

EVERTEC, Inc.  
Form 10-Q  
October 31, 2018  
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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, 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 66-0783622  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) identification number)

Cupey Center Building, Road 176, Kilometer 1.3, 00926  
San Juan, Puerto Rico  
(Address of principal executive offices) (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

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

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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 October 25, 2018, there were 72,741,417 outstanding shares of common stock of EVERTEC, Inc.

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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 the 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;
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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 disasters; 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".

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

	September 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$91,310	\$50,423
Restricted cash	12,686	9,944
Accounts receivable, net	82,865	83,328
Prepaid expenses and other assets	29,671	25,011
Total current assets	216,532	168,706
Investment in equity investee	12,039	13,073
Property and equipment, net	36,655	37,924
Goodwill	396,035	398,575
Other intangible assets, net	260,744	279,961
Deferred tax asset	1,093	988
Other long-term assets	5,500	3,561
Total assets	\$928,598	\$902,788
Liabilities and stockholders' equity		
Current Liabilities:		
Accrued liabilities	\$45,174	\$38,451
Accounts payable	37,397	41,135
Unearned income	14,017	7,737
Income tax payable	5,684	1,406
Current portion of long-term debt	23,191	46,487
Short-term borrowings	—	12,000
Total current liabilities	125,463	147,216
Long-term debt	541,949	557,251
Deferred tax liability	11,509	13,820
Unearned income - long term	24,217	23,486
Other long-term liabilities	10,508	13,039
Total liabilities	713,646	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; 72,740,277 shares issued and outstanding at September 30, 2018 (December 31, 2017 - 72,393,933)	727	723
Additional paid-in capital	12,910	5,350
Accumulated earnings	212,180	148,887
Accumulated other comprehensive loss, net of tax	(14,964 )	(10,848 )
Total EVERTEC, Inc. stockholders' equity	210,853	144,112
Non-controlling interest	4,099	3,864
Total equity	214,952	147,976
Total liabilities and equity	\$928,598	\$902,788

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





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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues (affiliates Note 13)	\$112,017	\$102,725	\$335,638	\$307,516
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	49,464	62,699	146,015	149,902
Selling, general and administrative expenses	14,404	14,612	45,684	40,031
Depreciation and amortization	15,788	16,606	47,383	48,189
Total operating costs and expenses	79,656	93,917	239,082	238,122
Income from operations	32,361	8,808	96,556	69,394
Non-operating income (expenses)				
Interest income	205	159	526	560
Interest expense	(7,557)	(8,012)	(22,901)	(22,454)
Earnings of equity method investment	238	155	612	413
Other income, net	1,130	192	1,878	2,829
Total non-operating expenses	(5,984)	(7,506)	(19,885)	(18,652)
Income before income taxes	26,377	1,302	76,671	50,742
Income tax expense (benefit)	3,302	(4,840)	10,349	1,248
Net income	23,075	6,142	66,322	49,494
Less: Net income attributable to non-controlling interest	78	40	251	274
Net income attributable to EVERTEC, Inc.'s common stockholders	22,997	6,102	66,071	49,220
Other comprehensive income (loss), net of tax of \$180, \$2, \$348 and \$21				
Foreign currency translation adjustments	(4,325)	2,083	(6,225)	(518)
Gain on cash flow hedge	219	381	2,109	757
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	\$18,891	\$8,566	\$61,955	\$49,459
Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders	\$0.32	\$0.08	\$0.91	\$0.68
Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders	\$0.31	\$0.08	\$0.89	\$0.67
Cash dividends declared per share	\$0.05	\$0.10	\$0.05	\$0.30

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

Table of ContentsEVERTEC, 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	—	—	9,692	—	—	—	9,692
Restricted stock units delivered, net of cashless	346,344	4	(2,132 )	—	—	—	(2,128 )
Net income	—	—	—	66,071	—	251	66,322
Cash dividends declared on common stock	—	—	—	(3,636 )	—	—	(3,636 )
Other comprehensive loss	—	—	—	—	(4,116 )	—	(4,116 )
Balance at September 30, 2018	72,740,277	\$ 727	\$ 12,910	\$ 212,180	\$ (14,964 )	\$ 4,099	\$ 214,952

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

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

	Nine months ended September 30, 2018	2017
Cash flows from operating activities		
Net income	\$ 66,322	\$ 49,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,383	48,189
Amortization of debt issue costs and accretion of discount	3,410	3,828
Provision for doubtful accounts and sundry losses	1,065	452
Deferred tax benefit	(2,734 )	(6,338 )
Share-based compensation	9,692	6,579
Loss on impairment of software	—	6,473
Loss on disposition of property and equipment and other intangibles	12	229
Earnings of equity method investment	(612 )	(413 )
Dividend received from equity method investment	390	—
(Increase) decrease in assets:		
Accounts receivable, net	(64 )	5,446
Prepaid expenses and other assets	(4,462 )	(3,813 )
Other long-term assets	(280 )	1,447
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(3,674 )	(9,127 )
Income tax payable	4,278	2,990
Unearned income	7,655	4,570

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Other long-term liabilities	62	(1,571	)
Total adjustments	62,121	58,941	
Net cash provided by operating activities	128,443	108,435	
Cash flows from investing activities			
Additions to software	(15,385	)	(15,955
Acquisitions, net of cash acquired	—	(42,836	)
Property and equipment acquired	(9,620	)	(8,285
Proceeds from sales of property and equipment	15	30	
Net cash used in investing activities	(24,990	)	(67,046
Cash flows from financing activities			
Statutory withholding taxes paid on share-based compensation	(2,128	)	(1,576
Net (decrease) increase in short-term borrowings	(12,000	)	5,000
Repayment of short-term borrowing for purchase of equipment and software	(686	)	(1,872
Dividends paid	(3,636	)	(21,762
Repurchase of common stock	—	(7,671	)
Repayment of long-term debt	(41,374	)	(14,748
Net cash used in financing activities	(59,824	)	(42,629
Net increase (decrease) in cash, cash equivalents and restricted cash	43,629	(1,240	)
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	\$ 103,996	\$ 58,792	

Reconciliation of  
cash, cash equivalents  
and restricted cash

Cash and cash equivalents	\$ 91,310	\$ 48,440
Restricted cash	12,686	10,352
Cash, cash equivalents and restricted cash	\$ 103,996	\$ 58,792
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 19,923	\$ 18,991
Cash paid for income taxes	7,150	7,493
Supplemental disclosure of non-cash activities:		
Payable due to vendor related to software acquired	330	1,420

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

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Notes to Unaudited Consolidated Condensed Financial Statements

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### 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 August 2018, the Financial Accounting Standards Board (“FASB”) issued an updated disclosure framework for fair value measurements. The amendments in the issued update remove, modify and add disclosure requirements on fair value measurements in Topic 820 Fair Value Measurements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments in the update should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of the adoption of this update on the notes to the consolidated financial statements.

In August 2018, the FASB issued updated guidance for customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amendments in this update align the requirements for capitalizing



implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of the adoption of this update to the consolidated financial statements.

Accounting pronouncements issued prior to 2018 and not yet adopted

During 2016, the FASB issued a new standard related to Topic 842 Leases to increase transparency and comparability among organizations by recognizing Right of Use ("ROU") assets and lease liabilities on the balance sheet for all leases, other than leases that meet the definition of a short term lease, notwithstanding the lease classification. Under the standard, organizations are required to provide disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued Accounting Standards Update ("ASU") 2018-10

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and ASU 2018-11, to amend narrow aspects of the standard, to add a new and optional transition method for the adoption of the new standard and provide lessors with a practical expedient, among others. The Company will apply Accounting Standards Codification ("ASC") Topic 842 at the adoption date in accordance with the new and optional transition method available, as well as the package of practical expedients and the use of hindsight practical expedient available for transition. Accordingly, upon transition, the Company will account for its existing leases without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether the lease classification should be different in accordance with ASC Topic 842, or (c) whether initial direct costs before transition would have met the definition of the new leasing standard. In addition, the Company will recognize an ROU asset and a lease liability for all operating leases in its balance sheet. For financing leases, the Company will change the characterization of the asset (to an ROU asset) and the obligation (to a lease liability). The Company will not restate comparative periods. The Company is in the process of calculating the impact of the recognition of ROU assets and lease liabilities for operating leases, which is the most significant impact expected, assessing the potential impact of the new standards in other accounting areas and designing the internal controls to be implemented with the adoption of ASC Topic 842.

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	September 30, 2018	December 31, 2017
Buildings	30	\$ 1,502	\$ 1,531
Data processing equipment	3 - 5	109,694	103,426
Furniture and equipment	3 - 20	7,485	232
Leasehold improvements	5 -10	2,595	2,190
		121,276	107,379
Less - accumulated depreciation and amortization		(85,929 )	(70,793 )
Depreciable assets, net		35,347	36,586
Land		1,308	1,338
Property and equipment, net		\$ 36,655	\$ 37,924

Depreciation and amortization expense related to property and equipment for the three and nine months ended September 30, 2018 amounted to \$3.7 million and \$10.9 million, respectively, compared to \$3.8 million and \$11.2 million, respectively, for the same periods in 2017.

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## 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 Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Balance at December 31, 2017	\$ 160,972	\$ 53,659	\$ 138,121	\$ 45,823	\$ 398,575
Foreign currency translation adjustments	—	(2,540 )	—	—	(2,540 )
Balance at September 30, 2018	\$ 160,972	\$ 51,119	\$ 138,121	\$ 45,823	\$ 396,035

Goodwill is tested for impairment on an annual basis as of August 31, or more often if events or changes in circumstances indicate there may be impairment. The Company may test for goodwill impairment using a qualitative or a quantitative analysis. In the quantitative analysis, the Company compares the estimated fair value of the reporting units to their carrying values, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the fair value does not exceed the carrying value, an impairment loss equaling the excess amount is recorded, limited to the recorded balance of goodwill. No impairment losses were recognized for the nine months ended September 30, 2018 or 2017.

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

(Dollar amounts in thousands)	Useful life in years	September 30, 2018		
		Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	\$343,276	\$ (188,027 )	\$ 155,249
Trademark	2 - 15	41,671	(27,996 )	13,675
Software packages	3 - 10	213,368	(147,933 )	65,435
Non-compete agreement	15	56,539	(30,154 )	26,385
Other intangible assets, net		\$654,854	\$ (394,110 )	\$ 260,744

(Dollar amounts in thousands)	Useful life in years	December 31, 2017		
		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 nine months ended September 30, 2018, the Company recorded amortization expense related to other intangibles of \$11.9 million and \$36.4 million, respectively, compared to \$12.7 million and \$36.9 million for the corresponding 2017 periods.

During the third quarter of 2017, the Company recognized an impairment charge of \$6.5 million through cost of revenues for a third party software solution that was no longer commercially viable. In connection with this exit activity, the Company accrued \$5.3 million for ongoing contractual fees, also through cost of revenues and recognized maintenance expense of \$1.0 million. Both the liability and the impairment charge affected the Company's Merchant Acquiring segment and Payment Processing segments.



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

(Dollar amounts in thousands)	
Remaining 2018	\$12,870
2019	45,128
2020	39,925
2021	35,202
2022	33,132

## Note 5 – Debt and Short-Term Borrowings

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

(In thousands)	September 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 <sup>(1)(3)</sup> )	\$—	\$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 <sup>(3)(4)</sup> )	189,974	200,653
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(2)(3)</sup> )	375,165	376,395
Senior Secured Revolving Credit Facility <sup>(6)</sup>	—	12,000
Note Payable due on August 31, 2019 <sup>(5)</sup>	—	584
Note Payable due on April 30, 2021 <sup>(3)</sup>	330	418
Total debt	\$565,469	\$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 September 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 September 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 September 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 September 30, 2018 of the 2020 Term A Loan and the Term B Loan was \$191.4 million and \$379.0 million, respectively. At September 30, 2018, the 2018 Term A Loan had been fully repaid. The additional borrowing capacity for the Revolving Facility at September 30, 2018 was \$65.0 million.

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## 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 September 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.

## Interest Rate Swap

As of September 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.

At September 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)	September	December
	30, 2018	31, 2017
Other long-term assets	\$ 2,546	\$ 214

During the nine months ended September 30, 2018, the Company reclassified losses of \$0.1 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$0.5 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

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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 September 30, 2018 and December 31, 2017 for the asset measured at fair value on a recurring basis:

(In thousands)	Level 1	Level 2	Level 3	Total
September 30, 2018				
Financial asset:				
Interest rate swap	\$	—\$2,546	\$	—\$2,546
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 September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest rate swap	\$2,546	\$2,546	\$214	\$214
Financial liabilities:				
Senior Secured Term B Loan	375,165	378,526	376,395	370,540
2018 Term A Loan	—	—	26,690	26,027
2020 Term A Loan	189,974	190,640	200,653	196,584

The fair values of the term loans at September 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 nine months period ended September 30, 2018:

(In thousands)	Foreign Currency		Cash Flow Hedge	Total
	Translation	Adjustments		
Balance - December 31, 2017, net of tax	\$ (11,062	)	\$ 214	\$(10,848)

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Other comprehensive (loss) income before reclassifications	(6,225	)	2,023	(4,202	)
Effective portion reclassified to Net Income	—		86	86	
Balance - September 30, 2018, net of tax	\$ (17,287	)	\$ 2,323	\$(14,964)	

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## 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 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 nine months ended September 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	(382,371 )	17.32
Vested	(461,097 )	18.29
Granted	636,322	17.07
Nonvested at September 30, 2018	2,133,746	\$ 15.02

For the three and nine months ended September 30, 2018, the Company recognized \$2.4 million and \$9.7 million of share based compensation expense, respectively, compared with \$2.4 million and \$6.6 million, respectively for the same periods in 2017.

As of September 30, 2018, the maximum unrecognized cost for restricted stock and RSUs was \$19.9 million. The cost is expected to be recognized over a weighted average period of 1.93 years.

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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 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

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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.

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 September 30, 2018.

Balance Sheet	September 30, 2018			
	(Dollar amounts in thousands)	As reported	Adjustments	Balances without the adoption of Topic 606
Assets				
Prepaid expenses and other assets	\$35,171	\$ (364 )		\$ 34,807
Liabilities and stockholders' equity				
Unearned Income	38,234	870		39,104

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.

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

(In thousands)	Three months ended September 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	\$ 114	\$ 15	\$ —	\$ 1,652	\$ 1,781
Products and services transferred over time	19,679	18,892	24,486	47,179	110,236
	\$ 19,793	\$ 18,907	\$ 24,486	\$ 48,831	\$ 112,017
	Nine months ended September 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	\$ 307	\$ 444	\$ —	\$ 3,861	\$ 4,612
Products and services transferred over time	56,983	58,090	73,829	142,124	331,026
	\$ 57,290	\$ 58,534	\$ 73,829	\$ 145,985	\$ 335,638

## 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	1,053
Transfers to accounts receivable	(1,253 )
September 30, 2018	\$ 1,703

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 September 30, 2018 amounted to \$82.9 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at September 30, 2018 amounted to \$14.0 million and \$24.2 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 nine months ended September 30, 2018, the Company recognized revenue of \$1.2 million and \$6.9 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 September 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.

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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 September 30, 2018 is \$249.0 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.

## Note 10 – Income Tax

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2018	2017	2018	2017
Current tax provision (benefit)	\$4,923	\$(301 )	\$13,083	\$7,586
Deferred tax benefit	(1,621 )	(4,539 )	(2,734 )	(6,338 )
Income tax expense (benefit)	\$3,302	\$(4,840)	\$10,349	\$1,248

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, 2018 and 2017, respectively, and its segregation based on location of operations:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2018	2017	2018	2017
Current tax provision (benefit)				
Puerto Rico	\$2,208	\$(1,440)	\$6,063	\$3,420
United States	(31 )	(10 )	142	190
Foreign countries	2,746	1,149	6,878	3,976
Total current tax provision (benefit)	\$4,923	\$(301 )	\$13,083	\$7,586
Deferred tax benefit				
Puerto Rico	\$(1,026)	\$(4,098)	\$(2,059 )	\$(5,150)
United States	(11 )	(107 )	(109 )	(190 )
Foreign countries	(584 )	(334 )	(566 )	(998 )
Total deferred tax benefit	\$(1,621)	\$(4,539)	\$(2,734 )	\$(6,338)

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 September 30, 2018, the Company has \$38.5 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 September 30, 2018, the gross deferred tax asset amounted to \$8.8 million and the gross deferred tax liability amounted to \$19.2 million, compared to \$8.3 million and \$21.1 million, respectively, as of December 31, 2017.

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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)	Nine months ended	
	September 30,	
	2018	2017
Computed income tax at statutory rates	\$29,902	\$19,790
Differences in tax rates due to multiple jurisdictions	(356 )	2,237
Tax benefit due to a change in estimate	—	(334 )
Effect of income subject to tax-exemption grant	(19,542 )	(16,421 )
Unrecognized tax expense (benefit)	754	(4,271 )
Other (benefit) expense	(409 )	247
Income tax expense	\$10,349	\$1,248

## Note 11 – Net Income Per Common Share

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

(Dollar amounts in thousands, except per share information)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income attributable to EVERTEC, Inc.	\$22,997	\$ 6,102	\$66,071	\$ 49,220
Less: non-forfeitable dividends on restricted stock	2	4	2	7
Net income available to EVERTEC, Inc.'s common shareholders	\$22,995	\$ 6,098	\$66,069	\$ 49,213
Weighted average common shares outstanding	72,721,417	72,386,947	72,590,677	72,509,742
Weighted average potential dilutive common shares <sup>(1)</sup>	1,935,686	1,706,771	1,532,752	1,580,270
Weighted average common shares outstanding - assuming dilution	74,657,103	74,093,718	74,123,433	74,090,012
Net income per common share - basic	\$0.32	\$ 0.08	\$0.91	\$ 0.68
Net income per common share - diluted	\$0.31	\$ 0.08	\$0.89	\$ 0.67

(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 July 26, 2018, the Company's Board of Directors (the "Board") declared a quarterly cash dividend of \$0.05 per share of common stock, which was paid on September 7, 2018 to stockholders of record as of the close of business on August 6, 2018.

## 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 September 30, 2018 and 2017 amounted to \$2.2 million and \$2.1 million, respectively, and for the nine months ended September 30, 2018 and 2017 amounted \$6.7 million and \$6.1 million, respectively. Rent expense for telecommunications and other equipment for the three months ended September 30, 2018 and 2017 amounted to \$1.8 million and \$1.5 million, respectively, and for the nine months ended September 30, 2018 and 2017 amounted to \$4.9 million and \$4.5 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

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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 nine months ended September 30, 2018 and 2017:

(Dollar amounts in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total revenues <sup>(1)(2)</sup>	\$47,216	\$44,090	\$139,954	\$134,045
Cost of revenues	\$840	\$1,775	\$2,192	\$2,610
Rent and other fees	\$2,016	\$1,962	\$5,984	\$5,810
Interest earned from affiliate				
Interest income	\$37	\$41	\$101	\$119

(1) Total revenues from Popular as a percentage of revenues were 42%, 42%, 41% and 43% for the periods presented above, respectively.

(2) Includes revenues generated from investee accounted for under the equity method of \$0.3 million, \$0.4 million, \$1.0 million and \$1.5 million for the periods presented above, respectively.

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

(Dollar amounts in thousands)	September 30, 2018	December 31, 2017
Cash and restricted cash deposits in affiliated bank	\$ 52,953	\$ 23,227
Other due/to from affiliate		
Accounts receivable	\$ 23,902	\$ 18,073
Prepaid expenses and other assets	\$ 2,211	\$ 1,216
Other long-term assets	\$ 199	\$ 288
Accounts payable	\$ 5,831	\$ 5,827
Unearned income	\$ 24,252	\$ 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.

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The Payment Services - Latin America segment revenues consist of revenues related to providing access to the ATH 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 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.

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

(In thousands)	Three months ended September 30, 2018					Total
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	
Revenues	\$28,951	\$18,907	\$24,486	\$48,831	\$(9,158)	\$112,017
Operating costs and expenses	13,021	18,890	14,160	30,983	2,602	79,656
Depreciation and amortization	2,505	2,337	427	3,398	7,121	15,788
Non-operating income (expenses)	602	3,834	—	12	(3,080)	1,368
EBITDA	19,037	6,188	10,753	21,258	(7,719)	49,517
Compensation and benefits <sup>(2)</sup>	207	363	196	485	1,117	2,368
Transaction, refinancing and other fees <sup>(3)</sup>	—	—	(1)	1	215	215
Adjusted EBITDA	\$19,244	\$6,551	\$10,948	\$21,744	\$(6,387)	\$52,100

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$9.2 million processing fee from (1) 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.

Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement (3) and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

(3) and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

(In thousands)	Three months ended September 30, 2017					Total
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	
Revenues	\$25,225	\$17,432	\$21,555	\$46,275	\$(7,762)	\$102,725
Operating costs and expenses	16,219	21,396	19,444	31,620	5,238	93,917
Depreciation and amortization	2,259	2,608	618	4,024	7,097	16,606
Non-operating income (expenses)	567	1,732	—	—	(1,952)	347
EBITDA	11,832	376	2,729	18,679	(7,855)	25,761
Compensation and benefits <sup>(2)</sup>	205	139	216	781	1,007	2,348
Transaction, refinancing and other fees <sup>(3)</sup>	3,160	3,221	6,464	—	757	13,602
Adjusted EBITDA	\$15,197	\$3,736	\$9,409	\$19,460	\$(6,091)	\$41,711

(1) Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$7.8 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.

Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas

(3) Dominicanas S.A., net of cash dividends received and an impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.

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(In thousands)	Nine months ended September 30, 2018					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	Total
Revenues	\$84,162	\$58,534	\$ 73,829	\$145,985	\$(26,872)	\$335,638
Operating costs and expenses	39,084	55,357	41,413	90,349	12,879	239,082
Depreciation and amortization	7,230	7,035	1,268	10,437	21,413	47,383
Non-operating income (expenses)	1,969	7,048	8	378	(6,913 )	2,490
EBITDA	54,277	17,260	33,692	66,451	(25,251 )	146,429
Compensation and benefits <sup>(2)</sup>	885	1,080	746	1,609	6,350	10,670
Transaction, refinancing and other fees <sup>(3)</sup>	(250 )	—	—	1	2,986	2,737
Adjusted EBITDA	\$54,912	\$18,340	\$ 34,438	\$68,061	\$(15,915)	\$159,836

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$26.9 million processing fee from (1) 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.

Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement (3) and the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

(In thousands)	Nine months ended September 30, 2017					
	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Corporate and Other <sup>(1)</sup>	Total
Revenues	\$78,821	\$43,369	\$ 67,546	\$142,944	\$(25,164)	\$307,516
Operating costs and expenses	39,703	47,265	46,545	90,985	13,624	238,122
Depreciation and amortization	6,677	6,327	1,813	12,120	21,252	48,189
Non-operating income (expenses)	1,676	7,187	1	3	(5,625 )	3,242
EBITDA	47,471	9,618	22,815	64,082	(23,161 )	120,825
Compensation and benefits <sup>(2)</sup>	429	446	432	1,293	3,951	6,551
Transaction, refinancing and other fees <sup>(3)</sup>	2,500	3,221	6,464	—	1,439	13,624
Adjusted EBITDA	\$50,400	\$13,285	\$ 29,711	\$65,375	\$(17,771)	\$141,000

Corporate and Other consists of corporate overhead, certain leveraged activities, other non-operating expenses and intersegment eliminations. Intersegment eliminations predominantly reflect the \$25.2 million processing fee from (1) 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.

Primarily represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas  
(3) Dominicanas S.A., net of cash dividends received and an impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.

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The reconciliation of EBITDA to consolidated net income is as follows:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total EBITDA	\$49,517	\$25,761	\$146,429	\$120,825
Less:				
Income tax expense (benefit)	3,302	(4,840 )	10,349	1,248
Interest expense, net	7,352	7,853	22,375	21,894
Depreciation and amortization	15,788	16,606	47,383	48,189
Net Income	\$23,075	\$6,142	\$66,322	\$49,494

## Note 15 – Subsequent Events

On October 25, 2018, the Board declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend will be paid on December 7, 2018 to stockholders of record as of the close of business on November 5, 2018. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to Board of Directors' approval and may be adjusted as business needs or market conditions change.



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### 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, 2018 and 2017 and (ii) the financial condition as of September 30, 2018. 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, 2017, 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 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, Tecnopago SpA, EFT Group SpA, EFT Global Services, SpA, EFT Group S.A., Tecnopago España SL, EFT Servicios Profesionales SpA, Paytrue S.A., Caleidon, S.A., Paytrue Solutions Informatica Ltda., EVERTEC Panamá, S.A., EVERTEC Costa Rica, S.A. (“EVERTEC CR”), EVERTEC Guatemala, S.A., Processa, SAS (“Processa”), EVERTEC USA, LLC 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.

### Executive Summary

EVERTEC is a leading full-service transaction processing business in Latin America and the Caribbean, providing a broad range of merchant acquiring, payment services and business process management services. According to the August 2017 Nilson Report, we are one of the largest merchant acquirers in Latin America based on total number of transactions and we believe we are the largest merchant acquirer in the Caribbean and Central America. We serve 26 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.

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 capability provides several competitive advantages that will enable us to continue to penetrate our existing customer base with complementary new 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 integrated technology solutions that enable 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 services).

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 scalable, end-to-end

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technology platforms 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. 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 moderate capital expenditure requirements. Our revenue is predominantly recurring in nature because of the mission-critical and embedded nature of the services we provide. In addition, we generally negotiate multi-year contracts with our customers. We believe our business model should enable us to continue to grow our business organically in the primary markets we serve without significant incremental capital expenditures.

## Corporate Background

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) is a Puerto Rico corporation organized in April 2012. Our main operating subsidiary, EVERTEC Group, LLC (formerly known as EVERTEC, LLC and EVERTEC, Inc., hereinafter “EVERTEC Group”), was organized in Puerto Rico in 1988. EVERTEC Group 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”), an affiliate of Apollo Global Management LLC, acquired a 51% indirect ownership interest in EVERTEC Group as part of a merger (the “Merger”) and EVERTEC Group became a wholly-owned subsidiary of Holdings.

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 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 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 and Caribbean region is lower relative to the mature U.S. and European markets. We believe that the unbanked and underbanked population in our markets will continue to shrink, and therefore drive 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, which presents a business opportunity for us.

Finally, our financial condition and results of operations are, in part, dependent on the economic and general conditions of the geographies in which we operate.

On June 30, 2016, the U.S. President signed into law PROMESA. PROMESA establishes a fiscal oversight and the Oversight Board comprised of seven voting members appointed by the President. The Oversight Board has broad budgetary and financial

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powers over Puerto Rico’s budget, laws, financial plans and regulations, including the power to approve restructuring agreements with creditors, file petitions for restructuring and reform the electronic system for the tax collection. The Oversight Board will have ultimate authority in preparing the Puerto Rico government’s budget and any issuance of future debt by the government and its instrumentalities. In addition, PROMESA imposes an automatic stay on all litigation against Puerto Rico and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the Puerto Rico government. On May 1, 2017, the automatic stay expired. Promptly after the expiration of the stay, creditors of the Puerto Rico government filed various lawsuits involving defaults on more than \$70 billion of bonds issued by Puerto Rico, having failed to reach a negotiated settlement on such defaults with the Puerto Rico government during the period of the automatic stay. On May 3, 2017, the Oversight Board filed a voluntary petition of relief on behalf of the Commonwealth pursuant to Title III of PROMESA for the restructuring of the Commonwealth’s debt. Subsequently, the Oversight Board filed voluntary petitions of relief pursuant to Title III of PROMESA on behalf certain public corporations and instrumentalities. Title III is an in-court debt restructuring proceeding similar to protections afforded debtors under Chapter 11 of the United States Code (the “Bankruptcy Code”); the Bankruptcy Code is not available to the Commonwealth or its instrumentalities.

As the solution to the Puerto Rican government’s debt crisis remains unclear, we continue to carefully monitor our receivables with the government as well as monitor general economic trends to understand the impact the crisis has on the economy of Puerto Rico and our card payment volumes. To date our receivables with the Puerto Rican government and overall payment transaction volumes have not been significantly affected by the debt crisis, however we remain cautious.

In the aftermath of the 2017 hurricanes, economic activity and consumer spending in Puerto Rico and the Virgin Islands has been erratic. In nine months ended September 30, 2018, we experienced elevated sales volumes as consumers and businesses spent on hurricane recovery and rebuilding activities. This spending increased our merchant acquiring revenues and we believe our elevated sales volume was in large part driven by a stimulus of relief funding and private insurance proceeds received by consumers and businesses. We believe that this pattern will likely continue through the remainder of the year as incremental insurance and relief funds are projected to be received by consumers and businesses.

In addition to the macroeconomic trends described above, Management currently estimates that we will continue to experience a revenue attrition in Latin America of approximately \$3 million to \$6 million for previously disclosed migrations anticipated in 2019. The clients decisions, which were made prior to 2015, for these anticipated migrations were driven by a variety of historical factors, most importantly customer service experience. Management believes that these customer decisions are unlikely to change, however timing is subject to change based on customer's conversion schedules.

## Results of Operations

## Comparison of the three months ended September 30, 2018 and 2017

Dollar amounts in thousands	Three months ended September 30,			Variance 2018 vs. 2017	
	2018	2017			
Revenues	\$112,017	\$102,725	\$9,292	9	%
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	49,464	62,699	(13,235 )	(21 )	%
Selling, general and administrative expenses	14,404	14,612	(208 )	(1 )	%

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Depreciation and amortization	15,788	16,606	(818 )	(5 )%
Total operating costs and expenses	79,656	93,917	(14,261 )	(15 )%
Income from operations	\$32,361	\$8,808	\$23,553	267 %

Revenues

Total revenues in the third quarter of 2018 increased by \$9.3 million or 9% to \$112.0 million. Revenue growth in the quarter reflected elevated sales volumes in Puerto Rico driven by post-hurricane recovery activity, federal relief and benefit programs and insurance proceeds.

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## Cost of revenues

Cost of revenues amounted to \$49.5 million, a decrease of \$13.2 million or 21% when compared with the prior year period. The decrease is primarily related to charges amounting to \$12.8 million taken in the prior year in connection with an exit activity for a third party software solution that was no longer commercially viable and a \$1.0 million decrease in professional fees.

## Selling, general and administrative

Selling, general and administrative expenses in the third quarter of 2018 decreased by \$0.2 million or 1% when compared with the same quarter in 2017. The decrease is primarily related to a decrease in salaries expense partially offset by an increase in other operating expenses.

## Depreciation and amortization

Depreciation and amortization expense amounted to \$15.8 million, a decrease of \$0.8 million or 5%. The decrease is mainly related to a decrease in software amortization.

## Non-operating income (expenses)

Dollar amounts in thousands	Three months ended September 30,		Variance	
	2018	2017	2018 vs. 2017	
Interest income	\$205	\$159	\$46	29 %
Interest expense	(7,557)	(8,012)	455	(6) %
Earnings of equity method investment	238	155	83	54 %
Other income, net	1,130	192	938	489 %
Total non-operating expenses	\$(5,984)	\$(7,506)	1,522	20 %

Non-operating expenses decreased by \$1.5 million to \$6.0 million when compared with the prior year period. The decrease is mainly related to a \$0.9 million increase in Other income, net due to an increase in foreign exchange gains coupled with a decrease in interest expense of \$0.5 million.

## Income tax expense (benefit)

Dollar amounts in thousands	Three months ended September 30,		Variance 2018	
	2018	2017	vs. 2017	
Income tax expense (benefit)	\$3,302	\$(4,840)	8,142	(168)%

Income tax expense amounted to \$3.3 million, compared to a tax benefit of \$4.8 million when compared with the prior year period. The increase is primarily related to the mix between taxable and exempt income in Puerto Rico when compared to the prior year which was impacted by the hurricanes, coupled with the reversal in the prior year of a potential liability for uncertain tax positions of \$4.5 million as a result of the expiration of the statute of limitation. The effective tax rate for the quarter was 12.5%.





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## Comparison of the nine months ended September 30, 2018 and 2017

Dollar amounts in thousands	Nine months ended September 30,		Variance 2018 vs. 2017	
	2018	2017		
Revenues	\$335,638	\$307,516	\$28,122	9 %
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	146,015	149,902	(3,887 )	(3 )%
Selling, general and administrative expenses	45,684	40,031	5,653	14 %
Depreciation and amortization	47,383	48,189	(806 )	(2 )%
Total operating costs and expenses	239,082	238,122	960	— %
Income from operations	\$96,556	\$69,394	\$27,162	39 %

## Revenues

Total revenues for the nine months ended September 30, 2018 amounted to \$335.6 million, an increase of \$28.1 million or 9%. The increase in revenues was primarily driven by the same reasons explained above for the quarter coupled with added revenues from the acquisition of PayGroup completed in the third quarter of the prior year.

## Cost of revenues

Cost of revenues amounted to \$146.0 million, a decrease of \$3.9 million or 3% when compared with the prior year period. The decrease is primarily related to the aforementioned exit activity in the prior year, partially offset by an increase in salaries and benefits in connection with the PayGroup acquisition as well as increased software maintenance expense.

## Selling, general and administrative

Selling, general and administrative expenses in the nine months ended September 30, 2018 increased by \$5.7 million or 14% to \$45.7 million when compared with the same period in 2017. The increase is mainly driven by an increase in share based compensation expense, added salaries from the PayGroup acquisition and an increase in professional fees.

## Depreciation and amortization

Depreciation and amortization expense amounted to \$47.4 million, a decrease of \$0.8 million when compared with the same period in 2017. The decrease is mainly related to a decrease in software amortization expense.

## Non-operating income (expenses)

Dollar amounts in thousands	Nine months ended September 30,		Variance 2018 vs. 2017	
	2018	2017		
Interest income	\$526	\$560	\$(34)	(6 )%
Interest expense	(22,901 )	(22,454 )	(447 )	2 %
Earnings of equity method investment	612	413	199	48 %

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Other income, net	1,878	2,829	(951)	(34)%
Total non-operating expenses	\$(19,885)	\$(18,652)	(1,233)	7%

Non-operating expenses increased by \$1.2 million to \$19.9 million when compared with the prior year period. The increase is mainly related to an increase in interest expense of \$0.4 million coupled with a \$1.0 million decrease in Other income, net mostly due to a decrease in foreign exchange gains.

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## Income tax expense

	Nine months ended September 30,		Variance
Dollar amounts in thousands	2018	2017	2018 vs. 2017
Income tax expense	\$10,349	\$1,248	9,101 729%

Income tax expense amounted to \$10.3 million an increase of \$9.1 million when compared with the prior year period. The increase in income tax expense was mainly driven by the increase in income before income taxes coupled with the impact in the prior year of the reversal of a previously recorded potential liability for uncertain tax positions for which the statute of limitation expired, in addition to an increase in foreign taxes during the current year. The effective tax rate for the period was 13.5% .

## Segment Results of Operations

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 electronic benefit transfer ("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 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 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 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 one-time transactions.

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

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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 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 EBITDA. 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 below.

Comparison of the three months ended September 30, 2018 and 2017

Payment Services - Puerto Rico & Caribbean

	Three months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$28,951	\$25,225
Adjusted EBITDA	19,244	15,197

Payment services - Puerto Rico & Caribbean revenues increased by \$3.7 million to \$29.0 million when compared with the 2017 period. The increase in revenues was driven by higher POS volumes coupled with new transaction fees and growth over the prior year, which was negatively impacted by the hurricanes. Adjusted EBITDA increased by \$4.0 million to \$19.2 million primarily due to higher revenues as a result of the hurricane impacts in the prior year quarter.

Payment Services - Latin America

	Three months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$18,907	\$17,432

Adjusted EBITDA                    6,551    3,736

Payment services - Latin America revenue increased \$1.5 million to \$18.9 million driven by organic expansion of existing clients as well as some new business revenue. The increase was partially offset by a decrease in revenues attributable to client migrations. Adjusted EBITDA increased \$2.8 million when compared to the prior year period, due to increased revenue and the beneficial impact of foreign exchange gains in the quarter.

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## Merchant Acquiring

	Three months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$24,486	\$21,555
Adjusted EBITDA	10,948	9,409

Merchant acquiring revenues increased \$2.9 million to \$24.5 million due to increased volumes. The primary growth drivers continue to be post hurricane recovery federal relief programs that drove a significant increase in electronic benefit card volume, increased government tax payments and gas purchases reflecting increases in the price of gas year over year. Adjusted EBITDA increased \$1.5 million mainly due to increased sales volumes for ATH branded cards and the improved margin contribution from an increase in average ticket.

## Business Solutions

	Three months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$48,831	\$46,275
Adjusted EBITDA	21,744	19,460

Business solutions revenue increased \$2.6 million or 6% driven by new services to Popular and the government of Puerto Rico, as well as growth over the prior year which was negatively impacted by the hurricanes, partially offset by lower IT Consulting revenues. Adjusted EBITDA increased \$2.3 million to \$21.7 million when compared with the prior year almost entirely driven by the increase in revenues.

## Comparison of the nine months ended September 30, 2018 and 2017

## Payment Services - Puerto Rico &amp; Caribbean

	Nine months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$84,162	\$78,821
Adjusted EBITDA	54,912	50,400

Payment services - Puerto Rico & Caribbean revenues increased by \$5.3 million to \$84.2 million when compared with the 2017 year-to-date period. The increase in revenues was driven by an increase in volumes, pricing initiatives and new transaction fees. Adjusted EBITDA increased \$4.5 million mainly as a result of the increase in revenues.

## Payment Services - Latin America

	Nine months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$58,534	\$43,369
Adjusted EBITDA	18,340	13,285

Payment services - Latin America revenue increased \$15.2 million to \$58.5 million driven by added revenues in connection with PayGroup acquisition coupled with increased revenues from transaction processing. Adjusted EBITDA increased \$5.1 million when compared to the prior year period as a result of added revenues at a lower margin from the PayGroup acquisition.



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## Merchant Acquiring

	Nine months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$73,829	\$67,546
Adjusted EBITDA	34,438	29,711

Merchant acquiring revenues increased \$6.3 million to \$73.8 million and Adjusted EBITDA increased \$4.7 million to \$34.4 million driven by the same reasons explained previously for the quarter.

## Business Solutions

	Nine months ended September 30,	
Dollar amounts in thousands	2018	2017
Revenues	\$145,985	\$142,944
Adjusted EBITDA	68,061	65,375

Business solutions revenue increased \$3.0 million to \$146.0 million when compared with the prior year driven by an increase in revenues from Popular for new services coupled with growth over the negative impact of the hurricanes in the prior year, partially offset by lower IT consulting revenue, while Adjusted EBITDA increased \$2.7 million mainly due to the increase in revenues.

## 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, working capital needs and acquisitions. We also have a \$65.0 million Revolving Facility, of which \$65.0 million was available as of September 30, 2018.

At September 30, 2018, we had cash and cash equivalents of \$91.3 million, of which \$40.3 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, debt service, acquisitions and other growth strategies as opportunities present themselves.

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, capital expenditures, mergers and acquisitions, 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.

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Nine months ended  
September 30,  
2018      2017

(Dollar amounts in thousands)

Cash provided by operating activities	\$ 128,443	\$ 108,435
Cash used in investing activities	(24,990 )	(67,046 )
Cash used in financing activities	(59,824 )	(42,629 )
Increase (decrease) in cash, cash equivalents and restricted cash	\$43,629	\$(1,240 )

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Net cash provided by operating activities for the nine months ended September 30, 2018 was \$128.4 million compared with cash provided by operating activities of \$108.4 million for the corresponding 2017 period. The \$20.0 million increase in cash provided by operating activities is primarily driven by an increase in net income.

Net cash used in investing activities for the nine months ended September 30, 2018 was \$25.0 million compared with \$67.0 million for the corresponding period in 2017. The \$42.1 million decrease is attributable to the completion of the PayGroup acquisition in the third quarter of 2017.

Net cash used in financing activities for the nine months ended September 30, 2018 was \$59.8 million compared with \$42.6 million for the corresponding 2017 period. Cash used in financing activities was primarily related to cash used for repayments of the revolving credit facility and principal repayments on long-term debt, including the repayment at maturity of the 2018 Term A loan.

## 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 \$25.0 million and \$24.2 million for the nine months ended September 30, 2018 and 2017, respectively. In addition, in the third quarter of 2017, we completed the purchase of PayGroup for \$42.8 million. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our Revolving Facility. We expect capital expenditures to be in a range of \$37 million to \$42 million in 2018.

On April 17, 2018, the Company paid the outstanding balance of the 2018 Term A Loan which amounted to \$26.1 million, as scheduled. In addition, on the same date, \$35 million of the Revolving Facility expired.

## Dividend Payments

Historically, we have paid a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. On November 2, 2017, the Board voted to temporarily suspend the quarterly dividend on the Company's common stock due to the difficult operating environment in Puerto Rico. On July 26, 2018, the Board voted to reinstate a quarterly dividend on the Company's common stock and declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend was paid on September 7, 2018 to stockholders of record as of the close of business on August 6, 2018. On October 25, 2018, the Board declared a regular quarterly cash dividend of \$0.05 per share on the Company's outstanding shares of common stock. The dividend will be paid on December 7, 2018 to stockholders of record as of the close of business on November 5, 2018. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to Board of Directors' approval and may be adjusted as business needs or market conditions change.

## Financial Obligations

### 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. All loans may be prepaid without premium or penalty.

The unpaid principal balance at September 30, 2018 of the 2020 Term A Loan and the Term B Loan was \$191.4 million and \$379.0 million, respectively. The additional borrowing capacity for the Revolving Facility at September 30, 2018 was \$65.0 million. On April 17, 2018, the Company paid the outstanding principal balance of the 2018 Term A loan which matured as

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scheduled. In addition, \$35 million of the Revolving Facility expired on the same date, our borrowing capacity under the Revolving Facility is \$65 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 September 30, 2018 and December 31, 2017, the outstanding principal balance of the notes payable is \$0.4 million and \$1.0 million, respectively. 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

As of September 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 in 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 September 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)	September 30, 2018	December 31, 2017
Other long-term assets	\$ 2,546	\$ 214

During the nine months ended September 30, 2018, the Company reclassified losses of \$0.1 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of \$0.5 million from accumulated other comprehensive loss into income through interest expense over the next 12 months.

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 4.75 to 1.00 as defined in the Third Amendment (total first lien senior secured debt to Adjusted EBITDA per the 2013 Credit Agreement) until September 30, 2018 and 4.25 to 1.00 for any fiscal quarter ending thereafter. 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 restrict 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, 2018, the senior secured leverage ratio was 2.75 to 1.00. As of the date of filing of this Form 10-Q, no event has occurred that constitutes an Event of Default or Default.

Net Income Reconciliation to EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share (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. Adjusted EBITDA by segment is

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reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason Adjusted EBITDA, as it relates to our segments, is presented in conformity with Accounting Standards Codification 280, Segment Reporting, and is excluded from the definition of non-GAAP financial measures under the Securities and Exchange Commission's Regulation G and Item 10(e) of Regulation S-K. We define "Adjusted Net Income" as net income adjusted to exclude unusual items and other adjustments described below. We define "Adjusted Earnings per common share" as Adjusted Net Income divided by diluted shares outstanding.

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 ourselves and other companies in our industry. In addition, our presentation of Adjusted EBITDA is substantially 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 we believe better reflects our comparable operating performance by excluding the impact of the non-cash amortization and depreciation that was created as a result of the Merger. In addition, in evaluating EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share, 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.

Some of the limitations of EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted earnings per common share 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, Adjusted Net Income, and Adjusted Earnings per common share or may calculate EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings per common share differently than as presented in this Report, limiting their usefulness as a comparative measure.

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings 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 Earnings 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.

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

(Dollar amounts in thousands)	Three months ended September 30,		Nine months ended September 30,		Twelve months ended September 30, 2018
	2018	2017	2018	2017	
Net income	\$23,075	\$ 6,142	\$66,322	\$ 49,494	\$ 72,352
Income tax expense (benefit)	3,302	(4,840 )	10,349	1,248	12,922
Interest expense, net	7,352	7,853	22,375	21,894	28,644
Depreciation and amortization	15,788	16,606	47,383	48,189	63,432
EBITDA	49,517	25,761	146,429	120,825	177,350
Equity income <sup>(1)</sup>	(238 )	(155 )	(179 )	(413 )	(687 )
Compensation and benefits <sup>(2)</sup>	2,368	2,348	10,670	6,551	9,775
Transaction, refinancing and other fees <sup>(3)</sup>	453	974	2,916	1,254	1,979
Exit activity <sup>(4)</sup>	—	12,783	—	12,783	—
Adjusted EBITDA	52,100	41,711	159,836	141,000	188,417
Operating depreciation and amortization <sup>(5)</sup>	(7,365 )	(7,969 )	(21,909 )	(23,126 )	(29,981 )
Cash interest expense, net <sup>(6)</sup>	(6,473 )	(6,500 )	(19,396 )	(18,238 )	(24,633 )
Income tax expense <sup>(7)</sup>	(4,558 )	(2,867 )	(15,492 )	(9,836 )	(16,791 )
Non-controlling interest <sup>(8)</sup>	(121 )	(106 )	(385 )	(431 )	(596 )
Adjusted net income	\$33,583	\$ 24,269	\$ 102,654	\$ 89,369	\$ 116,416
Net income per common share (GAAP):					
Diluted	\$0.31	\$ 0.08	\$0.89	\$ 0.67	
Adjusted Earnings per common share (Non-GAAP):					
Diluted	\$0.45	\$ 0.33	\$ 1.38	\$ 1.22	
Shares used in computing adjusted earnings per common share:					
Diluted	74,657,100	73,093,718	74,123,431	73,090,012	

1) Represents the elimination of non-cash equity earnings from our 19.99% equity investment in Consorcio de Tarjetas Dominicanas S.A., net of cash dividends received.

Primarily represents share-based compensation and other compensation expense of \$2.4 million for both of the quarters ended September 30, 2018 and 2017. Primarily represents share-based compensation and other

2) compensation expense of \$9.7 million and \$6.6 million for the nine months ended ended September 30, 2018 and 2017 and severance payments \$1.0 million for the nine months ended September 30, 2018.

3) Represents fees and expenses associated with corporate transactions as defined in the Credit Agreement, recorded as part of selling, general and administrative expenses and cost of revenues.

4) Impairment charge and contractual fee accrual for a third party software solution that was determined to be commercially unviable.

5) Represents operating depreciation and amortization expense, which excludes amounts generated as a result of the Merger and other from purchase accounting intangibles generated from acquisitions.

6) 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.

7) Represents income tax expense calculated on adjusted pre-tax income using the applicable GAAP tax rate, adjusted for certain discreet items.

8) Represents the 35% non-controlling equity interest in Processa, net of amortization for intangibles created as part of the purchase.





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### Off Balance Sheet Arrangements

In the ordinary course of business the Company may enter into commercial commitments. As of September 30, 2018, the Company did not have any off balance sheet items.

### Seasonality

Our payment businesses generally experience moderate increased activity during the traditional holiday shopping periods and around other nationally recognized holidays, which follow consumer spending patterns.

### 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, 2018, after considering our interest rate swap, under the senior secured credit facilities would increase our annual interest expense by approximately \$3.7 million. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

In December 2015, we entered into an interest rate swap agreement with a notional amount of \$200 million. Under this agreement, commencing on January 1, 2017, we began to receive a rate equal to the LIBOR applicable to our Term B loan, and pay a fixed rate equal to 1.9225%. The net effect of the swap agreement is to fix the interest rate on \$200 million of our Term B loan at 4.4225%, beginning January 1, 2017 and ending when the Term B Loan matures, in April 2020.

The interest rate swap exposes us to credit risk in the event that the counterparty to the swap agreement does not or cannot meet its obligations. The notional amount is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The loss would be limited to the amount that would have been received, if any, over the remaining life of the swap. The counterparty to the swap is a major United States financial institution and we expect the counterparty to be able to perform its obligations under the swap. We use derivative financial instruments for hedging purposes only and not for trading or speculative purposes

See Note 5 of the Unaudited Consolidated Condensed Financial Statements for additional information related to the senior secured credit facilities.

#### 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 sheets, 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 income. At September 30, 2018, the Company had \$17.3 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$11.1 million at December 31, 2017.

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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”). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2018, the Company’s disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rule 13a -15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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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

There have been no material changes from the risk factors previously disclosed under Item 1A. of the Company's 2017 Form 10-K.

The risks described in our 2017 Form 10-k 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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

10.1+	<u>Restricted Stock Unit Award Agreement for grant of restricted stock units under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 19, 2016, by and between EVERTEC, Inc. and Joaquin A. Castrillo-Salgado (incorporated by reference to Exhibit 10.33 of EVERTEC, Inc.'s Annual Report on Form 10-K filed on February 28, 2018, File No. 001-35872).</u>
10.2+	<u>Restricted Stock Unit Award Agreement for grant of restricted stock units under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 24, 2017, by and between EVERTEC, Inc. and Joaquin A. Castrillo-Salgado (incorporated by reference to Exhibit 10.2 of EVERTEC, Inc.'s Quarterly Report on Form 10-Q filed on May 3, 2018, File No. 001-35872).</u>
10.3+	<u>Restricted Stock Unit Award Agreement for special retention grant of restricted stock units under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of November 20, 2017, by and between EVERTEC, Inc. and Joaquin A. Castrillo-Salgado (incorporated by reference to Exhibit 10.41 of EVERTEC, Inc.'s Annual Report on Form 10-K filed on February 28, 2018, File No. 001-35872).</u>
10.4*+	<u>Form of Restricted Stock Unit Award Agreement for grant of restricted stock units under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 28, 2018, by and between EVERTEC, Inc. and Joaquin A. Castrillo-Salgado.</u>
31.1*	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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 a compensatory plan or arrangement.

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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: October 31, 2018 By: /s/ Morgan Schuessler  
Morgan Schuessler  
Chief Executive Officer

Date: October 31, 2018 By: /s/ Joaquin A. Castrillo-Salgado  
Joaquin A. Castrillo-Salgado  
Chief Financial Officer (Principal Financial and Accounting Officer)