EVERTEC, Inc.
Form 10-Q
August 02, 2018
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 June 30, 2018 or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 001-35872

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)	00926 (Zip Code)

(787) 759-9999
(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
Emerging growth company		

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

Table of Contents

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 25, 2018, there were 72,717,138 outstanding shares of common stock of EVERTEC, Inc.

Table of Contents

TABLE OF CONTENTS

		Page
Part I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Unaudited Consolidated Condensed Balance Sheets at June 30, 2018 and December 31, 2017	1
	Unaudited Consolidated Condensed Statements of Income and Comprehensive Income for the three and six months ended June 30, 2018 and 2017	2
	Unaudited Consolidated Condensed Statement of Changes in Stockholders' Equity for the six months ended June 30, 2018	3
	Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2018 and 2017	4
	Notes to Unaudited Consolidated Condensed Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	35
Item 4.	Controls and Procedures	35
Part II. OTHER INFORMATION		37
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity in Securities and Use of Proceeds	37
Item 3.	Defaults Upon Senior Securities	37
Item 4.	Mine Safety Disclosures	37
Item 5.	Other Information	37
Item 6.	Exhibits	38
SIGNATURES		39

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” or th 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:

- our reliance on our relationship with Popular, Inc. (“Popular”) for a significant portion of our revenues pursuant to our master services agreement with them, and our reliance on Banco Popular de Puerto Rico (“Banco Popular”), Popular’s principal banking subsidiary, to grow our merchant acquiring business;
- 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, and may be unable to obtain such approval on a timely basis or at all, which may make transactions more expensive or impossible to complete, or make us less attractive to potential sellers;
- our ability to renew our client contracts on terms favorable to us, including our contract with Popular;
- 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, tax, political, administrative or economic conditions;
- the geographical concentration of our business in Puerto Rico, including our business with the government of Puerto Rico and its instrumentalities, which are facing severe fiscal challenges;
- additional adverse changes in the general economic conditions in Puerto Rico, whether as a result of the government’s debt crisis or otherwise, 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;
- the risks in connection with operating an international business in Latin America and the Caribbean, in jurisdictions with potential political and economic instability;
- our ability to execute our geographic expansion and acquisition strategies, including challenges in successfully acquiring new businesses and integrating and growing acquired businesses;
- 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;
- our ability to generate sufficient cash to service our indebtedness and to generate future profits;
- our ability to refinance our debt;
- the possibility that we could lose our preferential tax rate in Puerto Rico;
- the risk that the counterparty to our interest rate swap agreement fails to satisfy its obligations under the agreement
- uncertainty of the pending debt restructuring process under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), as well as actions taken by the Puerto Rico government or by the PROMESA Board to address the Puerto Rico fiscal crisis;

Table of Contents

- uncertainty related to Hurricanes Irma and Maria and their aftermaths' impact on the economies of Puerto Rico and the Caribbean;
- the possibility of future catastrophic hurricanes affecting Puerto Rico and/or the Caribbean, as well as other potential natural disaster; and
- the nature, timing and amount of any restatement.

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, 2017 (the "2017 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)

	June 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$59,333	$50,423
Restricted cash	11,076	9,944
Accounts receivable, net	82,447	83,328
Prepaid expenses and other assets	29,444	25,011
Total current assets	182,300	168,706
Investment in equity investee	13,335	13,073
Property and equipment, net	38,336	37,924
Goodwill	397,221	398,575
Other intangible assets, net	266,253	279,961
Deferred tax asset	1,071	988
Other long-term assets	5,653	3,561
Total assets	$904,169	$902,788
Liabilities and stockholders' equity		
Current Liabilities:		
Accrued liabilities	$41,822	$38,451
Accounts payable	34,561	41,135
Unearned income	9,633	7,737
Income tax payable	3,892	1,406
Current portion of long-term debt	21,820	46,487
Short-term borrowings	—	12,000
Total current liabilities	111,728	147,216
Long-term debt	547,551	557,251
Deferred tax liability	12,976	13,820
Unearned income - long term	24,049	23,486
Other long-term liabilities	10,502	13,039
Total liabilities	706,806	754,812
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, par value $0.01; 2,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01; 206,000,000 shares authorized; 72,717,138 shares issued and outstanding at June 30, 2018 (December 31, 2017 - 72,393,933)	727	723
Additional paid-in capital	10,654	5,350
Accumulated earnings	192,819	148,887
Accumulated other comprehensive loss, net of tax	(10,858)	(10,848)
Total EVERTEC, Inc. stockholders' equity	193,342	144,112
Non-controlling interest	4,021	3,864
Total equity	197,363	147,976
Total liabilities and equity	$904,169	$902,788

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

1

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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues (affiliates Note 13)	$113,347	$103,511	$223,621	$204,791
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	49,131	43,030	96,551	87,203
Selling, general and administrative expenses	17,848	14,588	31,280	25,419
Depreciation and amortization	15,728	15,899	31,595	31,583
Total operating costs and expenses	82,707	73,517	159,426	144,205
Income from operations	30,640	29,994	64,195	60,586
Non-operating income (expenses)				
Interest income	164	216	321	401
Interest expense	(7,665)	(7,406)	(15,344)	(14,442)
Earnings of equity method investment	175	115	374	258
Other (expense) income	(69)	1,363	748	2,637
Total non-operating expenses	(7,395)	(5,712)	(13,901)	(11,146)
Income before income taxes	23,245	24,282	50,294	49,440
Income tax expense	3,112	4,068	7,047	6,088
Net income	20,133	20,214	43,247	43,352
Less: Net income attributable to non-controlling interest	81	125	173	234
Net income attributable to EVERTEC, Inc.'s common stockholders	20,052	20,089	43,074	43,118
Other comprehensive income (loss), net of tax of $28, $(18), $168 and $19				
Foreign currency translation adjustments	(4,307)	(1,956)	(1,900)	(2,601)
Gain (loss) on cash flow hedge	387	(242)	1,890	376
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	$16,132	$17,891	$43,064	$40,893
Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders	$0.28	$0.28	$0.59	$0.59
Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders	$0.27	$0.27	$0.58	$0.59
Cash dividends declared per share	$—	$0.10	$—	$0.20

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

2

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 Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2017	72,393,933	$ 723	$ 5,350	$ 148,887	$ (10,848)	$ 3,864	$ 147,976
Cumulative adjustment from implementation of ASC 606	—	—	—	858	—	(16)	842
Share-based compensation recognized	—	—	7,322	—	—	—	7,322
Restricted stock units delivered, net of cashless	323,205	4	(2,018)	—	—	—	(2,014)
Net income	—	—	—	43,074	—	173	43,247
Other comprehensive loss	—	—	—	—	(10)	—	(10)
Balance at June 30, 2018	72,717,138	$ 727	$ 10,654	$ 192,819	$ (10,858)	$ 4,021	$ 197,363

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)

	Six months ended June 30, 2018	2017
Cash flows from operating activities		
Net income	$43,247	$43,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,595	31,583
Amortization of debt issue costs and accretion of discount	2,361	2,490
Provision for doubtful accounts and sundry losses	369	107
Deferred tax benefit	(1,113)	(1,799)
Share-based compensation	7,322	4,189
Loss on disposition of property and equipment and other intangibles	11	176
Earnings of equity method investment	(374)	(258)
Dividend received from equity method investment	390	—
(Increase) decrease in assets:		
Accounts receivable, net	811	953
Prepaid expenses and other assets	(4,236)	(6,067)
Other long-term assets	(333)	188
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(8,856)	(9,215)
Income tax payable	2,487	932
Unearned income	3,102	4,126
Other long-term liabilities	73	297
Total adjustments	33,609	27,702
Net cash provided by operating activities	76,856	71,054
Cash flows from investing activities		
Additions to software	(9,015)	(9,989)
Property and equipment acquired	(6,837)	(5,485)
Proceeds from sales of property and equipment	14	25
Net cash used in investing activities	(15,838)	(15,449)
Cash flows from financing activities		
Statutory withholding taxes paid on share-based compensation	(2,014)	(1,485)
Net (decrease) increase in short-term borrowings	(12,000)	20,000
Repayment of short-term borrowing for purchase of equipment and software	(700)	(996)
Dividends paid	—	(14,523)
Repurchase of common stock	—	(7,671)
Repayment of long-term debt	(36,262)	(9,707)
Net cash used in financing activities	(50,976)	(14,382)
Net increase in cash, cash equivalents and restricted cash	10,042	41,223
Cash, cash equivalents and restricted cash at beginning of the period	60,367	60,032
Cash, cash equivalents and restricted cash at end of the period	$70,409	$101,255
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$59,333	$93,060
Restricted cash	11,076	8,195
Cash, cash equivalents and restricted cash	$70,409	$101,255
Supplemental disclosure of cash flow information:		

Cash paid for interest	$13,649	$12,280
Cash paid for income taxes	4,719	5,116
Supplemental disclosure of non-cash activities:		
Payable due to vendor related to software acquired	360	2,360

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

Table of Contents

Notes to Unaudited Consolidated Condensed Financial Statements

Note 1 – The Company and Basis of Presentation	6
Note 2 - Recent Accounting Pronouncements	6
Note 3 - Property and Equipment, Net	7
Note 4 - Goodwill and Other Intangible Assets	7
Note 5 - Debt and Short-Term Borrowings	8
Note 6 - Financial Instruments and Fair Value Measurements	10
Note 7 - Equity	11
Note 8 - Share-based Compensation	11
Note 9 - Revenues	11
Note 10 - Income Tax	15
Note 11 - Net Income per Common Share	16
Note 12 - Commitments and Contingencies	17
Note 13 - Related Party Transactions	17
Note 14 - Segment Information	18
Note 15 - Subsequent Events	21

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. The Company provides services across 26 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, 2017, included in the Company’s 2017 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. Intercompany accounts and transactions are eliminated in consolidation.

Note 2 – Recent Accounting Pronouncements

Recently issued accounting pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance for accounting for non-employee share based payments. The update was issued as part of the FASB simplification initiative and requires an entity to apply the requirements of Topic 718 to nonemployee awards, with certain exceptions, which were previously accounted under Topic 505. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In July 2018, the FASB issued codification improvements for various standards. The amendments represent changes to clarify, correct errors in, or make minor improvements to the codification. Certain amendments included in the update were effective upon issuance of the guidance and the Company adopted without a material impact on the consolidated condensed financial statements. The remaining guidance improvements are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Accounting pronouncements issued prior to 2018 and not yet adopted

During 2016, the FASB issued updated guidance for financial reporting about leasing transactions. The amendments in this update require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. In addition, the update requires that both financing and operating leases be recognized on the balance sheet. The guidance also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company will adopt the new guidance on January 1, 2019. Based on its initial assessment, Management has identified that the main difference between the guidance in ASU 2016-02 and the current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP.

During 2016, the FASB issued updated guidance for the measurement of credit losses on financial instruments. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset or assets to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The Company expects to adopt this guidance in the fiscal period required by this update and continues to evaluate if the adoption will have an impact on the consolidated financial statements.

In August 2017, the FASB issued updated guidance to improve accounting for hedging activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported and also include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company expects to adopt this guidance in the required period and continues to evaluate if this update will have an impact on the consolidated financial statements.

Note 3 – Property and Equipment, net

Property and equipment, net consists of the following:

(Dollar amounts in thousands)	Useful life in years	June 30, 2018	December 31, 2017
Buildings	30	$1,544	$1,531
Data processing equipment	3 - 5	110,173	103,426
Furniture and equipment	3 - 20	6,878	232
Leasehold improvements	5 -10	2,595	2,190
		121,190	107,379
Less - accumulated depreciation and amortization		(84,199)	(70,793)
Depreciable assets, net		36,991	36,586
Land		1,345	1,338
Property and equipment, net		$38,336	$37,924

Depreciation and amortization expense related to property and equipment for the three and six months ended June 30, 2018 amounted to $3.5 million and $7.2 million, respectively, compared to $3.7 million and $7.4 million, respectively, for the same periods in 2017.

Note 4 – Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill, allocated by reportable segments, were as follows (See Note 14):

(In thousands)	Payment Services - Puerto	Payment Services -	Merchant Acquiring, net	Business Solutions	Total

	Rico & Caribbean	Latin America			
Balance at December 31, 2017	$ 160,972	$ 53,659	$ 138,121	$ 45,823	$ 398,575
Foreign currency translation adjustments	—	(1,354)	—	—	(1,354)
Balance at June 30, 2018	$ 160,972	$ 52,305	$ 138,121	$ 45,823	$ 397,221

Table of Contents

Goodwill is tested for impairment on an annual basis, or more often if events or changes in circumstances indicate there may be impairment. The Company first assesses qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test is used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

There were no triggering events or changes in circumstances that, subsequent to the Company's most recent impairment test, would have required an additional impairment evaluation. No impairment losses were recognized for the six months ended June 30, 2018 or 2017.

The carrying amount of other intangible assets at June 30, 2018 and December 31, 2017 was as follows:

		June 30, 2018		
(Dollar amounts in thousands)	Useful life in years	Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	$343,641	$ (181,439)	$ 162,202
Trademark	2 - 15	41,764	(27,103)	14,661
Software packages	3 - 10	206,340	(144,277)	62,063
Non-compete agreement	15	56,539	(29,212)	27,327
Other intangible assets, net		$648,284	$ (382,031)	$ 266,253

		December 31, 2017		
(Dollar amounts in thousands)	Useful life in years	Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	$344,175	$ (168,134)	$176,041
Trademark	2 - 15	41,594	(25,241)	16,353
Software packages	3 - 10	195,262	(136,907)	58,355
Non-compete agreement	15	56,539	(27,327)	29,212
Other intangible assets, net		$637,570	$ (357,609)	$279,961

For the three and six months ended June 30, 2018, the Company recorded amortization expense related to other intangibles of $12.2 million and $24.4 million, respectively, compared to $12.2 million and $24.2 million for the corresponding 2017 periods.

The estimated amortization expense of the balances outstanding at June 30, 2018 for the next five years is as follows:

(Dollar amounts in thousands)	
Remaining 2018	$23,554
2019	44,004
2020	38,834
2021	34,324
2022	32,618

8

Table of Contents

Note 5 – Debt and Short-Term Borrowings

Total debt at June 30, 2018 and December 31, 2017 follows:

(In thousands)	June 30, 2018	December 31, 2017
Senior Secured Credit Facility (2018 Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate ("LIBOR") plus applicable margin[1][3])	$—	$26,690
Senior Secured Credit Facility (2020 Term A) due on January 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin[3][4])	193,808	200,653
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin[2][3])	375,563	376,395
Senior Secured Revolving Credit Facility[6]	—	12,000
Note Payable due on August 31, 2019[5]	—	584
Note Payable due on April 30, 2021[3]	360	418
Total debt	$569,731	$616,740

(1) Applicable margin of 2.25% at December 31, 2017.
(2) Subject to a minimum rate ("LIBOR floor") of 0.75% plus applicable margin of 2.50% at June 30, 2018 and December 31, 2017.
(3) Net of unaccreted discount and unamortized debt issue costs, as applicable.
(4) Applicable margin of 2.50% at June 30, 2018 and December 31, 2017.
(5) Fixed interest rate of 7.50%. The Company prepaid the outstanding principal balance of this note during the second quarter of 2018 without penalties.
(6) Applicable margin of 2.50% at June 30, 2018 and December 31, 2017.

Senior Secured Credit Facilities

On April 17, 2013, EVERTEC Group entered into a credit agreement (the "2013 Credit Agreement") governing the senior secured credit facilities, consisting of a $300.0 million term loan A facility (the "Term A Loan"), a $400.0 million term loan B facility (the "Term B Loan", together with the Term A Loan, the "Senior Secured term loans") and a $100.0 million revolving credit facility (the "Revolving Facility"). During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding 2013 Credit Agreement (the "Second Amendment"). In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the "Third Amendment") to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately $219 million of EVERTEC Group's existing approximately $250 million of Term A loan facility to January 17, 2020 (the "2020 Term A Loan") and (b) $65 million of EVERTEC Group's existing $100 million of Revolving Facility to January 17, 2020. The remaining approximately $30 million of Term A loan (the "2018 Term A Loan") and the $35 million of Revolving Facility were not extended and matured as originally scheduled on April 17, 2018. The Term B Loan will remain in place and mature as originally scheduled on April 17, 2020.

The unpaid principal balance at June 30, 2018 of the 2020 Term A Loan and the Term B Loan was $195.5 million and $380.0 million, respectively. At June 30, 2018, the 2018 Term A Loan had been fully repaid. The additional borrowing capacity for the Revolving Facility at June 30, 2018 was $65.0 million.

Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to $0.7 million and in October 2016 entered into an interest bearing agreement of $1.1 million, to purchase software. As of June 30, 2018 and December 31, 2017, the outstanding principal balance of the notes payable is $0.4 million and $1.0 million, respectively. The October 2016 interest bearing note payable outstanding principal balance was prepaid without penalties during the second quarter of 2018. 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 June 30, 2018, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's 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 instrument is determined using a standard valuation model. The significant inputs used in this model are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2 within the fair value hierarchy. Inputs used in this standard valuation model for derivative instruments include the applicable forward rates and discount rates. The discount rates are based on the historical LIBOR Swap rates.

As of June 30, 2018 and December 31, 2017, the carrying amount of the derivative on the Company's balance sheets is as follows:

(Dollar amounts in thousands)	June 30, 2018	December 31, 2017
Other long-term assets	$2,304	$ 214

During the six months ended June 30, 2018, the Company reclassified losses of $0.2 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of $0.3 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 6 for tabular disclosure of the fair value of derivatives and to Note 7 for tabular disclosure of gains recorded on cash flow hedging activities.

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

Note 6 – 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. These provisions describe 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 an active market 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 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.

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. The following table summarizes the fair value measurement by level at June 30, 2018 and December 31, 2017 for the asset measured at fair value on a recurring basis:

Table of Contents

(In thousands)	Level 1	Level 2	Level 3	Total
June 30, 2018				
Financial asset:				
Interest rate swap	$ —	$ 2,304	$ —	$ 2,304
December 31, 2017				
Financial asset:				
Interest rate swap	$ —	$ 214	$ —	$ 214

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest rate swap	$ 2,304	$ 2,304	$ 214	$ 214
Financial liabilities:				
Senior Secured Term B Loan	375,563	378,100	376,395	370,540
2018 Term A Loan	—	—	26,690	26,027
2020 Term A Loan	193,808	194,494	200,653	196,584

The fair values of the term loans at June 30, 2018 and December 31, 2017 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 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.

Note 7 – Equity

Accumulated Other Comprehensive Loss

The following table provides a summary of the changes in the balances of accumulated other comprehensive loss for the six months period ended June 30, 2018:

(In thousands)	Foreign Currency Translation Adjustments	Cash Flow Hedge	Total
Balance - December 31, 2017, net of tax	$ (11,062)	$ 214	$ (10,848)
Other comprehensive (loss) income before reclassifications	(1,900)	1,722	(178)
Effective portion reclassified to Net Income	—	168	168
Balance - June 30, 2018, net of tax	$ (12,962)	$ 2,104	$ (10,858)

Note 8 – Share-based Compensation

Long-term Incentive Plan ("LTIP")

In the first quarter of 2016, 2017 and 2018, the Compensation Committee of the Board of Directors approved grants of restricted stock units ("RSUs") to executives and certain employees pursuant to the 2016 LTIP, 2017 LTIP and 2018 LTIP, respectively, all under the terms of our 2013 Equity Incentive Plan. Additionally, in the fourth quarter of 2017, a special

Table of Contents

retention grant to certain executives and employees of the Company was approved. Under the LTIPs, 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 grant date and ending on February 19 of each year for the 2016 LTIP, on February 24 of each year for the 2017 LTIP and on February 28 of each year for the 2018 LTIP.

Employees that received awards with market conditions under the 2016 LTIP 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 Cumulative Annual Growth Rate ("CAGR") of Diluted EPS target over one year is achieved for the 2016 LTIP. The shares earned according to the plan are further subject to a two-year service vesting period. For the performance-based awards under the 2017 LTIP and 2018 LTIP, the Compensation Committee established adjusted earnings before income taxes, depreciation and amortization ("Adjusted EBITDA") as the primary performance measure while maintaining focus on total shareholder return through the use of a market-based TSR performance modifier. The TSR modifier adjusts the shares earned based on the core Adjusted EBITDA performance upwards or downwards (+/- 25%) based on the Company's relative TSR at the end of the three-year performance period as compared to the companies in the Russell 2000 Index. The Adjusted EBITDA performance measure will be calculated for the one-year period commencing on January 1 of the year of the grant and ending on December 31 of the same year, relative to the goals set by the Compensation Committee for this same period. The shares earned will be subject to a further two-year service vesting period.

Performance and market-based awards vest at the end of the performance period that commenced on February 19, 2016 for the 2016 LTIP, February 24, 2017 for the 2017 LTIP and February 28, 2018 for the 2018 LTIP. The periods end on February 19, 2019 for the 2016 LTIP, February 24, 2020 for the 2017 LTIP and February 28, 2021 for the 2018 LTIP. Awards are forfeited if the employee voluntarily ceases to be employed by the Company prior to vesting.

The following table summarizes nonvested restricted shares and RSUs activity for the six months ended June 30, 2018:

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2017	2,340,892	$ 15.08
Forfeited	146,564	20.94
Vested	431,961	16.18
Granted	636,322	17.07
Nonvested at June 30, 2018	2,398,689	$ 15.05

For the three and six months ended June 30, 2018, the Company recognized $3.7 million and $7.3 million of share based compensation expense, respectively compared $2.0 million and $4.2 million, respectively for the same periods in 2017.

As of June 30, 2018, the maximum unrecognized cost for restricted stock and RSUs was $25.8 million. The cost is expected to be recognized over a weighted average period of 2.14 years.

Note 9 - Revenues

Summary of Revenue Recognition Accounting Policy

The Company's revenue recognition policy follows the guidance from Accounting Standards Codification ("ASC") 606 Revenue from Contracts with Customers, which provides guidance on the recognition, presentation and disclosure of revenue in consolidated financial statements.

Revenue is measured on the consideration specified in a contract with a customer. Once the Company determines a contract's performance obligations and the transaction price, including an estimate of any variable consideration, the Company allocates the transaction price to each performance obligation in the contract using a relative stand-alone selling price. The Company

Table of Contents

recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of goods and services

The following is a description of principal revenue generating activities, described by operating segment, from which the Company generates its revenue.

The Payment Services - Puerto Rico & Caribbean segment provides financial institutions, government entities and other issuers services to process credit, debit and prepaid cards; automated teller machines and electronic benefit transfer (“EBT”) card programs (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). Revenue is principally derived from fixed fees per transaction and time and material basis billing for professional service provided to enhance the existing hosted platforms. Professional services in these contracts are primarily considered non-distinct from the transactional services and accounted for as a single performance obligation. Revenue for these contracts is recognized over time in the amount in which the Company has right to consideration.

The Payment Services - Latin America segment provides financial institutions, government entities and other issuers services to process credit, debit and prepaid cards, for which revenue is recognized in the same manner as described above, as well as licensed software solutions for risk and fraud management and card payment processing. Licensed software solutions are provided through licensing of software as a service ("SaaS") and on-premise perpetual licenses. Set-up fees related to SaaS are considered non-distinct from the license and accounted for as a single performance obligation. SaaS revenues are recognized over the time the customer benefits from the software. On-premises perpetual licenses primarily require significant customization and development. Professional services provided for significant customizations and development are non-distinct from the license and accounted for as a single performance obligation, recognized over time during the development of the license. Revenue is recognized based on the Company's efforts or inputs, measured in labor hours expended, relative to the total expected inputs to satisfy the performance obligation. Maintenance or support services are considered distinct and recognized over time.

The Merchant Acquiring segment provides customers with the ability to accept and process debit and credit cards. Revenue is derived from fixed or identifiable fees charged to individual merchants per transaction, set-up fees, monthly membership fees and rental of POS terminals. Set-up fees are considered non-distinct from the transaction processing services and accounted for as a single performance obligation. Revenue for these contracts is recognized over time in the amount in which the Company has right to consideration.

The Business Solutions segment consists of revenues from a full suite of business process management solutions. Revenue derived from core bank processing and other processing and transaction based services are generally recognized over time in the amount in which the Company has right to consideration. Hosting services generally represent a series of distinct months that are substantially the same, and has the same pattern of transfer. Professional services to enhance EVERTEC's platforms are generally considered non-distinct from the hosting service and accounted for as a single performance obligation. Hosting services are generally recognized over time once in production during the remaining term of the contract. Maintenance or support services are considered distinct and recognized over time. Hardware and software sales are recognized at a point in time when the control of the asset is transferred to the customer. Indicators of transfer of control include the Company's right to payment, or as the customer has legal title or physical possession of the asset.

The Company’s service contracts may include service level arrangements (“SLA”) generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. If triggered, the SLA is deemed a consideration payable that may impact the transaction price of the contract, thus SLA performance is monitored and assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

Refer to Note 14 - Segment Information for further information, including revenue by products and services the Company provides and the geographic regions in which the Company operates.

Significant Judgments

Contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Table of Contents

The Company exercises judgment in identifying a suitable method that depicts the entity's performance in transferring control of the performance obligations satisfied over time, on a contract by contract basis. The principal criteria used for determining the measure of progress is the availability of reliable information that can be obtained without incurring undue cost, which usually results in the input method since, in the majority of cases, the outputs used to reasonably measure progress are not directly observable. The input method is applied based on labor hours expended, relative to the total expected labor hours to satisfy the performance obligation.

Judgment is required in determining the stand alone selling price for each distinct performance obligation. Stand-alone selling price is mainly determined based on the price at which the good or service is sold separately. If the good or service is not sold separately, the Company estimates the stand-alone selling price by using the approach of expected cost plus a margin. If the stand-alone selling price is not observable through past transactions, the Company estimates the stand-alone selling price by considering all reasonably available information, including market conditions, trends or other company or customer specific factors.

Impact of adoption of Topic 606

The tables below present a summary of the impacts of adopting Topic 606 on the Company's consolidated financial statements for the period ended June 30, 2018.

Balance Sheet	June 30, 2018		
(Dollar amounts in thousands)	As reported	Adjustments	Balances without the adoption of Topic 606
Assets	—		
Prepaid expenses and other assets	$29,444	$ 116	$29,560
Liabilities and stockholders' equity			
Unearned Income	33,682	890	34,572

The total effect of the adjustments to the Consolidated Condensed Statement of Income and Comprehensive Income, Consolidated Condensed Statements of Cash Flows and earnings per share is considered immaterial.

Disaggregation of revenue

The Company's operating segments are determined by the nature of the products and services the Company provides and the primary geographical markets in which the Company operates. Revenue disaggregated by segment is discussed in Note 14 - Segment Information.

In the following table, revenue is disaggregated by timing of revenue recognition.

	Three months ended June 30, 2018				
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	$67	$37	$ —	$ 1,236	$1,340
Products and services transferred over time	18,847	19,199	25,964	47,997	112,007

$18,914	$19,236	$ 25,964	$ 49,233	$113,347

14

Table of Contents

(In thousands)	Six months ended June 30, 2018 Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	$193	$429	$ —	$ 2,209	$2,831
Products and services transferred over time	37,304	39,198	49,343	94,945	220,790
	$37,497	$39,627	$ 49,343	$ 97,154	$223,621

Contract balances

The following table provides information about contract assets from contracts with customers.

(In thousands)	Contract Assets
Balance at beginning of period	$1,903
Services transferred to customers	692
Transfers to accounts receivable	(997)
Balance at June 30, 2018	$1,598

Contract assets primarily relate to the Company's right to consideration for work completed but not billed at the reporting date. The contract assets are transferred to accounts receivable when the rights to payment become unconditional. The current portion of these contract assets is recorded as part of prepaid expenses and other assets and the long-term portion is included in other long-term assets.

Accounts receivable, net at June 30, 2018 amounted to $82.4 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at June 30, 2018 amounted to $9.6 million and $24.0 million, respectively, and arise when consideration is received or due in advance from customers prior to performance. Unearned income is mainly related to upfront fees for implementation or set up activities, including fees charged in pre-production periods in connection with hosting services. During the three and six months ended June 30, 2018, the Company recognized revenue of $2.0 million and $5.7 million that was included in unearned income at December 31, 2017.

Revenues from recurring transaction-based and processing services represent the majority of the Company's total revenue as of June 30, 2018. The Company recognizes revenues from recurring transaction-based and processing services over time at the amounts in which the Company has right to invoice, which corresponds directly to the value to the customer of the Company’s performance completed to date. Therefore, the Company has elected to apply the practical expedient in paragraph 606-10-50-14. Under this practical expedient, the Company is not required to disclose information about remaining performance obligations if the contract has an original expected duration of one year or less or if the Company recognizes revenue at the amount to which it has a right to invoice.

The Company also applies the practical expedient in paragraph 606-10-50-14A and does not disclose the information about remaining performance obligations for variable consideration when the following condition is met: the variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b).

The estimated aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at June 30, 2018 is $237.8 million. This amount primarily consists of professional service fees for implementation or set up activities related to hosting services and maintenance services, which are typically recognized over the life of the contract which vary from 2 to 5 years, with the exception of one contract which represents the majority of the performance obligations under these professional services with a remaining life of 7 years. It also includes professional service fees for customizations or development of on-premise licensing agreements, which are recognized over time based on inputs relative to the total expected inputs to satisfy a performance obligation. This estimate excludes any contracts that are accounted for using the practical expedients noted above.

Table of Contents

Note 10 – Income Tax

The components of income tax expense for the three and six months ended June 30, 2018 and 2017, respectively, consisted of the following:

(In thousands)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Current tax provision	$3,073	$4,380	$8,160	$7,887
Deferred tax expense (benefit)	39	(312)	(1,113)	(1,799)
Income tax expense	$3,112	$4,068	$7,047	$6,088

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 six months ended June 30, 2018 and 2017, respectively, and its segregation based on location of operations:

(In thousands)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Current tax provision				
Puerto Rico	$1,456	$3,054	$3,855	$4,860
United States	93	386	173	200
Foreign countries	1,524	940	4,132	2,827
Total current tax provision	$3,073	$4,380	$8,160	$7,887
Deferred tax expense (benefit)				
Puerto Rico	$(194)	$(463)	$(1,033)	$(1,052)
United States	(11)	20	(98)	(83)
Foreign countries	244	131	18	(664)
Total deferred tax expense (benefit)	$39	$(312)	$(1,113)	$(1,799)

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.

As of June 30, 2018, the Company has $36.4 million of unremitted earnings from foreign subsidiaries. The Company has not recognized a deferred tax liability on undistributed earnings for the Company's foreign subsidiaries because these earnings are intended to be indefinitely reinvested.

As of June 30, 2018, the gross deferred tax asset amounted to $8.2 million and the gross deferred tax liability amounted to $20.1 million, compared to $8.3 million and $21.1 million, respectively, as of December 31, 2017.

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:

(In thousands)	Six months ended June 30, 2018	2017
Computed income tax at statutory rates	$19,614	$19,281
Differences in tax rates due to multiple jurisdictions	(201)	(466)
Tax benefit due to a change in estimate	—	(334)
Effect of income subject to tax-exemption grant	(12,902)	(12,580)

Unrecognized tax benefit	556	187
Other benefit	(20)	—
Income tax expense	$7,047	$6,088

Table of Contents

Note 11 – Net Income Per Common Share

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

	Three months ended June 30,		Six months ended June 30,	
(Dollar amounts in thousands, except per share information)	2018	2017	2018	2017
Net income attributable to EVERTEC, Inc.	$20,052	$ 20,089	$43,074	$ 43,118
Less: non-forfeitable dividends on restricted stock	—	3	—	3
Net income available to EVERTEC, Inc.’s common shareholders	$20,052	$ 20,086	$43,074	$ 43,115
Weighted average common shares outstanding	72,637,733	72,508,852	72,524,228	72,572,157
Weighted average potential dilutive common shares [1]	1,751,393	565,739	1,381,462	515,230
Weighted average common shares outstanding - assuming dilution	74,389,126	73,074,591	73,905,690	73,087,387
Net income per common share - basic	$0.28	$ 0.28	$0.59	$ 0.59
Net income per common share - diluted	$0.27	$ 0.27	$0.58	$ 0.59

(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.

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 the three months ended June 30, 2018 and 2017 amounted to $2.2 million and $1.8 million, respectively, and for the six months ended June 30, 2018 and 2017 amounted $4.5 million and $4.0 million, respectively. Rent expense for telecommunications and other equipment for the three months ended June 30, 2018 and 2017 amounted to $1.7 million and $1.6 million, respectively, and for the six months ended June 30, 2018 and 2017 amounted to $3.1 million and $3.0 million, respectively .

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 proceedings that 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 six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
(Dollar amounts in thousands)	2018	2017	2018	2017
Total revenues [1][2]	$47,203	$44,942	$92,738	$89,955

Cost of revenues	$968	$349	$1,352	$835
Rent and other fees	$2,005	$1,812	$3,968	$3,848
Interest earned from affiliate				
Interest income	$32	$39	$64	$78

Table of Contents

(1) Total revenues from Popular as a percentage of revenues were 41%, 43%, 41% and 43% for the periods presented above, respectively.

(2) Includes revenues generated from investee accounted for under the equity method of $0.4 million, $0.6 million, $0.7 million and $1.1 million for the periods presented above, respectively.

At June 30, 2018 and December 31, 2017, EVERTEC had the following balances arising from transactions with related parties:

(Dollar amounts in thousands)	June 30, 2018	December 31, 2017
Cash and restricted cash deposits in affiliated bank	$21,290	$ 23,227
Other due/to from affiliate		
Accounts receivable	$21,197	$ 18,073
Prepaid expenses and other assets	$1,687	$ 1,216
Other long-term assets	$230	$ 288
Accounts payable	$5,599	$ 5,827
Unearned income	$22,193	$ 19,768

Note 14 – Segment Information

The Company operates in four business segments: Payment Services - Puerto Rico & Caribbean, Payment Services - Latin America (collectively "Payment Services segments"), Merchant Acquiring, and Business Solutions.

The Payment Services - Puerto Rico & Caribbean segment revenues are comprised of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions) and EBT (which principally consist of services to the government of Puerto Rico for the delivery of benefits to participants). For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenues are primarily derived from the number of beneficiaries on file.

The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH debit network and other card networks to financial institutions, including related services such as authorization, processing, management and recording of ATM and POS transactions, and ATM management and monitoring. The segment revenues also include revenues from card processing services (such as credit and debit card processing, authorization and settlement and fraud monitoring and control to debit or credit issuers), payment processing services (such as payment and billing products for merchants, businesses and financial institutions), as well as, licensed software solutions for risk and fraud management and card payment processing. For ATH debit network and processing services, revenues are primarily driven by the number of transactions processed. Revenues are derived primarily from network fees, transaction switching and processing fees, and the leasing POS devices. For card issuer processing, revenues are primarily dependent upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services.

The Merchant Acquiring segment consists of revenues from services that allow merchants to accept electronic methods of payment. In the Merchant Acquiring segment, revenues include a discount fee and membership fees charged to merchants, debit network fees and rental fees 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. The discount fee is generally a percentage of the transaction value. EVERTEC also charges merchants for other services that are unrelated to the number of transactions or the transaction value.

The Business Solutions segment consists of revenues from a full suite of business process management solutions in various product areas such as core bank processing, network hosting and management, IT professional services, business process outsourcing, item processing, cash processing, and fulfillment. Core bank processing and network services revenues are derived in part from a recurrent fixed fee and from fees based on the number of accounts on file (i.e. savings or checking accounts, loans, etc.) or computer resources utilized. Revenues from other processing services within the Business Solutions segment are

Table of Contents

generally volume-based and depend on factors such as the number of accounts processed. In addition, EVERTEC is a reseller of hardware and software products and these resale transactions are generally non-recurring.

In addition to the four operating segments described above, Management identified certain functional cost areas that operate independently and do not constitute businesses in themselves. These units could neither be concluded as operating segments nor could they be combined with any other operating segments. Therefore, these units are aggregated and presented as “Corporate and Other” category in the financial statements alongside the operating segments. The Corporate and other category consists of corporate overhead expenses, intersegment eliminations, certain leveraged activities and other non-operating and miscellaneous expenses that are not included in the operating segments. The overhead and leveraged costs relate to activities such as:

- marketing,
- corporate finance and accounting,
- human resources,
- legal,
- risk management functions,
- internal audit,
- corporate debt related costs,
- non-operating depreciation and amortization expenses generated as a result of the Merger,
- intersegment revenues and expenses, and
- other non-recurring fees and expenses that are not considered when management evaluates financial performance at a segment level

The Chief Operating Decision Maker ("CODM") reviews the operating segments separate financial information to assess performance and to allocate resources. Management evaluates the operating results of each of its operating segments based upon revenues and Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments. Adjusted EBITDA, as it relates to operating segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting" given that it is reported to the CODM for purposes of allocating resources. Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by revenues and adjusted EBITDA performance. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements.

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

	Three months ended June 30, 2018					
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other (1)	Total
Revenues	$28,043	$19,236	$ 25,964	$49,233	$(9,129)	$113,347
Operating costs and expenses	13,130	18,407	14,112	30,351	6,707	82,707
Depreciation and amortization	2,409	2,249	421	3,520	7,129	15,728
Non-operating income (expenses)	551	1,401	4	66	(1,916)	106
EBITDA	17,873	4,479	12,277	22,468	(10,623)	46,474
Compensation and benefits (2)	485	317	360	684	2,627	4,473

Transaction, refinancing and other fees [3]	—	—	1	—	2,820	2,821
Adjusted EBITDA	$18,358	$4,796	$ 12,638	$23,152	$(5,176)	$53,768

(1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the $9.1 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.

(2) Primarily represents share-based compensation, other compensation expense and severance payments.

(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.

Table of Contents

(In thousands)	Three months ended June 30, 2017 Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other (1)	Total
Revenues	$27,144	$12,973	$ 23,506	$48,672	$(8,784)	$103,511
Operating costs and expenses	11,682	13,603	13,688	29,600	4,944	73,517
Depreciation and amortization	2,269	1,848	596	4,082	7,104	15,899
Non-operating income (expenses)	556	2,724	—	3	(1,805)	1,478
EBITDA	18,287	3,942	10,414	23,157	(8,429)	47,371
Compensation and benefits (2)	125	156	121	286	1,439	2,127
Transaction, refinancing and other fees (3)	—	—	—	—	632	632
Adjusted EBITDA	$18,412	$4,098	$ 10,535	$23,443	$(6,358)	$50,130

(1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the $8.8 million processing fee from Payments Services - Puerto Rico and Caribbean to Merchant Acquiring and cost transfer fees from Corporate and Other to Payment Services Latin America for leveraged services and management fees.
(2) Primarily represents share-based compensation, other compensation expense and severance payments.
(3) Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement.

(In thousands)	Six months ended June 30, 2018 Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other (1)	Total
Revenues	$55,211	$39,627	$ 49,343	$97,154	$(17,714)	$223,621
Operating costs and expenses						