.0 million, respectively, compared to \$13.0 million and \$38.4 million for the corresponding 2015 periods.

The estimated amortization expense of the balances outstanding at September 30, 2016 for the next five years is as follows:

<i>(Dollar amounts in thousands)</i>	
Remaining 2016	\$ 12,105
2017	42,635
2018	39,125
2019	36,060
2020	33,140

Note 6 Debt and Short-Term Borrowings

Total debt at September 30, 2016 and December 31, 2015 follows:

<i>(Dollar amounts in thousands)</i>	September 30, 2016	December 31, 2015
--------------------------------------	--------------------	-------------------

Senior Secured Credit Facility (Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate (LIBOR) plus applicable margin ⁽¹⁾⁽³⁾)	\$ 247,032	\$ 260,324
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR Rate plus applicable margin ⁽²⁾⁽³⁾)	378,498	381,723
Senior Secured Revolving Credit Facility expiring on April 17, 2018 paying interest at a variable interest rate	16,000	17,000
Note Payable due on October 1, 2017 ⁽³⁾	1,892	2,967
Note Payable due on July 31, 2017 ⁽³⁾	349	685
Note Payable due on April 30, 2021 ⁽³⁾	559	
Total debt	\$ 644,330	\$ 662,699

(1) Applicable margin of 2.25% at September 30, 2016 and December 31, 2015.

(2) Subject to a minimum rate (LIBOR floor) of 0.75% plus applicable margin of 2.50% at September 30, 2016 and December 31, 2015.

(3) Net of unaccreted discount and unamortized debt issue costs.

Table of Contents*Senior Secured Credit Facilities**Term A Loan*

As of September 30, 2016, the unpaid principal balance of the Term A Loan was \$249.4 million. The Term A Loan requires principal payments on the last business day of each quarter equal to (a) 1.250% of the original principal amount commencing on September 30, 2013 through June 30, 2016; (b) 1.875% of the original principal amount from September 30, 2016 through June 30, 2017; (c) 2.50% of the original principal amount from September 30, 2017 through March 31, 2018; and (d) the remaining outstanding principal amount on the maturity of the Term A Loan on April 17, 2018. Interest is based on EVERTEC Group LLC's (EVERTEC Group) first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.00% to 2.50%, or (b) Base Rate, as defined in the 2013 Credit Agreement, plus an applicable margin ranging from 1.00% to 1.50%. Term A Loan has no LIBOR or Base Rate minimum or floor.

Term B Loan

As of September 30, 2016, the unpaid principal balance of the Term B Loan was \$387.0 million. The Term B Loan requires principal payments on the last business day of each quarter equal to 0.250% of the original principal amount commencing on September 30, 2013 and the remaining outstanding principal amount on the maturity of the Term B Loan on April 17, 2020. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.50% to 2.75%, or (b) Base Rate plus an applicable margin ranging from 1.50% to 1.75%. The LIBOR Rate and Base Rate are subject to floors of 0.75% and 1.75%, respectively.

Revolving Credit Facility

The revolving credit facility has an available balance up to \$100.0 million, with an interest rate on loans calculated the same as the applicable Term A Loan rate. The facility matures on April 17, 2018 and has a commitment fee payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% and is based on EVERTEC Group's first lien secured net leverage ratio. As of September 30, 2016, the outstanding balance of the revolving credit facility was \$16.0 million.

All loans may be prepaid without premium or penalty.

The senior secured credit facilities contain various restrictive covenants. The Term A Loan and the revolving credit facility (subject to certain exceptions) require us to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 6.60 to 1.00 as defined in the 2013 Credit Agreement (total first lien secured debt to adjusted EBITDA). In addition, the 2013 Credit Agreement, among other things: (a) limits our ability and the ability of our subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts our ability to enter into agreements that would limit the ability of our subsidiaries to pay dividends or make certain payments to us; and (c) places restrictions on our ability and the ability of our subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of our assets.

Credit Amendment fees

During the second quarter of 2016, in connection with the Company's Senior Secured Credit Facilities, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding Credit Agreement. The Company paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender. The credit amendment fees paid during the second quarter of 2016 amounted to \$3.6 million.

Notes payable

In December 2014, June 2015 and May 2016, EVERTEC Group entered into non-interest bearing financing agreements amounting to \$4.6 million, \$1.1 million, and \$0.7 million, respectively, to purchase software. As of September 30, 2016, the outstanding principal balance of the notes payable is \$2.9 million. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Table of Contents***Interest Rate Swap***

As of September 30, 2016, the Company has entered into the following interest rate swap transaction converting a portion of the interest rate exposure on our Term B loan from variable to fixed:

Effective date	Maturity Date	Notional Amount	Variable Rate	Fixed Rate
January 2017	April 2020	\$200 million	1-month LIBOR	1.9225%

The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instruments is determined using standard valuation models. The significant inputs used in these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable forward rates and discount rates.

As of September 30, 2016 and December 31, 2015, the carrying amount of the derivative on the Company's balance sheet is as follows:

<i>(Dollar amounts in thousands)</i>	September 30, 2016	December 31, 2015
Other long-term liabilities	\$ 4,979	\$ 515

The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

Note 7 Financial Instruments and Fair Value Measurements***Recurring Fair Value Measurements***

Fair value measurement provisions establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This guidance describes three levels of input that may be used to measure fair value:

Level 1: Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3: Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company may employ internally-developed models that mostly use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those deemed necessary to ensure that the financial instrument's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are

subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

Table of Contents

The following table summarizes the fair value measurement by level at September 30, 2016 and December 31, 2015 for the liability measured at fair value on a recurring basis:

<i>(Dollar amounts in thousands)</i>	Level 1	Level 2	Level 3	Total
September 30, 2016				
Financial liabilities:				
Interest rate swap	\$	\$ 4,979	\$	\$ 4,979
December 31, 2015				
Financial liabilities:				
Interest rate swap	\$	\$ 515	\$	\$ 515

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value calculations or other valuation techniques, as well as management's best judgment with respect to current economic conditions, including discount rates and estimates of future cash flows.

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at September 30, 2016 and December 31, 2015:

<i>(Dollar amounts in thousands)</i>	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Interest rate swap	\$ 4,979	\$ 4,979	\$ 515	\$ 515
Senior secured term loan A	247,032	246,051	260,324	250,688
Senior secured term loan B	378,498	382,646	381,723	373,749

The fair value of the senior secured term loans at September 30, 2016 and December 31, 2015 were obtained using the prices provided by third party service providers. Their pricing is based on various inputs such as: market quotes, recent trading activity in a non-active market or imputed prices. Also, the pricing may include the use of an algorithm that could take into account movement in the general high yield market, among other variants. The unpaid principal balance of Term Loan A as of September 30, 2016 and December 31, 2015 was \$249.4 million and \$262.5 million, respectively, while the unpaid principal balance of the Term Loan B was \$387.0 million and \$390.0 million for the same periods, respectively.

The senior secured term loans, which are not measured at fair value in the balance sheets, would be categorized as Level 3 in the fair value hierarchy.

Table of Contents**Note 8 Equity***Accumulated Other Comprehensive loss*

The following table provides a summary of the changes in the balances of accumulated other comprehensive loss for the nine month period ended September 30, 2016:

<i>(Dollar amounts in thousands)</i>	Foreign Currency Translation Adjustments	Cash Flow Hedge
Balance - December 31, 2015	\$ (7,067)	\$ (515)
Additions	(2,620)	(4,464)
Balance - September 30, 2016	\$ (9,687)	\$ (4,979)

Note 9 Share-based Compensation*Long-term Incentive Plan*

In the first quarter of 2015, the Compensation Committee of the Board of Directors approved grants of restricted stock units (RSUs) to executives and certain employees pursuant to the 2015 Long-Term Incentive Program (2015 LTIP) under the terms of our 2013 Equity Incentive Plan. Under the 2015 LTIP, the Company granted restricted stock units to eligible participants as time-based awards and/or performance-based awards.

In the first quarter of 2016, the Compensation Committee of the Board of Directors approved grants of RSUs to executives and certain employees pursuant to the 2016 Long-Term Incentive Program (2016 LTIP) under the terms of our 2013 Equity Incentive Plan. Under the 2016 LTIP, the Company granted restricted stock units to eligible participants as time-based awards and/or performance-based awards.

The vesting of the RSUs is dependent upon service, market, and/or performance conditions as defined in the grants. Employees that received time-based awards with service conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the employee is providing services to the Company on the vesting date. Time-based awards vest over a period of three years in substantially equal installments commencing on the start of the fiscal year during which the RSUs were granted or on the grant date and ending on January 1st of each year for the 2015 LTIP and on mid-February of each year for the 2016 LTIP. Employees that received awards with market conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Company's total shareholder return (TSR) target relative to a specified group of industry peer companies is achieved. Employees that received awards with performance conditions are entitled to receive a specific number of shares of the Company's common stock on the vesting date if the Compound Annual Growth Rate (CAGR) of Diluted EPS target is achieved. Performance and market-based awards vest at the end of the performance period which commenced on the start of the fiscal year during which the RSUs were granted or on the grant date and ends on January 1, 2018 for the 2015 LTIP and on February 19, 2019 for the 2016 LTIP. Awards are forfeited if the employee voluntarily ceases to be employed by the Company prior to vesting.

The following table summarizes the stock options activity for the nine months ended September 30, 2016:

	Shares	Weighted-Average exercise price
Outstanding December 31, 2015	140,000	\$ 18.88
Outstanding September 30, 2016	86,667	\$ 19.86
Exercisable at September 30, 2016	66,667	\$ 24.01

Management uses the fair value method of recording stock-based compensation as described in the guidance for stock compensation in ASC topic 718.

Table of Contents

The following table summarizes nonvested restricted shares and RSUs activity for the nine months ended September 30, 2016:

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2015	491,726	\$ 22.32
Forfeited	(30,983)	18.81
Vested	(149,995)	21.06
Granted	858,197	12.06
Nonvested at September 30, 2016	1,168,945	\$ 15.04

For the three and nine months ended September 30, 2016 and 2015, the Company recognized \$1.2 million and \$4.6 million and \$1.6 million and \$3.7 million of share-based compensation expense, respectively.

As of September 30, 2016, the maximum unrecognized cost for restricted stocks and RSUs was \$11.4 million. The cost is expected to be recognized over a weighted average period of 2.01 years. Unrecognized share-based compensation expense related to stock options for the same period is minor and is expected to be recognized over the next year.

Note 10 Income Tax

The components of income tax expense for the three and nine months ended September 30, 2016 and 2015 consisted of the following:

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2016	2015 (As restated)	2016	2015 (As restated)
Current tax provision	\$ 2,560	\$ (8,920)	\$ 8,774	\$ (1,760)
Deferred tax benefit	(921)	(427)	(2,458)	(2,166)
Income tax expense (benefit)	\$ 1,639	\$ (9,347)	\$ 6,316	\$ (3,926)

The Company conducts operations in Puerto Rico and certain countries in Latin America. As a result, the income tax expense includes the effect of taxes paid to the Puerto Rico government as well as foreign jurisdictions. The following table presents the components of income tax expense for the three and nine months ended September 30, 2016 and 2015 and its segregation based on location of operations:

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2016	2015 (As restated)	2016	2015 (As restated)

Current tax provision (benefit)				
Puerto Rico	\$ 1,150	\$ (9,910)	\$ 4,711	\$ (4,583)
United States	86	118	322	419
Foreign countries	1,324	872	3,741	2,404
Total current tax provision (benefit)	\$ 2,560	\$ (8,920)	\$ 8,774	\$ (1,760)
Deferred tax benefit				
Puerto Rico	\$ (558)	\$ (169)	\$ (1,468)	\$ (1,509)
United States	(93)	(23)	(144)	(82)
Foreign countries	(270)	(235)	(846)	(575)
Total deferred tax benefit	\$ (921)	\$ (427)	\$ (2,458)	\$ (2,166)

Taxes payable to foreign countries by EVERTEC's subsidiaries will be paid by such subsidiary and the corresponding liability and expense will be presented in EVERTEC's consolidated financial statements.

Table of Contents

As of September 30, 2016, the gross deferred tax asset amounted to \$5.0 million and the gross deferred tax liability amounted to \$21.1 million, compared to \$3.5 million and \$22.4 million as of December 31, 2015.

The Company estimates that it is reasonably possible that the liability for uncertain tax position relating to the net operating loss created by transaction costs will decrease by no more than \$4.5 million in the next twelve months as a result of the expiration of the statute of limitations.

Pursuant to the provision of the PR Code, net operating losses (NOL) can be carried forward for a period of seven, ten or twelve taxable years, depending on the taxable year generated. Act 72 of May 29, 2015, limited the amount of NOLs deduction to 80% for regular tax and 70% for AMT. At September 30, 2016, the Company has \$7.0 million NOL carryforwards for tax purposes available to offset future taxable income. As a result of certain realization requirements of ASC 718, gross deferred tax assets do not include the windfall tax benefit as of September 30, 2016, that arose directly from tax deductions related to equity compensation greater than compensation recognized for financial reporting. Equity will be increased by \$4.2 million if and when such windfall tax benefits are ultimately realized. The Company uses tax law ordering when determining when windfall tax benefits have been realized.

Income tax expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to the income before income taxes as a result of the following:

<i>(Dollar amounts in thousands)</i>	Nine month period ended September 30,	
	2016	2015 (As restated)
Computed income tax at statutory rates	\$ 25,517	\$ 22,935
Benefit of net tax-exempt interest income	(41)	
Differences in tax rates due to multiple jurisdictions	(111)	(471)
Tax expense due to a change in estimate	228	
Effect of income subject to tax-exemption grant	(19,139)	(16,412)
Unrecognized tax benefit	(140)	(9,978)
Other	2	
Income tax expense (benefit)	\$ 6,316	\$ (3,926)

Note 11 Net Income Per Common Share

The reconciliation of the numerator and denominator of the income per common share is as follows:

<i>(Dollar amounts in thousands, except per share information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2016	2015 (As restated)	2016	2015 (As restated)
Net income attributable to EVERTEC, Inc.	\$ 19,680	\$ 25,336	\$ 59,063	\$ 63,448
Less: non-forfeitable dividends on restricted stock	3	3	6	6

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Net income available to EVERTEC, Inc. s common shareholders	\$ 19,677	\$ 25,333	\$ 59,057	\$ 63,442
Weighted average common shares outstanding	73,872,048	77,160,514	74,506,323	77,472,673
Weighted average potential dilutive common shares ⁽¹⁾	418,685	132,299	245,571	104,722
Weighted average common shares outstanding - assuming dilution	74,290,733	77,292,813	74,751,894	77,577,395
Net income per common share - basic	\$ 0.27	\$ 0.33	\$ 0.79	\$ 0.82
Net income per common share - diluted	\$ 0.26	\$ 0.33	\$ 0.79	\$ 0.82

⁽¹⁾ Potential common shares consist of common stock issuable under the assumed exercise of stock options and restricted stock awards using the treasury stock method.

On February 17, 2016, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 17, 2016 to stockholders of record as of the close of business on February 29, 2016. On May 11, 2016, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on June 10, 2016 to stockholders of record as of the close of business on May 23, 2016. On July 28, 2016, the Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on September 2, 2016 to stockholders of record as of the close of business on August 9, 2016.

Table of Contents**Note 12 Commitments and Contingencies**

Certain lease agreements contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is recorded as a deferred rent obligation.

Rent expense of office facilities and real estate for both the three and nine months ended September 30, 2016 and 2015 amounted to \$2.2 million and \$6.2 million, and \$1.9 million and \$6.0 million, respectively. Rent expense for telecommunications and other equipment for the three and nine months ended September 30, 2016 amounted to \$1.5 million and \$4.6 million, respectively, compared to \$1.4 million and \$4.0 million for the corresponding 2015 periods.

In the ordinary course of business, the Company may enter into commercial commitments. As of September 30, 2016, EVERTEC has an outstanding letter of credit of \$0.3 million with a maturity of less than three months.

EVERTEC is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel and other factors, Management believes that the final disposition of these matters will not have a material adverse effect on the business, results of operations, financial condition, or cash flows of the Company. The Company has identified certain claims as a result of which a loss may be incurred, but in the aggregate the loss would be insignificant. For other claims regarding for which proceedings are in an initial phase, the Company is unable to estimate the range of possible loss, if any, but at this time believes that any loss related to such claims will not be material.

Note 13 Related Party Transactions

The following table presents the Company's transactions with related parties for the three and nine months ended September 30, 2016 and 2015:

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2016	2015 <i>(As restated)</i>	2016	2015 <i>(As restated)</i>
Total revenues ⁽¹⁾⁽²⁾	\$ 43,022	\$ 42,104	\$ 129,786	\$ 126,475
Cost of revenues	\$ 381	\$ 389	\$ 1,179	\$ 1,511
Rent and other fees	\$ 2,088	\$ 1,831	\$ 6,051	\$ 5,798
Interest earned from affiliate				
Interest income	\$ 51	\$ 59	\$ 165	\$ 146

(1) Total revenues from Popular as a percentage of revenues were 45% for each of the periods presented above.

(2) Includes revenues generated from investee accounted for under the equity method of \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2016, respectively, and \$0.5 million and \$1.6 million for the corresponding 2015 periods.

Edgar Filing: EVERTEC, Inc. - Form 10-Q

At September 30, 2016 and December 31, 2015, EVERTEC had the following balances arising from transactions with related parties:

<i>(Dollar amounts in thousands)</i>	September 30, 2016	December 31, 2015
Cash and restricted cash deposits in affiliated bank	\$ 21,948	\$ 23,872
Other due/to from affiliate		
Accounts receivable	\$ 19,652	\$ 20,196
Prepaid expenses and other assets	\$ 630	\$ 867
Accounts payable ⁽¹⁾	\$ 5,152	\$ 2,687
Unearned income ⁽²⁾	\$ 14,743	\$ 11,970
Other long-term liabilities ⁽¹⁾	\$	\$ 14

(1) Includes an account payable of \$32,000 and a long-term liability of \$13,700 for December 31, 2015, related to the unvested portion of stock options as a result of the equitable adjustment approved by our Board of Directors on December 18, 2012 that will be payable to executive officers and employees upon vesting of stock options. As of September 30, 2016, there is no remaining liability.

(2) Includes current and long-term unearned income.

Table of Contents**Note 14 Segment Information**

The Company operates in three business segments: Merchant Acquiring, Payment Processing and Business Solutions.

The Company's business segments are organized based on the nature of products and services. The Chief Operating Decision Maker (CODM) reviews their individual financial information to assess performance and to allocate resources.

The following tables set forth information about the Company's operations by its three business segments for the periods indicated:

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Other	Total
Three months ended September 30, 2016					
Revenues	21,970	35,969	44,913	(8,385) ⁽¹⁾	94,467
Income from operations	6,728	12,803	14,930	(7,454) ⁽²⁾	27,007
Three months ended September 30, 2015 - As restated					
Revenues	20,784	34,299	44,655	(6,797) ⁽¹⁾	92,941
Income from operations	8,566	12,859	11,058	(11,009) ⁽²⁾	21,474

(1) Represents the elimination of intersegment revenues for services provided by the Payment Processing segment to the Merchant Acquiring segment, and other miscellaneous intersegment revenues.

(2) Primarily represents non-operating depreciation and amortization expenses generated as a result of the Merger and certain non-recurring fees and expenses.

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Other	Total
Nine months ended September 30, 2016					
Revenues	68,137	106,797	136,765	(24,081) ⁽¹⁾	287,618
Income from operations	23,940	39,493	43,299	(24,967) ⁽²⁾	81,765
Nine months ended September 30, 2015 - As restated					
Revenues	62,041	101,100	135,165	(20,462) ⁽¹⁾	277,844
Income from operations	27,467	40,917	38,414	(30,859) ⁽²⁾	75,939

(1) Represents the elimination of intersegment revenues for services provided by the Payment Processing segment to the Merchant Acquiring segment, and other miscellaneous intersegment revenues.

(2) Primarily represents non-operating depreciation and amortization expenses generated as a result of the Merger and certain non-recurring fees and expenses.

Table of Contents

The reconciliation of income from operations to consolidated net income for the three and nine months ended September 30, 2016 and 2015 is as follows:

<i>(Dollar amounts in thousands)</i>	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
		(As restated)		(As restated)
Segment income from operations				
Merchant Acquiring	\$ 6,728	\$ 8,566	\$ 23,940	\$ 27,467
Payment Processing	12,803	12,859	39,493	40,917
Business Solutions	14,930	11,058	43,299	38,414
Total segment income from operations	34,461	32,483	106,732	106,798
Merger related depreciation and amortization and other unallocated expenses ⁽¹⁾	(7,454)	(11,009)	(24,967)	(30,859)
Income from operations	27,007	21,474	81,765	75,939
Interest expense, net	(6,189)	(5,863)	(18,026)	(18,043)
Earnings (losses) of equity method investment	43	(3)	(58)	196
Other income	489	381	1,747	1,430
Income tax (expense) benefit	(1,639)	9,347	(6,316)	3,926
Net income	\$ 19,711	\$ 25,336	\$ 59,112	\$ 63,448

⁽¹⁾ Primarily represents non-operating depreciation and amortization expenses generated as a result of the Merger and certain non-recurring fees and expenses.

Note 15 Subsequent Events

On October 27, 2016, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.10 per share on the Company's outstanding shares of common stock. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to Board of Director approval and may be adjusted as business needs or market conditions change. The cash dividend of \$0.10 per share will be paid on December 2, 2016 to stockholders of record as of the close of business on November 14, 2016.

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

The following Management's Discussion and Analysis (MD&A) covers: (i) the results of operations for the three and nine months ended September 30, 2016 and 2015, respectively; and (ii) the financial condition as of September 30, 2016. You should read the following discussion and analysis in conjunction with the audited consolidated financial statements (the Audited Consolidated Financial Statements) and related notes for the fiscal year ended December 31, 2015, included in the Company's Form 10-K and with the unaudited consolidated condensed financial statements (the Unaudited Consolidated Financial Statements) and related notes appearing elsewhere herein. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those indicated in the forward-looking statements. See Forward-Looking Statements for a discussion of the risks, uncertainties and assumptions associated with these statements.

Except as otherwise indicated or unless the context otherwise requires, (a) the terms EVERTEC, we, us, our, our Company and the Company refer to EVERTEC, Inc. and its subsidiaries on a consolidated basis, (b) the term Holdings refers to EVERTEC Intermediate Holdings, LLC, but not to any of its subsidiaries and (c) the term EVERTEC Group refers to EVERTEC Group, LLC and its predecessor entities and their subsidiaries on a consolidated basis, including the operations of its predecessor entities prior to the Merger (as defined below). EVERTEC Inc.'s subsidiaries include Holdings, EVERTEC Group, EVERTEC Dominicana, SAS, EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (EVERTEC CR), EVERTEC Guatemala, S.A. and EVERTEC México Servicios de Procesamiento, S.A. de C.V. Neither EVERTEC nor Holdings conducts any operations other than with respect to its indirect or direct ownership of EVERTEC Group.

Restatement of Previously Issued Consolidated Financial Statements

Note 2 to the Unaudited Consolidated Condensed Financial Statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement for the unaudited condensed consolidated financial statements for the interim period ended September 30, 2015, which is referred to as the Restatement.

The Restatement corrects material errors involved with the accounting for tax positions taken in the 2010 tax year. The Restatement corrects an error in the recognition of a deferred tax asset originating from 2010 tax deductions and the corresponding net operating loss for transaction costs that were based on an uncertain tax position and corrects an error related to the accounting for 2010 debt issuance cost tax deductions based on an uncertain tax position that affected book tax temporary differences and differences in the applicable tax rates over the affected period. These differences impacted deferred tax liability calculations over the affected period. The Restatement also establishes a liability for potential tax liabilities including penalties and interest related to these uncertain tax positions. In the third quarter of 2015, the liability for exposure to potential tax, interest and penalties with respect to the referenced 2010 debt issuance cost deductions was reversed in full as the related statute of limitations expired in such period. This tax liability reversal triggered recognition of a tax benefit of \$11.8 million in the third quarter of 2015.

The Restatement also corrects other miscellaneous insignificant accounting errors. These errors, individually and in the aggregate, would not have required a restatement. The adjustments required to correct the errors in the unaudited consolidated condensed financial statements as a result of completing the restatement process are described in Note 2, Restatement of Previously Issued Financial Information included in Part I Item 1 Financial Statements.

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement adjustments made to the previously reported Consolidated Condensed Financial Statements for the three and nine months period ended September 30, 2015. Refer to the *Explanatory Note* to this quarterly report and to Note 1 and Note 23 to the Audited Financial Statements included in the 2015 Form 10-K for a description of

the restatement adjustments and reclassifications.

Executive Summary

EVERTEC is a leading full-service transaction processing business in Latin America (which includes Central America and the Caribbean, unless otherwise specified), providing a broad range of merchant acquiring, payment processing and business process management services. According to the September 2016 Nilson Report, we are the largest merchant acquirer in the Caribbean and Central America and one of the largest in Latin America, based on total number of transactions. We serve 18 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading personal identification number (PIN) debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with mission-critical technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

Table of Contents

We are differentiated, in part, by our diversified business model, which enables us to provide our varied customer base with a broad range of transaction-processing services from a single source across numerous channels and geographic markets. We believe this single-source capability provides several competitive advantages that will enable us to continue to penetrate our existing customer base with new, complementary services; win new customers; develop new sales channels and enter new markets. We believe these competitive advantages include:

Our ability to provide best in class products;

Our ability to provide in one package a range of services that traditionally had to be sourced from different vendors;

Our ability to serve customers with disparate operations in several geographies with a single integrated technology solution that enables them to manage their business as one enterprise; and

Our ability to capture and analyze data across the transaction processing value chain and use that data to provide value-added services that are differentiated from those offered by pure-play vendors that serve only one portion of the transaction processing value chain (such as only merchant acquiring or payment processing).

Our broad suite of services spans the entire transaction processing value chain and includes a range of front-end customer-facing solutions such as the electronic capture and authorization of transactions at the point-of-sale, as well as back-end support services such as the clearing and settlement of transactions and account reconciliation for card issuers. These include: (i) merchant acquiring services, which enable point of sales (POS) and e-commerce merchants to accept and process electronic methods of payment such as debit, credit, prepaid and electronic benefit transfer (EBT) cards; (ii) payment processing services, which enable financial institutions and other issuers to manage, support and facilitate the processing for credit, debit, prepaid, automated teller machines (ATM) and EBT card programs; and (iii) business process management solutions, which provide mission-critical technology solutions such as core bank processing, as well as IT outsourcing and cash management services to financial institutions, corporations and governments. We provide these services through a highly scalable, end-to-end technology platform that we manage and operate in-house and that generates significant operating efficiencies that enable us to maximize profitability.

We sell and distribute our services primarily through a proprietary direct sales force with established customer relationships. We are also building a variety of indirect sales channels that enable us to leverage the distribution capabilities of partners in adjacent markets, including value-added resellers. Also, we continue to pursue joint ventures and merchant acquiring alliances.

We benefit from an attractive business model, the hallmarks of which are recurring revenue, scalability, significant operating margins and low capital expenditure requirements. Our revenue is recurring in nature because of the mission-critical and embedded nature of the services we provide, the high switching costs associated with these services and the multi-year contracts we negotiate with our customers. Our business model enables us to continue to grow our business organically without significant additional capital expenditures.

Corporate Background

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) is a Puerto Rico corporation organized in April 2012. Holdings, a wholly-owned subsidiary of EVERTEC, Inc, is the sole owner of our main operating subsidiary, EVERTEC Group, LLC (formerly known as EVERTEC, LLC and EVERTEC, Inc., hereinafter EVERTEC Group). EVERTEC Group was organized in Puerto Rico in 1988 and was formerly a wholly-owned subsidiary of Popular. On September 30, 2010, pursuant to an Agreement and Plan of Merger (as amended, the Merger Agreement), AP Carib Holdings, Ltd. (Apollo) acquired a 51% indirect ownership interest in EVERTEC Group as part of a merger (the Merger).

On April 17, 2012, EVERTEC Group was converted from a Puerto Rico corporation to a Puerto Rico limited liability company (the Conversion) for the purpose of improving its consolidated tax efficiency by taking advantage of recent changes to the Puerto Rico Internal Revenue Code, as amended (the PR Code), that permit limited liability companies to be treated as partnerships that are pass-through entities for Puerto Rico tax purposes. Concurrent with the Conversion, Holdings, which is our direct subsidiary, was also converted from a Puerto Rico corporation to a Puerto Rico limited liability company. Prior to these conversions, EVERTEC, Inc. was formed in order to act as the new parent company of Holdings and its subsidiaries, including EVERTEC Group. The transactions described above in this paragraph are collectively referred to as the Reorganization.

Separation from and Key Relationship with Popular

Prior to the Merger on September 30, 2010, EVERTEC Group was 100% owned by Popular, the largest financial institution in the Caribbean, and operated substantially as an independent entity within Popular. After the consummation of the Merger, Popular retained an indirect ownership interest in EVERTEC Group and is our largest customer. In connection with, and upon consummation

Table of Contents

of the Merger, EVERTEC Group entered into a 15-year Master Services Agreement (the MSA), and several related agreements with Popular. Under the terms of the MSA, Popular agreed to continue to use EVERTEC services on an ongoing and exclusive basis, for the duration of the agreement, on commercial terms consistent with those of our historical relationship. Additionally, Popular granted us a right of first refusal on the development of certain new financial technology products and services for the duration of the MSA.

Factors and Trends Affecting the Results of Our Operations

The ongoing migration from cash and paper methods of payment to electronic payments continues to benefit the transaction processing industry globally. We believe that the penetration of electronic payments in the markets in which we operate is significantly lower relative to the U.S. market, and that this ongoing shift will continue to generate substantial growth opportunities for our business. For example, currently the adoption of banking products, including electronic payments, in the Latin American region is lower relative to the more mature U.S. and European markets. We believe that the unbanked and underbanked population in our markets will continue to shrink, therefore driving incremental penetration and growth of electronic payments in Puerto Rico and other Latin American regions. We also benefit from the trend for financial institutions and government agencies to outsource technology systems and processes. Many medium- and small-size institutions in the Latin American markets in which we operate have outdated computer systems and updating these IT legacy systems is financially and logistically challenging. We believe that our technology and business outsourcing solutions cater to the evolving needs of the financial institution customer base we target, providing integrated, open, flexible, customer-centric and efficient IT products and services.

Our results of operations may be affected by regulatory changes that will occur as the payments industry has come under increased scrutiny from lawmakers and regulators.

As described in the risk factors in our 2015 Form 10-K, our financial condition and results of operations are, in part, dependent on the economic and general conditions of the geographies in which we operate. The Puerto Rico fiscal crisis continues to negatively impact the economy, however, to date, our operations and our business with the government of Puerto Rico have not been significantly impacted. We continue to closely monitor the Puerto Rico fiscal situation.

In addition to the macroeconomic trends described above, Management currently estimates that we will experience a revenue attrition in Latin America of approximately \$7 million to \$10 million in 2017 related to client migrations anticipated to occur throughout 2017. The client decisions for these anticipated migrations were driven by a variety of historical factors, most importantly customer service experience. Even though Management has been able to improve services in Latin America in the current year, Management believes that these customer decisions are unlikely to change.

Overview of Results of Operations

The following briefly describes the components of revenues and expenses as presented in the unaudited consolidated condensed statements of income and comprehensive income. Descriptions of the revenue recognition policies are detailed in Note 2 of the Notes to Audited Consolidated Financial Statements included in our 2015 Form 10-K.

Merchant Acquiring, net. Merchant Acquiring revenue consists of revenues from services that allow merchants to accept electronic methods of payment. Our standard merchant contract has an initial term of one or three years, with automatic one-year renewal periods. In the Merchant Acquiring segment, sources of revenues include a discount fee (generally a percentage of the sales amount of a credit or debit card transaction value) and membership fees charged to merchants, debit network fees and rental income from POS devices and other equipment, net of credit card

interchange and assessment fees charged by credit cards associations (such as VISA or MasterCard) or payment networks.

Merchant Acquiring accounted for \$22.0 million, or 23.3% of total revenues, and \$6.7 million or 19.5% of total segment income from operations for the three months ended September 30, 2016, compared with \$20.8 million, or 22.4%, of total revenues and \$8.6 million, or 26.4% of total segment income from operations for the comparable period in 2015. For the nine months ended September 30, 2016, our Merchant Acquiring business accounted for \$68.1 million, or 23.7% of total revenues and \$23.9 million or 22.4% of total segment income from operations compared with \$62.0 million, or 22.3%, of total revenues and \$27.5 million, or 25.7%, of total segment income from operations for the nine months ended September 30, 2015.

Payment Processing. Payment Processing revenue primarily reflects ATH network and payment transaction processing, including related services such as authorization, management and recording of ATM and POS transactions, and ATM management and monitoring. Payment Processing revenue also includes income from card processing services to debit or credit card issuers, such as credit and debit card processing, authorization and settlement and fraud monitoring and control services; payment processing services such as payment and billing products for merchants, businesses and financial institutions; and EBT, which principally consist of services to the Puerto Rico government for the delivery of government benefits to participants. Payment products include electronic check processing, automated clearing house (ACH), lockbox, interactive voice response and web-based payments through personalized websites, among others.

We generally enter into one to five year contracts with our private payment processing clients and one year contracts with our government payment processing clients. For ATH network and processing services, revenue is driven mainly by the number of transactions processed. Revenue is derived mainly from network fees, transaction switching and processing fees, and leasing of POS

Table of Contents

devices. For card issuer processing, revenue is dependent mostly upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenue is derived mainly from the number of beneficiaries on file.

Payment Processing accounted for \$27.6 million, or 29.2%, of total revenues and \$12.8 million, or 37.2%, of total segment income from operations for the three months ended September 30, 2016, compared with \$27.5 million, or 29.6%, of total revenues and \$12.9 million, or 39.6%, of total segment income from operations for the three months ended September 30, 2015. For the nine months ended September 30, 2016, our Payment Processing business accounted for \$82.7 million, or 28.8%, of total revenues and \$39.5 million, or 37.0%, of total segment income from operations, compared with \$80.6 million, or 29.0%, of total revenues and \$40.9 million, or 38.3%, of total segment income from operations for the nine months ended September 30, 2015.

Business Solutions. Business Solutions revenue consists of revenues from a full suite of business process management solutions including core bank processing, network hosting and management, IT consulting services, business process outsourcing, item and cash processing, and fulfillment. We generally enter into one to five year contracts with our private Business Solutions clients and one year contracts with our government Business Solutions clients.

In addition, we are a reseller of hardware and software products; these resale transactions are generally one-time transactions. Revenue from sales of hardware or software products is recognized once the following four criteria are met: (i) evidence of an agreement exists, (ii) delivery and acceptance has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collection of the selling price is reasonably assured or probable, as applicable.

Business Solutions accounted for \$44.9 million, or 47.5%, of total revenues and \$14.9 million, or 43.3%, of total segment income from operations for the three months ended September 30, 2016, compared with \$44.7 million, or 48.0%, of total revenues and \$11.1 million, or 34.0%, of total segment income from operations for the three months ended September 30, 2015. For the nine months ended September 30, 2016, Business Solutions accounted for \$136.8 million, or 47.6%, of total revenues and \$43.3 million, or 40.6%, of total segment income from operations, compared with \$135.2 million, or 48.6%, of total revenues and \$38.4 million, or 36.0%, of total segment income from operations for the nine months ended September 30, 2015.

Cost of revenues. This caption includes the costs directly associated with providing services to customers, as well as product and software sales, including software licensing and maintenance costs; telecommunications costs; personnel and infrastructure costs to develop and maintain applications, operate computer networks and provide associated customer support, and other operating expenses.

Selling, general and administrative. This caption consists mainly of salaries, wages and related expenses paid to sales personnel, administrative employees and management, advertising and promotional costs, audit and legal fees, and other selling expenses.

Depreciation and amortization. This caption consists of our depreciation and amortization expense. Following the completion of the Merger, our depreciation and amortization expense increased as a result of the purchase price allocation adjustments to reflect the fair market value and revised useful life assigned to property and equipment and intangible assets in connection with the Merger.

Results of Operations

The following tables set forth certain consolidated financial information for the three and nine months ended September 30, 2016 and 2015. The following tables and discussion should be read in conjunction with the information contained in our Unaudited Consolidated Condensed Financial Statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Comparison of the three months ended September 30, 2016 and 2015

The following tables present the components of our unaudited consolidated condensed statements of income and comprehensive income by business segment and the change in those amounts for the three months ended September 30, 2016 and 2015.

Table of Contents*Revenues*

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,			
	2016	2015	Variance	
		(As restated)		
Merchant Acquiring, net	\$ 21,970	\$ 20,784	\$ 1,186	6%
Payment Processing	27,584	27,502	82	0%
Business Solutions	44,913	44,655	258	1%
Total revenues	\$ 94,467	\$ 92,941	\$ 1,526	2%

Total revenues for the three months ended September 30, 2016 increased by \$1.5 million or 2% as compared to the corresponding 2015 period.

Merchant Acquiring, net revenue grew by \$1.2 million or 6% driven by the expanded merchant relationship with FirstBank, partially offset by revenue from another bank in Puerto Rico which, due to contractual agreement changes, is now being recognized as part of Payment Processing as well as other revenue mix shifts.

Payment Processing revenue in the third quarter amounted to \$27.6 million, relatively flat to the prior year. Revenue in the quarter primarily reflected increases in transactions processed over the ATH[®] debit network and card processing volume, revenue related to the Processa acquisition, and the previously referenced revenue shift from merchant acquiring to payment processing. These increases were partially offset by a reduction related to the shift in revenue from FirstBank from payment processing to merchant acquiring in 2016, as well as a decrease in revenues due to a delayed project which impacted the quarter by approximately \$2.0 million.

Business Solutions revenue amounted to \$44.9 million, relatively flat when compared to \$44.7 million in the prior year quarter. Business Solutions revenue in the quarter reflects increased revenue from hardware sales and IT consulting, partially offset by a decrease in cash and item processing revenue.

Operating costs and expenses

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,			
	2016	2015	Variance	
		(As restated)		
Cost of revenues, exclusive of depreciation and amortization shown below	\$ 41,753	\$ 44,141	\$ (2,388)	-5%
Selling, general and administrative expenses	10,818	10,392	426	4%
Depreciation and amortization	14,889	16,934	(2,045)	-12%
Total operating costs and expenses	\$ 67,460	\$ 71,467	\$ (4,007)	-6%

Total operating costs and expenses for the three months ended September 30, 2016 decreased \$4.0 million as compared to the corresponding 2015 period.

Cost of revenues decreased by approximately \$2.4 million or 5% when compared with the 2015 quarterly period mainly as a result of \$4.2 million decrease in salaries and benefits as the prior year period includes severance payments as part of voluntary termination offers extended to certain employees which included special termination benefits. This decrease was partially offset by an increase in cost of sales driven by the revenue sharing agreement with FirstBank as part of the expanded merchant relationship.

Selling, general and administrative expenses increased slightly by \$0.4 million or 4% mainly due to multiple insignificant variances, partially offset by a decrease in salaries and benefits as a result of severance payments in the prior year.

Depreciation and amortization expense decreased by \$2.0 million or 12% primarily related to lower software amortization expense related to software acquired as part of the Merger that became fully amortized during the third quarter of 2015.

Table of Contents*Income from operations*

The following table presents income from operations by reportable segments.

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,		Variance	
	2016	2015 (As restated)		
Segment income from operations				
Merchant Acquiring, net	\$ 6,728	\$ 8,566	\$ (1,838)	-21%
Payment Processing	12,803	12,859	(56)	0%
Business Solutions	14,930	11,058	3,872	35%
Total segment income from operations	34,461	32,483	1,978	6%
Merger related depreciation and amortization and other unallocated expenses ⁽¹⁾	(7,454)	(11,009)	3,555	32%
Income from operations	\$ 27,007	\$ 21,474	\$ 5,533	26%

⁽¹⁾ Primarily represents non-operating depreciation and amortization expenses generated as a result of the Merger and certain non-recurring fees and expenses.

Income from operations for the three months ended September 30, 2016 increased \$5.5 million or 26% compared with to the corresponding 2015 period. The increase in income from operations was the result of the aforementioned factors affecting our revenues and operating costs and expenses coupled with a decrease in merger related depreciation and amortization as a group of assets became fully amortized during the third quarter of 2015.

See Note 14 of the Notes to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for additional information on the Company's reportable segments and for a reconciliation of income from operations to net income.

Non-operating income (expenses)

<i>(Dollar amounts in thousands)</i>	Three months ended September 30,		Variance	
	2016	2015 (As restated)		
Non-operating income (expenses)				
Interest income	\$ 87	\$ 140	\$ (53)	-38%
Interest expense	(6,276)	(6,003)	(273)	-5%
Earnings (losses) of equity method investment	43	(3)	46	-1533%
Other income	489	381	108	28%
Total non-operating expenses	\$ (5,657)	\$ (5,485)	\$ (172)	-3%

Total non-operating expenses for the three months ended September 30, 2016 remained relatively equal to the corresponding 2015 period.

Income tax expense

Income tax expense for the three months ended September 30, 2016 amounted to \$1.6 million compared with an income tax benefit of \$9.3 million in the prior year period. The prior year income tax benefit is entirely driven by the reversal of the liability for exposure to potential tax, interest and penalties with respect to certain 2010 debt issuance cost deductions, where the related statute of limitations expired in the third quarter of 2015.

See Note 10 of the Notes to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for additional information regarding income taxes.

Comparison of the nine months ended September 30, 2016 and 2015

The following tables present the components of our unaudited consolidated condensed statements of income and comprehensive income by business segment and the change in those amounts for the nine months ended September 30, 2016 and 2015.

Table of Contents*Revenues*

<i>(Dollar amounts in thousands)</i>	Nine months ended September 30,		Variance	
	2016	2015 <i>(As restated)</i>		
Merchant Acquiring, net	\$ 68,137	\$ 62,041	\$ 6,096	10%
Payment Processing	82,716	80,638	2,078	3%
Business Solutions	136,765	135,165	1,600	1%
Total revenues	\$ 287,618	\$ 277,844	\$ 9,774	4%

Total revenues for the nine months ended September 30, 2016 increased \$9.8 million or 4% compared with the corresponding 2015 period, driven by revenue growth across all our lines of business.

Merchant Acquiring revenue increased by 10% to \$68.1 million mainly as a result of the FirstBank contract portfolio acquired in November of 2015.

Payment Processing increased by 3% to \$82.7 million driven by the same factors explained above for the quarter, partially offset by lower revenues from the government lottery tax contract that terminated in the fourth quarter of 2015.

Business Solutions revenue increased by \$1.6 million to \$136.8 million and is almost entirely related to an increase in revenues from core banking services, primarily driven by the conversion of Doral in May of 2015.

Operating costs and expenses

<i>(Dollar amounts in thousands)</i>	Nine months ended September 30,		Variance	
	2016	2015 <i>(As restated)</i>		
Cost of revenues, exclusive of depreciation and amortization shown below	\$ 127,127	\$ 125,095	\$ 2,032	2%
Selling, general and administrative expenses	34,226	27,043	7,183	27%
Depreciation and amortization	44,500	49,767	(5,267)	-11%
Total operating costs and expenses	\$ 205,853	\$ 201,905	\$ 3,948	2%

Total operating costs and expenses for the nine months ended September 30, 2016 increased \$3.9 million or 2% as compared with the corresponding 2015 period.

Cost of revenue increased by \$2.0 million or 2% as a result of an increase in cost of sales driven by the revenue sharing agreement with FirstBank as part of the expanded merchant acquiring relationship, coupled with costs incurred in relation to the increase in hardware sales. In addition, other operating taxes increased as a result of the business to business services tax. Professional fees increased as a result of the development of a new data warehouse and an increase in programming services. These increases were partially offset by a decrease in salaries and benefits

primarily due to severance payments in the prior year, as described above, and an increase in deferred salaries.

Selling, general and administrative expenses increased by \$7.2 million or 27% as a result of an increase in professional fees as a result of costs incurred in connection with the restatement coupled with an increase in salaries and benefits primarily driven by higher share-based compensation and a slight increase in general other operating expenses.

Depreciation and amortization expense for the nine months ended September 30, 2016 decreased by 11% or \$5.3 million driven by lower software amortization expense as explained above.

Table of Contents*Income from operations*

The following table presents income from operations by reportable segments.

<i>(Dollar amounts in thousands)</i>	Nine months ended September 30,		Variance	
	2016	2015 (As restated)		
Segment income from operations				
Merchant Acquiring, net	\$ 23,940	\$ 27,467	\$ (3,527)	-13%
Payment Processing	39,493	40,917	(1,424)	-3%
Business Solutions	43,299	38,414	4,885	13%
Total segment income from operations	106,732	106,798	(66)	0%
Merger related depreciation and amortization and other unallocated expenses ⁽¹⁾	(24,967)	(30,859)	5,892	19%
Income from operations	\$ 81,765	\$ 75,939	\$ 5,826	8%

⁽¹⁾ Primarily represents non-operating depreciation and amortization expenses generated as a result of the Merger and certain non-recurring fees and expenses.

Income from operations for the nine months ended September 30, 2016 increased \$5.8 million or 8% as compared to the corresponding 2015 period. The increase in income from operations is driven by a decrease in merger related depreciation and amortization expense as a group of assets became fully amortized during the third quarter of 2015.

See Note 14 of the Notes to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for additional information on the Company's reportable segments and for a reconciliation of income from operations to net income.

Non-operating income (expenses)

<i>(Dollar amounts in thousands)</i>	Nine months ended September 30,		Variance	
	2016	2015 (As restated)		
Non-operating income (expenses)				
Interest income	\$ 266	\$ 371	\$ (105)	-28%
Interest expense	(18,292)	(18,414)	122	1%
Earnings of equity method investment	(58)	196	(254)	-130%
Other income	1,747	1,430	317	22%
Total non-operating expenses	\$ (16,337)	\$ (16,417)	\$ 80	0%

Total non-operating expenses for the nine months ended September 30, 2016 remained flat at \$16.3 million compared with the corresponding 2015 period.

Income tax expense

Income tax expense for the nine months ended September 30, 2016 amounted to \$6.3 million compared with an income tax benefit of \$3.9 million for the corresponding 2015 period. The prior year benefit is related to the aforementioned deferred tax liability reversal in the third quarter of 2015.

See Note 10 of the Notes to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for additional information regarding income taxes.

Liquidity and Capital Resources

Our principal source of liquidity is cash generated from operations, and our primary liquidity requirements are the funding of capital expenditures and working capital needs. We also have a \$100.0 million revolving credit facility, of which \$84.0 million was available as of September 30, 2016.

Table of Contents

At September 30, 2016, we had cash of \$45.0 million, of which \$31.9 million resides in our subsidiaries located outside of Puerto Rico for purposes of (i) funding the respective subsidiary's current business operations and (ii) funding potential future investment outside of Puerto Rico. We intend to indefinitely reinvest these funds outside of Puerto Rico, and based on our liquidity forecast, we will not need to repatriate this cash to fund the Puerto Rico operations or to meet debt-service obligations. However, if in the future we determine that we no longer need to maintain such cash balances within our foreign subsidiaries, we may elect to distribute such cash to the Company in Puerto Rico. Distributions from the foreign subsidiaries to Puerto Rico may be subject to tax withholding and other tax consequences.

Our primary use of cash is for operating expenses, working capital requirements, capital expenditures, dividend payments, share repurchases and debt service.

Based on our current level of operations, we believe our cash flows from operations and the available senior secured revolving credit facility will be adequate to meet our liquidity needs for the next twelve months. However, our ability to fund future operating expenses, dividend payments and capital expenditures and our ability to make scheduled payments of interest, to pay principal on or refinance our indebtedness and to satisfy any other of our present or future debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control.

<i>(Dollar amounts in thousands)</i>	Nine months ended September 30,	
	2016	2015
		(As restated)
Cash provided by operating activities	\$ 124,601	\$ 124,324
Cash used in investing activities	(33,852)	(36,919)
Cash used in financing activities	(74,511)	(79,118)
Increase in cash	\$ 16,238	\$ 8,287

Net cash provided by operating activities for the nine months ended September 30, 2016 was \$124.6 million compared with cash provided by operating activities of \$124.3 million for the corresponding 2015 period.

Net cash used in investing activities for the nine months ended September 30, 2016 was \$33.9 million compared with \$36.9 million for the corresponding period in 2015. The \$3.1 million decrease was mainly attributable to a \$3.5 million decrease in restricted cash during the nine month period ended September 30, 2016, compared with a \$7.8 million increase in the prior year period. During the nine months ended September 30, 2016, purchases of property and equipment and software amounted to \$31.5 million, compared with \$29.1 million in the prior year.

Net cash used in financing activities for the nine months ended September 30, 2016 was \$74.5 million as compared with \$79.1 million for the corresponding 2015 period. Cash used in financing activities was primarily related to stock repurchases and cash dividends on common stock and cash used for principal repayments on long-term debt and the payment of the credit amendment fees. The decrease in cash used in financing activities is due to less cash used for common stock repurchases and less cash used to pay down short term borrowings.

Capital Resources

Our principal capital expenditures are for hardware and computer software (purchased and internally developed) and additions to property and equipment. We invested approximately \$31.5 million and \$29.1 million for the nine months ended September 30, 2016 and 2015, respectively. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our revolving credit facility.

Dividend Payments

We currently have a policy under which we pay a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. On February 17, 2016, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 17, 2016 to stockholders of record as of February 29, 2016. On May 11, 2016, our Board declared a quarterly cash dividend of \$0.10 per share per common stock that was paid on June 10, 2016 to stockholders of record as of close of business on May 23, 2016. On July 28, 2016, our Board declared a quarterly cash dividend of \$0.10 per share that was paid on September 2, 2016 to stockholders of record on August 9, 2016. On October 27, 2016, our Board declared a regular quarterly cash dividend of \$0.10 per share of common stock which will be paid on December 2, 2016 to stockholders of record as of the close of business on November 14, 2016.

Table of Contents***Financial Obligations******Senior Secured Credit Facilities******Term A Loan***

As of September 30, 2016, the unpaid principal balance of the Term A Loan was \$249.4 million. The Term A Loan requires principal payments on the last business day of each quarter equal to (a) 1.250% of the original principal amount commencing on September 30, 2013 through June 30, 2016; (b) 1.875% of the original principal amount from September 30, 2016 through June 30, 2017; (c) 2.50% of the original principal amount from September 30, 2017 through March 31, 2018; and (d) the remaining outstanding principal amount on the maturity of the Term A Loan on April 17, 2018. Interest is based on EVERTEC Group LLC's (EVERTEC Group) first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.00% to 2.50%, or (b) Base Rate, as defined in the 2013 Credit Agreement, plus an applicable margin ranging from 1.00% to 1.50%. Term A Loan has no LIBOR or Base Rate minimum or floor.

Term B Loan

As of September 30, 2016, the unpaid principal balance of the Term B Loan was \$387.0 million. The Term B Loan requires principal payments on the last business day of each quarter equal to 0.250% of the original principal amount commencing on September 30, 2013 and the remaining outstanding principal amount on the maturity of the Term B Loan on April 17, 2020. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.50% to 2.75%, or (b) Base Rate plus an applicable margin ranging from 1.50% to 1.75%. The LIBOR Rate and Base Rate are subject to floors of 0.75% and 1.75%, respectively.

Revolving Credit Facility

The revolving credit facility has an available balance up to \$100.0 million, with an interest rate on loans calculated the same as the applicable Term A Loan rate. The facility matures on April 17, 2018 and has a commitment fee payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% and is based on EVERTEC Group's first lien secured net leverage ratio. As of September 30, 2016, the outstanding balance of the revolving credit facility was \$16.0 million.

All loans may be prepaid without premium or penalty.

The senior secured credit facilities contain various restrictive covenants. The Term A Loan and the revolving credit facility (subject to certain exceptions) require us to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 6.60 to 1.00 as defined in the 2013 Credit Agreement (total first lien secured debt to adjusted EBITDA). In addition, the 2013 Credit Agreement, among other things: (a) limits our ability and the ability of our subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts our ability to enter into agreements that would limit the ability of our subsidiaries to pay dividends or make certain payments to us; and (c) places restrictions on our ability and the ability of our subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of our assets.

Pending Refinance

The Company's main operating subsidiary, Evertec Group, LLC, together with certain other subsidiaries of the Company, has received commitments from a syndicate of lenders in connection with a refinancing to extend the maturity of \$219 million of its existing \$250 million of Term A Loan and \$65 million of its existing \$100 million of Revolving Credit Facility to January 2020. The remaining \$31 million of the Term A Loan and the \$35 million of Revolving Credit Facility that will not be extended will remain in place and mature as originally scheduled in April 2018. Entering into the amended credit agreement is subject to completion of final documentation which is expected to occur in November 2016.

In connection with these transactions, the interest rate applicable to the Term A Loan maturing in January 2020 and the Revolving Credit Facility is to be fixed at LIBOR + 250 bps, or a 25 bps increase from the interest rate currently applicable to the Term A Loan and the Revolving Credit Facility due in April 2018. In addition, the maximum senior secured leverage ratio applicable to Term A Loan and Revolving Credit Facility due in January 2020 is to be 4.75 times and stepping down to 4.25 times after 24 months. The maximum senior secured leverage ratio applicable to Term A Loan and Revolving Credit Facility due in April 2018 is to be amended and reduced from 6.6 times down to 4.75 times.

Credit Amendment fees

During the second quarter of 2016, in connection with the Company's Senior Secured Credit Facilities, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding Credit Agreement. The Company paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender. The credit amendment fees paid during the second quarter of 2016 amounted to \$3.6 million.

Table of Contents*Notes payable*

In December 2014, June 2015 and May 2016, EVERTEC entered into non-interest bearing financing agreements amounting to \$4.6 million, \$1.1 million, and \$0.7 million, respectively, to purchase software. As of September 30, 2016, the outstanding principal balance of the notes payable is \$2.9 million. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swap

In December 2015, the Company entered into a plain-vanilla floored interest-rate swap agreement (the Swap) with a leading US bank. Prior to executing the Swap, 100% of EVERTEC's outstanding debt was at a variable interest rate. With the Swap, the Company will fix the interest rate on \$200 million of the Company's Term B loan beginning in January of 2017, which represents approximately 30% of the Company's outstanding debt. The Swap agreement has a notional amount of \$200 million, matures in April of 2020, a fixed rate of 1.9225%, which hedges the variable portion of the debt, and maintains the same payment dates as the underlying loan agreement and a floor equal to 75 basis points. The Company has accounted for this transaction as a cash flow hedge. The fair value of the Company's derivative instruments is determined using standard valuation models. The significant inputs used in these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable forward rates, and discount rates.

As of September 30, 2016, the Company has a derivative liability included in other long-term liabilities amounting to \$5.0 million, and a corresponding cash flow hedge loss included in accumulated other comprehensive loss. The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

Covenant Compliance

The credit facilities contain various restrictive covenants. The Term A Loan and the revolving facility (subject to certain exceptions) require EVERTEC Group to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 6.60 to 1.00 as defined in the 2013 Credit Agreement (total first lien senior secured debt to Adjusted EBITDA). In addition, the 2013 Credit Agreement, among other things: (a) limits EVERTEC Group's ability and the ability of its subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts EVERTEC Group's ability to enter into agreements that would limit the ability of its subsidiaries to pay dividends or make certain payments to its parent company; and (c) places restrictions on EVERTEC Group's ability and the ability of its subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their assets. However, all of the covenants in these agreements are subject to significant exceptions. As of September 30, 2016, the senior secured leverage ratio was 3.26 to 1.00 and we were in compliance with the applicable restrictive covenants under the 2013 Credit Agreement.

In this Quarterly Report on Form 10-Q, we refer to the term Adjusted EBITDA to mean EBITDA as so defined and calculated for purposes of determining compliance with the senior secured leverage ratio based on the financial information for the last twelve months at the end of each quarter.

Net Income Reconciliation to EBITDA, Adjusted EBITDA and Adjusted Net Income (Non-GAAP Measures)

We define EBITDA as earnings before interest, taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted to exclude unusual items and other adjustments described below. We define Adjusted Net

Income as net income adjusted to exclude unusual items and other adjustments described below.

We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our presentation of Adjusted EBITDA is consistent with the equivalent measurements that are contained in the senior secured credit facilities in testing EVERTEC Group's compliance with covenants therein, such as the senior secured leverage ratio. We use Adjusted Net Income to measure our overall profitability because it better reflects our cash flows generation by capturing the actual cash taxes paid rather than our tax expense as calculated under GAAP and excludes the impact of the non-cash amortization and depreciation that was created as a result of the Merger. In evaluating EBITDA, Adjusted EBITDA and Adjusted Net Income, you should be aware that in the future we may incur expenses such as those excluded in calculating them. Further, our presentation of these measures should not be construed as an inference that our future operating results will not be affected by unusual or nonrecurring items.

Table of Contents

Some of the limitations of EBITDA, Adjusted EBITDA and Adjusted Net Income are as follows:

they do not reflect cash outlays for capital expenditures or future contractual commitments;

they do not reflect changes in, or cash requirements for, working capital;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements;

in the case of EBITDA and Adjusted EBITDA, they do not reflect interest expense, or the cash requirements necessary to service interest, or principal payments, on indebtedness;

in the case of EBITDA and Adjusted EBITDA, they do not reflect income tax expense or the cash necessary to pay income taxes; and

other companies, including other companies in our industry, may not use EBITDA, Adjusted EBITDA and Adjusted Net Income or may calculate EBITDA, Adjusted EBITDA and Adjusted Net Income differently than as presented in this Report, limiting their usefulness as a comparative measure.

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per common share are not measurements of liquidity or financial performance under GAAP. You should not consider EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per common share as alternatives to cash flows from operating activities or any other performance measures determined in accordance with GAAP, as an indicator of cash flows, as a measure of liquidity or as an alternative to operating or net income determined in accordance with GAAP.

A reconciliation of net income to EBITDA, Adjusted EBITDA and Adjusted Net Income is provided below:

	Nine months			Nine months		
	Three months ended	ended	Twelve months ended	Three months ended	ended	
	September	September	September	September	September	
<i>(Dollar amounts in thousands)</i>	30, 2016	30, 2016	30, 2016	30, 2015	30, 2015	
Net income	\$ 19,711	\$ 59,112	\$ 81,041	\$ 25,336	\$ 63,448	
Income tax expense (benefit)	1,639	6,316	6,907	(9,347)	(3,926)	
Interest expense, net	6,189	18,026	23,754	5,863	18,043	
Depreciation and amortization	14,889	44,500	59,707	16,934	49,767	
EBITDA	42,428	127,954	171,409	38,786	127,332	
Software maintenance reimbursement and other costs ⁽¹⁾	60	521	1,015	479	1,408	

Edgar Filing: EVERTEC, Inc. - Form 10-Q

Equity income ⁽²⁾	(114)	(13)	36	3	(196)
Compensation and benefits ⁽³⁾	2,003	8,033	10,335	7,271	9,935
Transaction, refinancing and other fees ⁽⁴⁾	727	1,697	2,021	260	992
Purchase accounting ⁽⁵⁾				94	82
Restatement related expenses ⁽⁶⁾	41	1,837	1,837		
Adjusted EBITDA	45,145	140,029	186,653	46,893	139,553
Operating depreciation and amortization ⁽⁷⁾	(7,079)	(21,166)	(28,800)	(7,568)	(21,667)
Cash interest expense, net ⁽⁸⁾	(5,030)	(15,331)	(20,273)	(5,081)	(15,723)
Income tax expense ⁽⁹⁾	(2,534)	(10,004)	(10,896)	(3,867)	(12,319)
Non-controlling interest ⁽¹⁰⁾	(81)	(169)	(169)		
Adjusted net income	\$ 30,421	\$ 93,359	\$ 126,515	\$ 30,377	\$ 89,844
Net income per common share (GAAP):					
Basic	\$ 0.27	\$ 0.79		\$ 0.33	\$ 0.82
Diluted	\$ 0.26	\$ 0.79		\$ 0.33	\$ 0.82
Adjusted net income per common share (Non-GAAP):					
Basic	\$ 0.41	\$ 1.25		\$ 0.39	\$ 1.16
Diluted	\$ 0.41	\$ 1.25		\$ 0.39	\$ 1.16
Shares used in computing adjusted net income per common share:					
Basic	73,872,048	74,506,323		77,160,514	77,472,673
Diluted	74,290,733	74,751,894		77,292,813	77,577,395

- 1) Predominantly represents reimbursements received for certain software maintenance expenses as part of the Merger.
- 2) Represents the elimination of non-cash equity earnings from our 19.99% equity investment in CONTADO, net of cash dividends received.
- 3) Primarily represents share-based compensation and other compensation expense of \$1.4 million and \$1.6 million for the quarters ended September 30, 2016 and 2015 and severance payments of \$0.6 million and \$5.7 million for the quarters ended September 30, 2016 and 2015 and share-based compensation and other compensation expense of \$4.9 million and \$3.7 million for the nine-month period ended September 30, 2016 and 2015 and severance payments of \$3.1 million and \$6.2 million for the nine month period ended September 30, 2016 and 2015.

Table of Contents

- 4) Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.
- 5) Represents the elimination of the effects of purchase accounting in connection with certain customer service and software-related arrangements whereby EVERTEC receives reimbursements from Popular.
- 6) Represents consulting, audit and legal expenses incurred as part of the restatement.
- 7) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger.
- 8) Represents interest expense, less interest income, as they appear on our consolidated statements of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issue costs, premium and accretion of discount.
- 9) Represents income tax expense calculated on adjusted pre-tax income using GAAP tax rate.
- 10) Represents the 35% non-controlling equity interest in Processa, net of amortization for intangibles created as part of the purchase.

Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of September 30, 2016, we had an outstanding letter of credit of \$0.3 million with a maturity of less than three months. Also, as of September 30, 2016 we had an off balance sheet item of \$4.2 million related to the unused amount of the windfall tax benefit that is available to offset future taxable income.

See Note 10 of the Notes to Unaudited Consolidated Condensed Financial Statements within Item I of this Quarterly Report on Form 10-Q for additional information related to this off balance sheet item.

Seasonality

Our payment businesses generally experiences increased activity during the traditional holiday shopping periods and around other nationally recognized holidays.

Effect of Inflation

While inflationary increases in certain input costs, such as occupancy, labor and benefits, and general administrative costs, have an impact on our operating results, inflation has had minimal net effect on our operating results during the last three years as overall inflation has been offset by increased selling process and cost reduction actions. We cannot assure you, however, that we will not be affected by general inflation in the future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks arising from our normal business activities. These market risks principally involve the possibility of changes in interest rates that will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices.

Interest rate risks

We issued floating-rate debt which is subject to fluctuations in interest rates. Our senior secured credit facilities accrue interest at variable rates and only the Term B Loan is subject to floors or minimum rates. A 100 basis point increase in interest rates over our floor(s) on our debt balances outstanding as of September 30, 2016 under the senior secured credit facilities would increase our annual interest expense by approximately \$6.4 million, excluding the revolving credit facility. The impact on future interest expense as a result of future changes in interest rates will depend largely on the outstanding balance of our borrowings at that time.

Foreign exchange risk

We conduct business in certain countries in Latin America. Some of this business is conducted in the countries' local currencies. The resulting foreign currency translation adjustments, from operations for which the functional currency is other than the U.S. dollar, are reported in accumulated other comprehensive loss in the unaudited consolidated condensed balance sheet, except for highly inflationary environments in which the effects would be included in other operating income in the consolidated condensed statements of income and comprehensive (loss) income. At September 30, 2016, the Company had \$9.7 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$7.1 million at December 31, 2015.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company, under the direction of the Chief Executive Officer and the Chief Financial Officer, has established disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2016, the Company s disclosure controls and procedures are not effective because of the material weakness in our internal control over financial reporting identified in our Annual Report on Form 10-K for the year ended December 31, 2015, as described below.

In our Annual Report on Form 10-K for the year ended December 31, 2015, Management has determined that the Company s controls related to the completeness and robustness of its assessment and monitoring of uncertain tax positions and the appropriate accounting related to the potential obligations were not operating effectively. Management concluded that this control deficiency is a material weakness. As a result of the material weakness, we have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2015. The foregoing control deficiency contributed to the restatement of our consolidated financial statements for 2014 and 2013. Additionally, the foregoing control deficiency could result in material misstatements of the consolidated financial statements that would not be prevented or detected.

Change in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as described below, Management implemented and enhanced control activities to remediate the material weakness identified in our Annual Report on Form 10-K for the year ended December 31, 2015.

Remediation Actions

In response to the material weakness identified in the Annual Report on Form 10-K for the year ended December 31, 2015, Management implemented new and redesigned controls to remediate the underlying cause of the material weakness and improve the design of controls. Those actions include the following:

Developed an Uncertain Tax Positions Control Procedures Manual to enhance control procedures to ensure completeness of documented analyses supporting material tax positions taken by the Company. The control enhancements include the implementation of quarterly tools, such as:

- a. Identification of Tax Positions Quarterly Checklist
- b. Inventory of Tax Positions
- c. Internal Control Checklists for Uncertain Tax Positions

Enhanced monitoring activities over highly technical tax related aspects of material transactions, including the implementation of formal quarterly meetings attended by the Chief Financial Officer, Finance Director, General Counsel and tax department to ensure that material tax positions, including uncertain tax positions, are vetted fully and continuously monitored for appropriate income tax accounting and disclosure purposes.

Given that the remedial actions we have taken are very recent, Management has determined that the material weakness exists until such controls have operated for a longer period and confirmed by testing as effective and sustainable.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are defendants in various lawsuits or arbitration proceedings arising in the ordinary course of business. Management believes, based on the opinion of legal counsel and other factors, that the aggregated liabilities, if any, arising from such actions will not have a material adverse effect on the financial condition, results of operations and the cash flows of the Company.

Item 1A. Risk Factors

Among the risk factors previously disclosed under Item 1A. of the Company's 2015 Form 10-K, was a risk factor entitled *The Department of Justice of the Commonwealth of Puerto Rico has announced that it has initiated an investigation into whether we have engaged in conduct that interferes with free competition in violation of the Puerto Rico Anti-Monopoly Act*.

As indicated in our Current Report on Form 8-K filed with the SEC on August 9, 2016, on that date we received official confirmation that the Puerto Rico Department of Justice has formally closed its investigation of the Company and has concluded that the Company has not engaged in conduct that interferes with free competition with respect to the products and services, including merchant acquiring and payment processing, it provides within the Commonwealth of Puerto Rico and has not violated the Puerto Rico Anti-Monopoly Act, Law 77 of June 25, 1964. Accordingly, the risk factor in our Annual Report on Form 10-K relating to the investigation is no longer applicable and is deemed deleted.

The risks described in our 2015 Form 10-K and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes repurchases of the Company's common stock in the nine month period ended September 30, 2016:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of announced program ⁽¹⁾	Approximate dollar value of shares that may yet be purchased under the program
2/1/2016-2/29/2016	212,863	11.555	212,863	
6/1/2016-6/30/2016	830,516	15.827	830,516	
8/1/2016-8/31/2016	210,000	16.980	210,000	
9/1/2016-9/30/2016	625,285	16.836	625,285	
Total	1,878,664	\$ 15.807	1,878,664	\$ 90,262,456

- (1) On February 17, 2016, the Company announced that its Board of Directors approved an increase and extension to the current stock repurchase program, authorizing the purchase of up to \$120 million of the Company's common stock and extended the expiration to December 31, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

10.49*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Frank D Angelo.
10.50*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Thomas W. Swidarski.
10.51*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Jorge Junquera.
10.52*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Alan H. Schumacher.
10.53*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Olga Botero.
10.54*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Brian J. Smith.
10.55*+	Restricted Stock Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of July 29, 2016 by and between EVERTEC Inc. and Teresita Loubriel.
10.56*+	Separation Agreement and General Release, dated as of September 9, 2016, by and between EVERTEC Group, LLC and Arturo Díaz-Abramo.
31.1*	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL**	Instance document
101.SCH XBRL**	Taxonomy Extension Schema
101.CAL XBRL**	Taxonomy Extension Calculation Linkbase
101.DEF XBRL**	Taxonomy Extension Definition Linkbase
101.LAB XBRL**	Taxonomy Extension Label Linkbase
101.PRE XBRL**	Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

+ This exhibit is a management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EVERTEC, Inc.

(Registrant)

Date: November 3, 2016

By: /s/ Morgan Schuessler
Morgan Schuessler

Chief Executive Officer

Date: November 3, 2016

By: /s/ Peter J.S. Smith
Peter J.S. Smith

Chief Financial Officer