

EVERTEC, Inc.
Form 10-Q
May 26, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-35872

EVERTEC, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

Cupey Center Building, Road 176, Kilometer 1.3,

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

00926
(Zip Code)

(Registrant's telephone number, including area code)

Not applicable

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in rule 12b-2 of the Exchange Act).

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

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

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

At May 18, 2016, there were 74,819,155 outstanding shares of common stock of EVERTEC, Inc.

Table of Contents

Explanatory Note

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

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

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

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

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

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

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

Table of Contents

TABLE OF CONTENTS

	Page
Part I. FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
<u>Unaudited Consolidated Condensed Balance Sheets as of March 31, 2016 and December 31, 2015</u>	1
<u>Unaudited Consolidated Condensed Statements of Income and Comprehensive Income for the three months ended March 31, 2016 and March 31, 2015 (As Restated)</u>	2
<u>Unaudited Consolidated Condensed Statement of Changes in Stockholders' Equity for the three months ended March 31, 2016</u>	3
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2016 and March 31, 2015 (As Restated)</u>	4
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	32
Part II. <u>OTHER INFORMATION</u>	34
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity in Securities and Use of Proceeds</u>	34
Item 3. <u>Defaults Upon Senior Securities</u>	34
Item 4. <u>Mine Safety Disclosures</u>	34
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	34
<u>SIGNATURES</u>	36

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

the continuing market position of the ATH network;

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

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

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

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

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

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

our ability to execute our geographic expansion and acquisition strategies;

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

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

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

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

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

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

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

our ability to refinance our debt;

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

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

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. The Company does not undertake, and specifically disclaims any obligation, to update any of the forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws.

Table of Contents

Investors should refer to the Company's Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K") for a discussion of factors that could cause events to differ from those suggested by the forward-looking statements, including factors set forth in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

	March 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash	\$ 36,039	\$ 28,747
Restricted cash	8,562	11,818
Accounts receivable, net	75,160	73,715
Deferred tax asset	2,256	1,685
Prepaid expenses and other assets	19,839	18,758
Total current assets	141,856	134,723
Investment in equity investee	12,160	12,264
Property and equipment, net	33,762	34,128
Goodwill	376,410	368,133
Other intangible assets, net	303,437	312,059
Other long-term assets	2,257	2,347
Total assets	\$ 869,882	\$ 863,654
Liabilities and Stockholders equity		
Current Liabilities:		
Accrued liabilities	\$ 33,317	\$ 37,308
Accounts payable	20,307	21,216
Unearned income	3,688	2,877
Income tax payable	3,385	1,350
Current portion of long-term debt	24,625	22,750
Short-term borrowings	15,000	17,000
Total current liabilities	100,322	102,501
Long-term debt	613,376	619,297
Long-term deferred tax liability	20,306	20,614
Unearned income - long-term	11,346	10,939
Other long-term liabilities	14,873	12,089
Total liabilities	760,223	765,440
Commitments and contingencies (Note 13)		
Equity:		
EVERTEC, Inc. Stockholders equity:		
Preferred Stock, par value \$0.01; 2,000,000 shares authorized, none issued		

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

Common Stock, par value \$0.01; 206,000,000 shares authorized; 74,819,155 shares issued and outstanding at March 31, 2016 (December 31, 2015 - 74,988,210)	748	750
Additional paid-in capital	8,674	9,718
Accumulated earnings	106,995	95,328
Accumulated other comprehensive loss, net of tax	(10,186)	(7,582)
Total EVERTEC, Inc. stockholders equity	106,231	98,214
Noncontrolling interest	3,428	
Total equity	109,659	98,214
Total liabilities and equity	\$ 869,882	\$ 863,654

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

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

	Three months ended March 31,	
	2016	2015 (As Restated)
Revenues		
Merchant Acquiring, net	\$ 22,890	\$ 20,091
Payment Processing (from affiliates: \$7,855 and \$7,371)	26,975	26,377
Business Solutions (from affiliates: \$35,298 and \$33,739)	45,614	45,029
Total revenues	95,479	91,497
Operating costs and expenses		
Cost of revenues, exclusive of depreciation and amortization shown below	43,408	39,950
Selling, general and administrative expenses	10,835	7,703
Depreciation and amortization	14,670	16,828
Total operating costs and expenses	68,913	64,481
Income from operations	26,566	27,016
Non-operating expenses		
Interest income	87	104
Interest expense	(5,878)	(6,201)
(Losses) earnings of equity method investment	(130)	115
Other income	398	285
Total non-operating expenses	(5,523)	(5,697)
Income before income taxes	21,043	21,319
Income tax expense	1,876	2,775
Net income	19,167	18,544
Less: Net income attributable to non-controlling interest	19	
Net income attributable to EVERTEC, Inc.'s common stockholders	19,148	18,544
Other comprehensive income (loss), net of income tax expense of \$3 and \$7		
Foreign currency translation adjustments	468	889
Loss on cash flow hedge	(3,072)	
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	\$ 16,544	\$ 19,433

Net income per common share - basic attributable to EVERTEC, Inc. s common stockholders	\$	0.26	\$	0.24
Net income per common share - diluted attributable to EVERTEC, Inc. s common stockholders	\$	0.26	\$	0.24
Cash dividend declared per share	\$	0.10	\$	0.10

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

Table of Contents**EVERTEC, Inc. (Unaudited) Consolidated Condensed Statement of Changes in Equity****(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 Equity
Balance at December 31, 2015	74,988,210	\$ 750	\$ 9,718	\$ 95,328	\$ (7,582)	\$	\$ 98,214
Share-based compensation recognized			1,604				1,604
Repurchase of common stock	(212,863)	(2)	(2,456)				(2,458)
Restricted stock units delivered, net of cashless exercise	43,808		(192)				(192)
Net income				19,148		19	19,167
Cash dividends declared on common stock				(7,481)			(7,481)
Non-controlling interest on acquisition						3,409	3,409
Other comprehensive income					(2,604)		(2,604)
Balance at March 31, 2016	74,819,155	\$ 748	\$ 8,674	\$ 106,995	\$ (10,186)	\$ 3,428	\$ 109,659

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

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

	Three months ended March 31,	
	2016	2015 (As Restated)
Cash flows from operating activities		
Net income	\$ 19,167	\$ 18,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,670	16,828
Amortization of debt issue costs and accretion of discount	754	808
Provision for doubtful accounts and sundry losses	224	236
Deferred tax benefit	(804)	(767)
Share-based compensation	1,604	649
Unrealized gain on indemnification assets		(3)
(Gain) loss on disposition of property and equipment and other intangibles	(33)	34
Losses (earnings) of equity method investment	130	(115)
Decrease (increase) in assets:		
Accounts receivable, net	(42)	(5,416)
Prepaid expenses and other assets	(835)	(803)
Other long-term assets	87	649
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(8,070)	(1,342)
Income tax payable	2,160	(332)
Unearned income	1,219	1,128
Total adjustments	11,064	11,554
Net cash provided by operating activities	30,231	30,098
Cash flows from investing activities		
Net decrease (increase) in restricted cash	3,256	(1,705)
Additions to software	(1,837)	(1,497)
Acquisition, net of cash acquired	(5,948)	
Property and equipment acquired	(1,179)	(1,042)
Proceeds from sales of property and equipment	39	
Net cash used in investing activities	(5,669)	(4,244)
Cash flows from financing activities		
Net decrease in short-term borrowing	(2,000)	(3,000)
Repayment of borrowings for purchase of equipment	(389)	
Repayment of long-term debt	(4,750)	(4,750)
Dividends paid	(7,481)	(7,798)

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

Repurchase of common stock	(2,458)	(9,990)
Tax windfall benefits on share-based compensation		(0)
Statutory minimum withholding taxes paid on share-based compensation	(192)	
Net cash used in financing activities	(17,270)	(25,538)
Net increase in cash	7,292	316
Cash at beginning of the period	28,747	32,114
Cash at end of the period	\$ 36,039	\$ 32,430
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,037	\$ 5,333
Cash paid for income taxes	660	2,620
Supplemental disclosure of non-cash activities:		
Payable due to vendor related to property and equipment and software acquired	3,313	3,998

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

Table of Contents

Notes to Unaudited Consolidated Condensed Financial Statements

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

Table of Contents

Note 1 The Company and Basis of Presentation

The Company

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

Management believes that the Company s business is well-positioned to continue to expand across the fast growing Latin American region.

Basis of Presentation

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

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

Note 2 Restatement of Previously Issued Financial Information

This Note 2 to the unaudited consolidated condensed financial statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement for the quarter ended March 31, 2015, which is referred to as the Restatement.

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

\$11.8 million in the third quarter of 2015.

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

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

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

Table of Contents

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

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

Restatement adjustments

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

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

Restatement Adjustments (a)

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

Other Insignificant Corrective Adjustments

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

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

2. *Cost of revenues and intangible assets* The Company corrected certain errors related to the timing of capitalization of internally developed software.

Table of Contents

3. *Cost of revenues and deferred costs* The Company corrected the timing of expense recognition pertaining to certain completed projects for which costs had been previously deferred and not timely recognized on the income statement at completion.

The table below summarizes the effects of the Restatement adjustments and reclassifications on the unaudited consolidated condensed statement of income for the quarter ended March 31, 2015:

	Three month period ended March 31, 2015				
	As previously reported	Restatement Adjustment	Other insignificant corrective adjustments	As restated	Reference
Revenues					
Merchant Acquiring, net	\$ 20,091	\$	\$	\$ 20,091	
Payment Processing	26,377			26,377	
Business Solutions	44,864		165	45,029	1
Total revenues	91,332		165	91,497	
Operating costs and expenses					
Cost of revenues, exclusive of depreciation and amortization shown below	39,795		155	39,950	2, 3
Selling, general and administrative expenses	7,703			7,703	
Depreciation and amortization	16,828			16,828	
Total operating costs and expenses	64,326		155	64,481	
Income from operations	27,006		10	27,016	
Non-operating income (expenses)					
Interest income	104			104	
Interest expense	(6,201)			(6,201)	
Earnings of equity method investment	115			115	
Other income	285			285	
Total non-operating expenses	(5,697)			(5,697)	
Income before income taxes	21,309		10	21,319	
Income tax expense	2,246	529		2,775	a
Net income	19,063	(529)	10	18,544	
Other comprehensive (loss) income, net of tax	889			889	

Foreign currency translation
adjustments

Total comprehensive income	\$ 19,952	\$ (529)	\$ 10	\$ 19,433
Net income per common share - basic	\$ 0.25	\$ (0.01)	\$	\$ 0.24
Net income per common share - diluted	\$ 0.24	\$	\$	\$ 0.24

The Restatement adjustments affecting the unaudited consolidated condensed statement of cash flows for the quarter ended March 31, 2015 are insignificant and predominantly included in the Company's net income from operations, offset by non-cash adjustments to net income and changes in operating assets and liabilities. The non-cash adjustments include adjustments to deferred taxes and the reclassification corrections described in the table above and in Note 1 to the Audited Consolidated Financial Statements included in the 2015 Form 10-K. There were no significant adjustments, related to cash used in investing and financing activities.

Note 3 Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In April, 2015, the FASB issued updated guidance for accounting for fees paid in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. For public companies, amendments in this Update will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company adopted this guidance on January 1, 2016. Its adoption did not have a material impact on our results from operations or financial position.

In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of the debt liability, consistent with debt discounts. This guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company adopted the guidance on January 1, 2016 and applied the standard retrospectively. The balance sheet presented has been adjusted to reflect the period specific effects of the adoption of the guidance. Specifically, debt issue costs of \$6.0 million and \$6.4 million for March 31, 2016 and December 31, 2015, respectively, were reclassified from other long-term assets to long-term debt within our unaudited Consolidated Condensed Balance Sheets.

Table of Contents

In September 2015, the FASB issued ASU 2015-16, *simplifying the Accounting for Measurement-Period Adjustments in Business Combinations (Topic 805)*. ASU 2015-16 eliminated the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. ASU 2015-16 is effective for annual periods and interim periods within that period beginning after December 15, 2015. The Company adopted this guidance on January 1, 2016.

Recent Accounting Pronouncements

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

In February 2016, the FASB issued updated guidance for financial reporting about leasing transactions. The amendments in this Update require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. In addition, the Update requires that both financing and operating leases be recognized on the balance sheet. The guidance also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The amendments in this Update are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2016, the FASB issued updated guidance for the effect of derivative contract novations on existing hedge accounting relationships. This Update clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18) continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company expects to adopt this guidance with no impact on the consolidated financial statements.

In March 2016, the FASB issued updated guidance to simplify the transition to the equity method of accounting. The amendments in this Update affect all entities that have an investment that becomes qualified for the equity method of accounting as it eliminates the requirement that an investor adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company expects to adopt this guidance if and when an investment becomes qualified for the equity method of accounting.

In March 2016, the FASB issued updated guidance for revenue from contracts with customers—principal versus agent considerations (reporting gross versus net). The amendments clarify the implementation guidance on principal versus agent considerations and are intended to improve the operability and understandability of the implementation

guidance. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2016, the FASB issued updated guidance for accounting for employee share based payments. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Table of Contents

In April 2016, the FASB issued updated guidance on Revenue from Contracts with Customers (Topic 606). The amendments do not change the core principle of the guidance in Topic 606. Rather, they clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for these areas. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In May 2016, the FASB issued updated guidance to rescind of certain SEC Staff Observer Comments upon adoption of Topic 606, Revenue from Contracts with Customers presented in ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Effective upon adoption of Topic 606, registrants should not rely on the SEC Staff Observer comments listed in the updated guidance. The Company is currently evaluating the impact of this updated guidance on its consolidated financial statements.

In May 2016, the FASB issued guidance on Revenue from Contracts with Customers (Topic 606) to improve the Topic by reducing the potential for diversity in practice at initial application and the cost and complexity of applying Topic 606 both at transactions and on an ongoing basis. The amendments in this Update do not change the core principles of the guidance in Topic 606. Rather, they affect only the narrow aspects of Topic 606 depicted in the Update. The Company is currently evaluating the impact of this updated guidance on its consolidated financial statements.

Note 4 Property and Equipment, net

Property and equipment, net consists of the following:

<i>(Dollar amounts in thousands)</i>	Useful life in years	March 31, 2016	December 31, 2015
Buildings	30	\$ 1,614	\$ 1,606
Data processing equipment	3 -5	97,626	94,523
Furniture and equipment	3 -20	8,060	8,170
Leasehold improvements	5 -10	3,691	3,649
		110,991	107,948
Less - accumulated depreciation and amortization		(78,660)	(75,244)
Depreciable assets, net		32,331	32,704
Land		1,431	1,424
Property and equipment, net		\$ 33,762	\$ 34,128

Depreciation and amortization expense related to property and equipment amounted to \$3.4 million and \$4.1 million for the three months ended March 31, 2016 and 2015, respectively.

Table of Contents**Note 5 Goodwill and Other Intangible Assets**

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

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Total
Balance at December 31, 2015	\$ 138,121	\$ 183,496	\$ 46,516	\$ 368,133
Goodwill attributable to acquisition		8,047		8,047
Foreign currency translation adjustments		183	47	230
Balance at March 31, 2016	\$ 138,121	\$ 191,726	\$ 46,563	\$ 376,410

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

The carrying amount of other intangible assets consisted of the following:

<i>(Dollar amounts in thousands)</i>	Useful life in years	Gross amount	March 31, 2016 Accumulated amortization	Net carrying amount
Customer relationships	14	\$ 322,686	\$ (123,819)	\$ 198,867
Trademark	10 - 15	39,950	(19,052)	20,898
Software packages	3 - 10	158,184	(110,320)	47,864
Non-compete agreement	15	56,539	(20,731)	35,808
Other intangible assets, net		\$ 577,359	\$ (273,922)	\$ 303,437

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

Amortization expense related to intangibles amounted to \$11.3 million and \$12.7 million for the three months ended March 31, 2016 and 2015, respectively.

Table of Contents

The estimated amortization expense of the balances outstanding at March 31, 2016 for the next five years is as follows:

(Dollar amounts in thousands)

Remaining 2016	\$ 31,783
2017	39,803
2018	36,437
2019	34,382
2020	32,263

Note 6 Debt and Short-Term Borrowings

Total debt is as follows:

<i>(Dollar amounts in thousands)</i>	March 31, 2016	December 31, 2015
Senior Secured Credit Facility (Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate (LIBOR) plus applicable margin ⁽¹⁾⁽³⁾)	\$ 258,593	\$ 262,323
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin ⁽²⁾⁽³⁾)	385,384	386,172
Senior Secured Revolving Credit Facility expiring on April 17, 2018 paying interest at a variable interest rate	15,000	17,000
Note Payable due on October 1, 2017 ⁽³⁾	2,613	2,967
Note Payable due on July 31, 2017 ⁽³⁾	699	685
Total debt, gross	662,289	669,147
Less: Debt issue costs related to Senior Secured Credit Facilities (Term A and Term B)	(5,976)	(6,448)
Total debt, net	\$ 656,313	\$ 662,699

(1) Applicable margin of 2.25% at March 31, 2016 and December 31, 2015. Effective interest rate of 2.71% and 2.70% at March 31, 2016 and December 31, 2015.

(2) Subject to a minimum rate (LIBOR floor) of 0.75% plus applicable margin of 2.50% at March 31, 2016 and December 31, 2015. Effective interest rate of 3.50% at both March 31, 2016 and December 31, 2015.

(3) Net of unaccreted discount.

Senior Secured Credit Facilities

Term A Loan

As of March 31, 2016, the outstanding principal amount of the Term A Loan was \$258.8 million. The Term A Loan requires principal payments on the last business day of each quarter equal to (a) 1.250% of the original principal amount commencing on September 30, 2013 through June 30, 2016; (b) 1.875% of the original principal amount from September 30, 2016 through June 30, 2017; (c) 2.50% of the original principal amount from September 30, 2017 through March 31, 2018; and (d) the remaining outstanding principal amount on the maturity of the Term A Loan on April 17, 2018. Interest is based on EVERTEC Group first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.00% to 2.50%, or (b) Base Rate plus an applicable margin ranging from 1.00% to 1.50%. Term A Loan has no LIBOR Rate or Base Rate minimum or floor.

Term B Loan

As of March 31, 2016, the outstanding principal amount of the Term B Loan was \$389.0 million. The Term B Loan requires principal payments on the last business day of each quarter equal to 0.250% of the original principal amount commencing on September 30, 2013 and the remaining outstanding principal amount on the maturity of the Term B Loan on April 17, 2020. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.50% to 2.75%, or (b) Base Rate plus an applicable margin ranging from 1.50% to 1.75%. The LIBOR Rate and Base Rate are subject to floors of 0.75% and 1.75%, respectively.

Table of Contents*Revolving Credit Facility*

The revolving credit facility has an available balance up to \$100.0 million, with an interest rate on loans calculated the same as the applicable Term A Loan rate. The facility matures on April 17, 2018 and has a commitment fee payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% and is based on EVERTEC Group's first lien secured net leverage ratio. As of March 31, 2016, the outstanding balance of the revolving credit facility was \$15.0 million.

All loans may be prepaid without premium or penalty.

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

Notes payable

In December 2014 and June 2015, EVERTEC entered into a non-interest bearing financing agreements amounting to \$4.6 million and \$1.1 million, respectively, to purchase software. As of March 31, 2016, the outstanding principal balance of the notes payable is \$3.5 million. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swap

As of March 31, 2016, the Company has entered into the following interest rate swap transaction converting a portion of the interest rate exposure on our Term B loan from variable to fixed:

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

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

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

	March 31, 2016	December 31, 2015
Other long-term liabilities	\$ 3,587	\$ 515

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

Note 7 Financial Instruments and Fair Value Measurements

Recurring Fair Value Measurements

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

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

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

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

Table of Contents

The Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company may employ internally-developed models that mostly use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those deemed necessary to ensure that the financial instrument's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

The following table summarizes fair value measurements by level at March 31, 2016 and December 31, 2015 for assets measured at fair value on a recurring basis:

<i>(Dollar amounts in thousands)</i>	Level			Total
	Level 1	2	Level 3	
March 31, 2016				
Financial liabilities:				
Interest rate swap	\$	\$ 3,587	\$	\$ 3,587
December 31, 2015				
Financial liabilities:				
Interest rate swap	\$	\$ 515	\$	\$ 515

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

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

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

<i>(Dollar amounts in thousands)</i>	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Interest rate swap	\$ 3,587	\$ 3,587	\$ 515	\$ 515
Senior secured term A	258,593	243,225	262,323	250,688
Senior secured term B	385,384	372,713	386,172	373,749

The fair value of the senior secured term loan at March 31, 2016 and December 31, 2015 were obtained using the prices provided by third party service providers. Their pricing is based on various inputs such as: market quotes, recent trading activity in a non-active market or imputed prices. Also, the pricing may include the use of an algorithm that could take into account movement in the general high yield market, among other variants.

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

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

The following table provides a summary of the changes in the balances of accumulated other comprehensive loss for the three months period ended March 31, 2016:

	Foreign Currency Translation		
	Adjustments	Cash Flow Hedge	Total
Balance - December 31, 2015	\$ (7,067)	\$ (515)	\$ (7,582)
Additions	468	(3,072)	(2,604)
Balance - March 31, 2016	\$ (6,599)	\$ (3,587)	\$ (10,186)

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

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

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

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

The following table summarizes the stock options activity for the three months ended March 31, 2016:

	Shares	Weighted-average exercise prices
Outstanding at December 31, 2015	140,000	\$ 18.88
Outstanding at March 31, 2016(1)	140,000	\$ 18.88
Excercisable at March 31, 2016(1)	66,667	\$ 24.01

(1) Includes 33,333 stock options vested during the three months period ended March 31, 2016. Management uses the fair value method of recording stock-based compensation as described in the guidance for stock compensation in ASC Topic 718.

Table of Contents

The following table summarizes the nonvested restricted shares and RSUs activity for the three months ended March 31, 2016:

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2015	491,726	\$ 22.32
Forfeited	(14,496)	24.13
Vested	(68,166)	21.99
Granted	813,573	11.77
Nonvested at March 31, 2016	1,222,637	\$ 15.30

For the three months ended March 31, 2016 and March 31, 2015, the Company recognized \$1.6 million and \$0.6 million of share-based compensation expense, respectively.

As of March 31, 2016, the unrecognized share-based compensation expense related to the stock options amounting to \$0.3 million is expected to be recognized over a weighted average period of 1 year. For the same period, the maximum unrecognized cost for restricted stocks and RSUs was \$15.9 million. The cost is expected to be recognized over a weighted average period of 2.48 years.

Note 10 Income Tax

The components of income tax expense for the three months ended March 31, 2016 and 2015 consisted of the following:

<i>(Dollar amounts in thousands)</i>	Three months ended March 31,	
	2016	2015 (As Restated)
Current tax provision	\$ 2,680	\$ 3,542
Deferred tax benefit	(804)	(767)
Income tax expense	\$ 1,876	\$ 2,775

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 months ended March 31, 2016 and 2015 and its segregation based on location of operations:

<i>(Dollar amounts in thousands)</i>	Three months ended March 31,	
	2016	2015 (As Restated)
Current tax provision		
Puerto Rico	\$ 1,766	\$ 2,649
United States	164	142

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

Foreign countries	750	751
Total current tax provision	\$ 2,680	\$ 3,542
Deferred tax benefit		
Puerto Rico	\$ (479)	\$ (668)
United States	(25)	(26)
Foreign countries	(300)	(73)
Total deferred tax benefit	\$ (804)	\$ (767)

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

Table of Contents

As of March 31, 2016, the gross deferred tax asset amounted to \$3.9 million and the gross deferred tax liability amounted to \$21.9 million, compared to \$3.1 million and \$24.3 million as of March 31, 2015.

Pursuant to the provision of the PR Code, net operating losses (NOL) can be carried forward for a period of seven, ten or twelve taxable years, depending on the taxable year generated. Act 72 of May 29, 2015, limited the amount of NOLs deduction to 80% for regular tax and 70% for AMT. At March 31, 2016, the Company has \$9.2 million NOL carryforwards for tax returns purposes available to offset future taxable income. As a result of certain realization requirements of ASC 718, gross deferred tax assets does not include the windfall tax benefit as of March 31, 2016, and March 31, 2015, that arose directly from tax deductions related to equity compensation greater than compensation recognized for financial reporting. Equity will be increased by \$4.2 million if and when such windfall tax benefits are ultimately realized. The Company uses tax law ordering when determining when windfall tax benefits have been realized.

Note 11 Net Income per Common Share

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

<i>(Dollar amounts in thousands, except share per share data)</i>	Three months ended March 31,	
	2016	2015 (As Restated)
Net income attributable to EVERTEC Inc.	\$ 19,148	\$ 18,544
Less: non-forfeitable dividends on restricted stock	12	
Net income available to EVERTEC Inc. s common shareholders	\$ 19,136	\$ 18,544
Weighted average common shares outstanding	74,947,850	77,807,289
Weighted average potential dilutive common shares ⁽¹⁾	70,146	59,437
Weighted average common shares outstanding - assuming dilution	75,017,996	77,866,726
Net income per share - basic attributable to EVERTEC, Inc. s common stockholders	\$ 0.26	\$ 0.24
Net income per share - diluted attributable to EVERTEC, Inc. s common stockholders	\$ 0.26	\$ 0.24

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

On February 17, 2016, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 17, 2016 to stockholders of record as of the close of business on February 29, 2016.

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 each of the three months ended March 31, 2016 and 2015 amounted to \$2.0 million. Also, rent expense for telecommunications and other equipment for the three months ended March 31, 2016 and 2015 amounted to \$1.5 million and \$1.3 million, respectively.

In the ordinary course of business, the Company may enter into commercial commitments. As of March 31, 2016, EVERTEC has an outstanding letter of credit of \$0.5 million with a maturity of less than three months.

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

Table of Contents**Note 13 Related Party Transactions**

The following table presents the Company's transactions with related parties for the three months ended March 31, 2016 and 2015:

<i>(Dollar amounts in thousands)</i>	Three months ended	
	2016	2015 (As Restated)
Total revenues ⁽¹⁾⁽²⁾	\$ 43,153	\$ 41,110
Cost of revenues	\$ 259	\$ 696
Selling, general and administrative expenses		
Rent and other fees	\$ 1,934	\$ 1,993
Interest earned from and charged by affiliate		
Interest income	\$ 59	\$ 44

(1) Total revenues from Popular as a percentage of revenues were 45% and 44% for the three months ended March 31, 2016 and 2015, respectively.

(2) Includes revenues generated from investee accounted for under the equity method of \$0.5 million for both the three months ended March 31, 2016 and 2015, respectively.

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

<i>(Dollar amounts in thousands)</i>	March 31, 2016	December 31, 2015
Cash and restricted cash deposits in affiliated bank	\$ 21,523	\$ 23,872
Other due to/from affiliate		
Accounts receivable	\$ 19,699	\$ 20,196
Prepaid expenses and other assets	\$ 346	\$ 867
Accounts payable ⁽¹⁾	\$ 2,342	\$ 2,687
Unearned income ⁽²⁾	\$ 12,775	\$ 11,970
Other long-term liabilities ⁽¹⁾	\$ 14	\$ 14

- (1) Includes an account payable of \$32,000 and a long-term liability of \$14,000 for both March 31, 2016 and December 31, 2015, related to the unvested portion of stock options as a result of the equitable adjustment approved by our Board of Directors on December 18, 2012 that will be payable to executive officers and employees upon vesting of stock options.
- (2) Includes current and long term unearned income.

Note 14 Segment Information

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

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

Table of Contents

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

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Other	Total
Three months ended March 31, 2016					
Revenues	\$ 22,890	\$ 34,539	\$ 45,614	\$ (7,564) ⁽¹⁾	\$ 95,479
Income from operations	8,425	12,414	13,243	(7,516) ⁽²⁾	26,566
Three months ended March 31, 2015 (As Restated)					
Revenues	\$ 20,091	\$ 33,100	\$ 45,029	\$ (6,723) ⁽¹⁾	\$ 91,497
Income from operations	9,272	13,543	14,070	(9,869) ⁽²⁾	27,016

(1) Represents the elimination of intersegment revenues for services provided by the payment processing segment to the merchant acquiring segment, and other miscellaneous intersegment revenues.

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

The reconciliation of income from operations to consolidated net income for the three months ended March 31, 2016 and 2015 is as follows:

<i>(Dollar amounts in thousands)</i>	Three months ended March 31,	
	2016	2015 (As Restated)
Segment income from operations		
Merchant Acquiring	\$ 8,425	\$ 9,272
Payment Processing	12,414	13,543
Business Solutions	13,243	14,070
Total segment income from operations	34,082	36,885
Merger related depreciation and amortization and other unallocated expenses ⁽¹⁾	(7,516)	(9,869)
Income from operations	\$ 26,566	\$ 27,016
Interest expense, net	(5,791)	(6,097)
(Losses) earnings of equity method investment	(130)	115
Other income	398	285
Income tax expense	(1,876)	(2,775)
Net income	\$ 19,167	\$ 18,544

(1)

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

Note 15 Subsequent Events

On May 11, 2016, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.10 per share on the Company's outstanding shares of common stock. The Board anticipates declaring this dividend in future quarters on a regular basis; however future declarations of dividends are subject to board of director approval and may be adjusted as business needs or market conditions change. The cash dividend of \$0.10 per share will be paid on June 10, 2016 to stockholders of record as of the close of business on May 23, 2016.

On April 14, 2016, in connection with the Company's Senior Secured Credit Facilities (see Note 7), EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver (the Amendment) to the outstanding Credit Agreement, with the purpose of extending the deadline for the Company to provide to the Agent the required financial statements and audit opinion for the fiscal year ended December 31, 2015 until September 15, 2016. In addition, the Amendment potentially extends the deadline for EVERTEC Group (the Borrower) to provide to the Agent the financial statements for the fiscal quarters ending March 31, 2016 and June 30, 2016. The Amendment correspondingly modifies the date of delivery and content of various certificates and other information that must be provided to the Agent in connection with delivery of the 2015

Table of Contents

Financial Information and the Quarterly Information. The Amendment provides for an increase in the interest rate applicable to the loans under the Credit Agreement by 50 basis points in the event that the 2015 Financial Information and the First Quarter Financial Information is not provided to the Agent by May 30, 2016. The applicable interest rates will increase an additional 25 basis points if such information is not delivered to the Agent by July 15, 2016. Furthermore, until such materials are delivered to the Agent, no Restricted Payments (as defined in the Credit Agreement) can be made by the Borrower to the Company to fund any repurchases of the Company's common stock or to fund any payment of dividends by the Company other than quarterly dividends on the outstanding common stock of the Company in an amount not to exceed \$0.10 per share. The Borrower paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender.

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

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

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

Restatement of Previously Issued Consolidated Financial Statements

Note 2 to the unaudited consolidated condensed financial statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement for the unaudited condensed consolidated financial statements for the interim period ended March 31, 2015, which is referred to as the Restatement.

The Restatement corrects material errors involved with the accounting for tax positions taken in the 2010 tax year. The Restatement corrects an error in the recognition of a deferred tax asset originating from 2010 tax deductions and the corresponding net operating loss for transaction costs that were based on an uncertain tax position and corrects an error related to the accounting for 2010 debt issuance cost tax deductions based on an uncertain tax position that affected book tax temporary differences and differences in the applicable tax rates over the affected period. These differences impacted deferred tax liability calculations over the affected period. The Restatement also establishes a liability for potential tax liabilities including penalties and interest related to these uncertain tax positions. In the third quarter of 2015, the liability for exposure to potential tax, interest and penalties with respect to the referenced 2010 debt issuance cost deductions was reversed in full as the related statute of limitations expired in such period. This tax liability reversal triggered recognition of a tax benefit of \$11.8 million in the third quarter of 2015. The Restatement also corrects other miscellaneous insignificant accounting errors. These errors, individually and in the aggregate, would not have required a restatement. The adjustments required to correct the errors in the unaudited consolidated condensed financial statements as a result of completing the restatement process are described in Note 2, Restatement of Previously Issued Financial Information included in Part I Item 1 Financial Statements.

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement adjustments made to the previously reported Consolidated Condensed Financial Statements for the three months period ended March 31, 2015. Refer to the *Explanatory Note* to this quarterly report and to Note 1 and Note 23 to the Audited Financial Statements included in the 2015 form 10-K for a description of the restatement adjustments and reclassifications.

Executive Summary

EVERTEC is a leading full-service transaction processing business in Latin America (which includes Central America and the Caribbean, unless otherwise specified), providing a broad range of merchant acquiring, payment processing and business process management services. According to the July 2015 Nilson Report, we are the largest merchant acquirer in the Caribbean and Central America and one of the largest in Latin America, based on total number of transactions. We serve 18 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than two billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading personal identification number (PIN) debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with mission-critical technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

Table of Contents

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

Our ability to provide best in class products;

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

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

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

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

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

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

Corporate Background

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

Separation from and Key Relationship with Popular

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

Table of Contents

Factors and Trends Affecting the Results of Our Operations

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

The Puerto Rico government is experiencing a debt crisis and has defaulted on several of its debt payments, stating that it is unable to both service its debt and continue to provide essential services to its citizens. Additionally, the Governor of Puerto Rico has made public statements that the government intends to delay payments to vendors and take other necessary austerity measures to ensure essential services are provided to Puerto Rican citizens. The Puerto Rican government is a large customer of ours and many Puerto Rican businesses and if it is unable to pay its obligations as they become due or at all, this will likely have an adverse impact on the Island's economy.

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. We are also concerned that the crisis could accelerate the emigration trend of Puerto Rico residents to the United States, which has a negative impact on the island's economy and our business.

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

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.

Overview of Results of Operations

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

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

Merchant Acquiring accounted for \$22.9 million or 24% of total revenues for the three months ended March 31, 2016, compared with \$20.1 million, or 22%, for the same period in 2015; and \$8.4 million or 25% of total segment income from operations for the three month period ended March 31, 2016 compared with \$9.3 million, or 25%, for the same period in 2015.

Payment Processing. Payment Processing revenue primarily reflects ATH network and payment transaction processing, including related services such as authorization, management and recording of ATM and POS transactions, and ATM management and monitoring. Payment Processing revenue also includes income from card processing services to debit or credit card issuers, such as credit and debit card processing, authorization and settlement and fraud monitoring and control services; payment processing services such as payment and billing products for merchants, businesses and financial institutions; and EBT, which principally consist of

Table of Contents

services to the Puerto Rico government for the delivery of government benefits to participants. Payment products include electronic check processing, automated clearing house (ACH), lockbox, interactive voice response and web-based payments through personalized websites, among others.

We generally enter into one to five year contracts with our private payment processing clients and one year contracts with our government payment processing clients. For ATH network and processing services, revenue is driven mainly by the number of transactions processed. Revenue is derived mainly from network fees, transaction switching and processing fees, and leasing of POS devices. For card issuer processing, revenue is dependent mostly upon the number of cardholder accounts on file, transactions and authorizations processed, the number of cards embossed and other processing services. For EBT services, revenue is derived mainly from the number of beneficiaries on file.

Payment Processing accounted for \$27.0 million or 28% of total revenues for the three months ended March 31, 2016, compared with \$26.4 million, or 29%, of total revenues for the same period in 2015; and \$12.4 million or 36% of total segment income from operations for the three months ended March 31, 2016, compared with \$13.5 million, or 37%, of total segment income from operations for the three months ended March 31, 2015. The majority of our Latin American revenues are reflected in the Payment Processing segment.

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

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

Business Solutions accounted for \$45.6 million or 48% of total revenues for the three months ended March 31, 2016, compared with \$45.0 million, or 49%, of total revenues for the comparable period in 2015; and \$13.2 million or 39% of total segment income from operations for the three months ended March 31, 2016, compared with \$14.1 million, or 38%, of total segment income from operations for the three months ended March 31, 2015. The majority of our revenues from Popular are reflected in this segment.

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

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

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

Results of Operations

The following tables set forth certain consolidated financial information for the three months ended March 31, 2016 and 2015. The following tables and discussion should be read in conjunction with the information contained in our unaudited consolidated condensed financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Table of Contents**Comparison of the three months ended March 31, 2016 and 2015**

The following tables present the components of our unaudited consolidated condensed statements of income and comprehensive income by business segment and the change in those amounts for the three months ended March 31, 2016 and 2015.

Revenues

<i>(Dollar amounts in thousands)</i>	Three months ended March 31,			Variance	
	2016	2015 (As Restated)			
Merchant Acquiring, net	\$ 22,890	\$ 20,091	\$ 2,799	14%	
Payment Processing	26,975	26,377	598	2%	
Business Solutions	45,614	45,029	585	1%	
Total revenues	\$ 95,479	\$ 91,497	\$ 3,982	4%	

Total revenues for the three months ended March 31, 2016 increased to \$95.5 million when compared with \$91.5 million for the comparable period in 2015.

Merchant Acquiring revenue for the three months ended March 31, 2016 increased \$2.8 million or 14% compared with the corresponding 2015 period. The growth was primarily driven by higher sales volumes, driven primarily by the purchase of a merchant portfolio in the fourth quarter of 2015.

Payment Processing revenue for the three months ended March 31, 2016 increased \$0.6 million or 2% compared with the corresponding 2015 period. Revenue growth was mainly driven by an increase in our ATH debit network and processing business as a result of an increase in the volume of transactions processed and higher accounts on file within our credit card business within the card products business.

Business Solutions revenue for the three months ended March 31, 2016 increased \$0.6 million or 1% compared with the corresponding 2015 period. The growth is attributable to higher core banking service revenues and IT consulting services revenue, partially offset by lower hardware sales, item and cash processing revenues

Total revenue in Puerto Rico grew approximately 4% and revenue outside Puerto Rico grew approximately 10% for the quarter ended March 31, 2016, when compared with the same period in 2015.

Operating costs and expenses

<i>(Dollar amounts in thousands)</i>	Three months ended			Variance	
	2016	2015 (As Restated)			
Cost of revenues, exclusive of depreciation and amortization shown below	\$ 43,408	\$ 39,950	\$ 3,458	9%	
Selling, general and administrative expenses	10,835	7,703	3,132	41%	
Depreciation and amortization	14,670	16,828	(2,158)	-13%	

Total operating costs and expenses	\$ 68,913	\$	64,481	\$ 4,432	7%
------------------------------------	-----------	----	--------	----------	----

Total operating costs and expenses for the three months ended March 31, 2016 increased \$4.4 million or 7% when compared with the same period in 2015.

Cost of revenues for the three months ended March 31, 2016 increased \$3.5 million or 9% compared with the corresponding 2015 period. The increase was mainly related to an increase in salaries and benefits as a result of a \$1.6 million increase in share-based compensation and \$2.1 million severance payments made during the quarter, primarily related to accepted voluntary termination offers extended to certain employees, that included special termination benefits.

Selling, general and administrative expenses for the three months ended March 31, 2016 increased \$3.1 million or 41% compared with the corresponding 2015 period. The variance was mainly due to an increase in professional fees related to corporate development expenses as well as an increase in share-based compensation.

Depreciation and amortization expense for the three months ended March 31, 2016 decreased \$2.2 million or 13% compared with the corresponding 2015 period. The decrease is mainly related to certain electronic equipment and software, which were fully amortized during the third and fourth quarter of 2015, partially offset by an increase in amortization of customer relationships as a result of a purchase of a merchant portfolio in the fourth quarter of 2015.

Table of Contents*Income from operations*

The following table presents income from operations by reportable segments.

<i>(Dollar amounts in thousands)</i>	Three months ended			
	2016	2015 (As Restated)	Variance	
Segment income from operations				
Merchant Acquiring, net	\$ 8,425	\$ 9,272	\$ (847)	-9%
Payment Processing	12,414	13,543	(1,129)	-8%
Business Solutions	13,243	14,070	(827)	-6%
Total segment income from operations	34,082	36,885	(2,803)	-8%
Merger related depreciation and amortization and other unallocated expenses ⁽¹⁾	(7,516)	(9,869)	2,353	24%
Income from operations	\$ 26,566	\$ 27,016	\$ (450)	-2%

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

Income from operations for the three months ended March 31, 2016 was \$26.6 million, representing a decrease of \$0.5 million or 2% compared with the corresponding 2015 period. The decrease in income from operations was the result of the aforementioned factors affecting our operating costs and expenses.

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

Non-operating expenses

<i>(Dollar amounts in thousands)</i>	Three months ended			
	2016	2015 (As Restated)	Variance	
Non-operating expenses				
Interest income	\$ 87	\$ 104	\$ (17)	-16%
Interest expense	(5,878)	(6,201)	323	5%
Earnings (losses) of equity method investment	(130)	115	(245)	-213%
Other income	398	285	113	40%
Total non-operating expenses	\$ (5,523)	\$ (5,697)	174	3%

Total non-operating expenses for the three months ended March 31, 2016 decreased \$0.2 million or 3% when compared with the same period in 2015. The decrease is mostly driven by the decrease in interest expense driven by lower outstanding loan balances as well as lower average interest rates in 2016 when compared to the same period in 2015. These decreases were partially offset by a decrease in earnings from our equity method investment, Contado.

Income tax expense

Income tax expense for the three months ended March 31, 2016 amounted to \$1.9 million compared with an income tax expense of \$2.8 million in the prior year period and an effective tax rate of approximately 9% compared to approximately 13% in the prior year. The decrease was driven by lower foreign taxable income and related tax expense.

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

Liquidity and Capital Resources

Our principal source of liquidity is cash generated from operations, and our primary liquidity requirements are the funding of capital expenditures and working capital needs. We also have a \$100.0 million revolving credit facility, of which \$85.0 million was available as of March 31, 2016.

Table of Contents

At March 31, 2016, we had cash of \$36.0 million, of which \$19.3 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 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, including mergers and acquisitions, dividend payments and debt service.

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

<i>(Dollar amounts in thousands)</i>	Three months ended March 31,	
	2016	2015 (As Restated)
Cash provided by operating activities	\$ 30,231	\$ 30,098
Cash used in investing activities	(5,669)	(4,244)
Cash used in financing activities	(17,270)	(25,538)
Increase in cash	\$ 7,292	\$ 316

Net cash provided by operating activities for the three months ended March 31, 2016 was approximately \$30.2 million as compared to \$30.1 million for the corresponding 2015 period. The slight increase was mainly driven by higher net income in 2015.

Net cash used in investing activities for the three months ended March 31, 2016 was \$5.7 million compared with \$4.2 million for the corresponding period in 2015. The increase is mainly attributable to the consideration paid in the acquisition of Processa, offset by a decrease in restricted cash.

Net cash used in financing activities for the three months ended March 31, 2016 was \$ 17.3 million compared with \$25.5 million for the corresponding period in 2015. The decrease in cash used in financing activities is primarily related to less cash used to repurchase common stock, \$2.5 million in 2016 compared to \$10.0 million in 2015.

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 \$3.0 million and \$2.6 million for the three months ended March 31, 2016 and 2015, respectively. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our revolving credit facility. We currently expect capital expenditures to be in a range of \$35 million to \$40 million in 2016,

Dividend Payments

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

Stock Repurchase

During the first quarter of 2016, the Company repurchased shares of the Company's common stock at a cost of \$2.5 million. The Company funded such repurchase with cash on hand.

Table of Contents

As described in Note 15 to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q, EVERTEC Group entered into a second amendment and waiver to the Credit Agreement, which extends the deadline for the Company to provide to the Agent the required financial statements and audit opinion for the fiscal year ended December 31, 2015 and this Form 10-Q until September 15, 2016. Until such materials are delivered to the Agent, no Restricted Payments (as defined in the Credit Agreement) can be made by the Borrower to the Company to fund any repurchases of the Company's common stock.

Financial Obligations***Senior Secured Credit Facilities******Term A Loan***

As of March 31, 2016, the unpaid principal balance of the Term A Loan was \$258.6 million. The Term A Loan requires principal payments on the last business day of each quarter equal to (a) 1.250% of the original principal amount commencing on September 30, 2013 through June 30, 2016; (b) 1.875% of the original principal amount from September 30, 2016 through June 30, 2017; (c) 2.50% of the original principal amount from September 30, 2017 through March 31, 2018; and (d) the remaining outstanding principal amount on the maturity of the Term A Loan on April 17, 2018. For the three months ended March 31, 2016, the Company made principal payments amounting to \$3.8 million on Term A Loan. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR rate plus an applicable margin ranging from 2.00% to 2.50% or (b) Base Rate, as defined in our 2013 Credit Agreement, plus an applicable margin ranging from 1.00% to 1.50%. The Term A Loan has no LIBOR Rate or Base Rate minimum or floor.

Term B Loan

As of March 31, 2016, the unpaid principal balance of the Term B Loan was \$385.4 million. The Term B Loan requires principal payments on the last business day of each quarter equal to 0.250% of the original principal amount commencing on September 30, 2013 and the remaining outstanding principal amount on the maturity of the Term B Loan on April 17, 2020. For the three months ended March 31, 2016, the Company made principal payments amounting to \$1.0 million on the Term B Loan. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.50% to 2.75%, or (b) Base Rate plus an applicable margin ranging from 1.50% to 1.75%. The LIBOR Rate and Base Rate are subject to floors of 0.75% and 1.75%, respectively.

Revolving Credit Facility

The revolving credit facility has a balance up to \$100.0 million, with an interest rate on loans calculated the same as the applicable Term A Loan rate. The facility matures on April 17, 2018 and has a commitment fee payable one business day after the last business day of each quarter calculated based on the daily unused commitment during the preceding quarter. The commitment fee for the unused portion of this facility ranges from 0.125% to 0.375% based on EVERTEC Group's first lien secured net leverage ratio. As of March 31, 2016, the outstanding balance of the revolving credit facility was \$15.0 million. For the three months ended March 31, 2016, the Company made a paydown amounting to \$2.0 million on the revolving credit facility.

All loans may be prepaid without premium or penalty. The senior secured credit facilities allow EVERTEC Group to obtain, on an uncommitted basis at the sole discretion of participating lenders, an incremental amount of term loan and/or revolving credit facility commitments not to exceed the greater of (i) \$200.0 million and (ii) maximum amount

of debt that would not cause EVERTEC Group's pro forma first lien secured net leverage ratio to exceed 4.25 to 1.00.

The senior secured revolving credit facility is available for general corporate purposes and includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swing line borrowings. All obligations under the new senior secured credit facilities are unconditionally guaranteed by Holdings and, subject to certain exceptions, each of EVERTEC Group's existing and future wholly-owned subsidiaries. All obligations under the new senior secured credit facilities, and the guarantees of those obligations, are secured by substantially all of EVERTEC Group's assets and the assets of the guarantors, subject to certain exceptions.

See Note 6 of the Notes to Unaudited Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for additional information.

Notes payable

In December 2014 and June 2015, EVERTEC entered into non-interest bearing financing agreements to purchase software of \$4.6 million and \$1.1 million, respectively. The notes are being repaid over a 36-month term. As of March 31, 2016, the outstanding principal balance of these notes payable is \$3.5 million. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Table of Contents*Interest Rate Swap*

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

As of March 31, 2016, the Company has a derivative liability included in other long-term liabilities amounting to \$3.6 million, and a corresponding cash flow hedge loss included in other comprehensive income (loss). The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

Covenant Compliance

The credit facilities contain various restrictive covenants. The Term A Loan and the revolving facility (subject to certain exceptions) require EVERTEC Group to maintain on a quarterly basis a specified maximum senior secured leverage ratio of up to 6.60 to 1.00 as defined in the 2013 Credit Agreement (total first lien senior secured debt to Adjusted EBITDA). In addition, the 2013 Credit Agreement, among other things: (a) limits EVERTEC Group's ability and the ability of its subsidiaries to incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments and enter into certain transactions with affiliates; (b) restricts EVERTEC Group's ability to enter into agreements that would limit the ability of its subsidiaries to pay dividends or make certain payments to its parent company; and (c) places restrictions on EVERTEC Group's ability and the ability of its subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their assets. However, all of the covenants in these agreements are subject to significant exceptions. As of March 31, 2016, the senior secured leverage ratio was 3.4 to 1.0.

On April 14, 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver (the Amendment) to the Credit Agreement, which extends the deadline for the Company to provide to the Agent the required financial statements and audit opinion for the fiscal year ended December 31, 2015 until September 15, 2016. In addition, the Amendment potentially extends the deadline for the Borrower to provide to the Agent the financial statements for the fiscal quarters ending March 31, 2016 and June 30, 2016. The Amendment correspondingly modifies the date of delivery and content of various certificates and other information that must be provided to the Agent in connection with delivery of the 2015 Financial Information and the Quarterly Information. The Amendment provides for an increase in the interest rate applicable to the loans under the Credit Agreement by 50 basis points in the event that the 2015 Financial Information and the First Quarter Financial Information is not provided to the Agent by May 30, 2016. The applicable interest rates will increase an additional 25 basis points if such information is not delivered to the Agent by July 15, 2016. Furthermore, until such materials are delivered to the Agent, no Restricted Payments (as defined in the Credit Agreement) can be made by the Borrower to the Company to fund any repurchases of the Company's common stock or to fund any payment of dividends by the

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

Company other than quarterly dividends on the outstanding common stock of the Company in an amount not to exceed \$0.10 per share. The Borrower paid each lender that consented to the amendment a fee equal to 0.50% of the aggregate principal amount of outstanding term loans and revolving commitments held by such lender.

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

<i>(Dollar amounts in thousands, except per share data)</i>	Three months ended March 31, 2016	Twelve months ended March 31, 2016	Three months ended March 31, 2015 (As Restated)
Net income	\$ 19,167	\$ 82,665	\$ 18,544
Income tax expense (benefit)	1,876	\$ (4,235)	2,775
Interest expense, net	5,791	23,465	6,097
Depreciation and amortization	14,670	62,815	16,828
EBITDA	41,504	164,710	44,244
Software maintenance reimbursement and other costs ⁽¹⁾	312	1,740	474
Equity (income) loss ⁽²⁾	130	174	(190)
Compensation and benefits ⁽³⁾	3,681	15,085	833
Transaction, refinancing and other non-recurring fees ⁽⁴⁾	359	1,354	321
Purchase Accounting ⁽⁵⁾		85	(3)
Restatement related expenses	59		
Adjusted EBITDA	\$ 46,045	\$ 183,148	\$ 45,679
Operating depreciation and amortization ⁽⁶⁾	(7,006)	(28,846)	(7,461)
Cash interest expense ⁽⁷⁾	(5,037)	(20,369)	(5,333)
Income tax expense ⁽⁸⁾	(3,032)	(12,504)	(4,281)
Non-controlling interest ⁽⁹⁾	(19)	(19)	
Adjusted Net Income	\$ 30,951	\$ 121,410	\$ 28,604
Adjusted Net Income per common share			
Basic	\$ 0.41		\$ 0.37
Diluted	\$ 0.41		\$ 0.37
Shares used in computing Adjusted Net Income per common share			
Basic	74,947,850		77,807,289
Diluted	75,017,996		77,866,726

- (1) Primarily represents reimbursements received for certain software maintenance expenses as part of the Merger.
- (2) Represents the elimination of non-cash equity earnings from our 19.99% equity investment in CONTADO, net of cash dividends received.
- (3) Primarily represents non-cash equity based compensation expense.
- (4) Represents fees and expenses associated with non-recurring fees and corporate transactions.
- (5) Represents the elimination of the effects of purchase accounting in connection with certain software related arrangements where EVERTEC receives reimbursements from Popular.
- (6) Represents operating depreciation and amortization expense which excludes amortization generated as a result of the Merger.
- (7) Represents interest expense, less interest income, as they appear on our consolidated statement of income and comprehensive income, adjusted to exclude non-cash amortization of the debt issuance costs, premium and accretion of discount and other adjustments related to interest expense.
- (8) Represents income tax expense calculated on adjusted pre-tax income using applicable GAAP tax rate. For the twelve months ended March 31, 2016, the applicable tax rate used excludes the effect of the \$11.8 million tax benefit recognized in the third quarter of 2015. (See Note 2).
- (9) Represents the non-controlling interest associated with the acquisition of the 65% of the share capital of Processa S.A.S. on March 1, 2016.

Off Balance Sheet Arrangements

In the ordinary course of business, the Company may enter into commercial commitments. As of March 31, 2016, we had an outstanding letter of credit of \$0.5 million with a maturity of less than three months. Also, we had an off balance sheet item of \$10.8 million related to the unused amount of windfall tax benefit that is available to offset future taxable income.

See Note 12 of the Unaudited Consolidated Condensed Financial Statements within Item I of this Form 10-Q for additional information related to this off balance sheet item.

Table of Contents

Seasonality

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

Effect of Inflation

While inflationary increases in certain inputs costs, such as occupancy, labor and benefits, and general administrative costs, have an impact on our operating results, inflation has had minimal net impact 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 change 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 March 31, 2016, under the senior secured credit facilities would increase our annual interest expense by approximately \$6.5 million, excluding the revolving credit facility. The impact on future interest expense as a result of future changes in interest rates will depend largely on the gross amount of our borrowings at that time.

Foreign exchange risk

We conduct business in certain countries in Latin America. Some of this business is conducted in the countries' local currencies. The resulting foreign currency translation adjustments, from operations for which the functional currency is other than the U.S. dollar, are reported in accumulated other comprehensive loss in the unaudited consolidated condensed balance sheet, except for highly inflationary environments in which the effects would be included in other operating income in the consolidated statements of income and comprehensive loss. At March 31, 2016, the Company had \$6.6 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$7.1 million at December 31, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Table of Contents

Change in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as described below, management has begun to develop plans to remediate the material weakness identified in our Annual Report on Form 10K for the year ended December 31, 2015.

Remediation Actions

In response to the material weakness identified in the Annual Report on Form 10-K for the year ended December 31, 2015, management has begun to develop plans to remediate the underlying cause of the material weakness and improve the design of controls. Those plans include the following:

Enhance control procedures to ensure completeness of documented analyses supporting material tax positions taken by the company.

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

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

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

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed under Item 1A. of the Company's 2015 Form 10-K.

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

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

The following table summarizes repurchases of the Company's common stock in the quarter ended March 31, 2016:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program	Approximate dollar value of shares that may yet be purchased under the program
1/1/2016 - 3/31/2016 ⁽¹⁾	212,863	\$ 11.555	212,863	\$ 117,500,000
Total	212,863	\$ 11.555	212,863	

- ⁽¹⁾ On September 24, 2014, the Company announced a stock repurchase program authorizing the purchase of up to \$75 million of the Company's common stock over the next twelve months. On February 17, 2016, the Company announced that its Board of Directors approved an increase and extension to the current stock repurchase program, authorizing the purchase of up to \$120 million of the Company's common stock and extended the expiration to December 31, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.41*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 19, 2016, by and between EVERTEC, Inc. and Carlos J. Ramírez
10.42*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 19, 2016 by and between EVERTEC, Inc. and Mariana Lischner Goldvarg
10.43*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated February 19, 2016 by and between EVERTEC, Inc. and Philip E. Steurer

Table of Contents

10.44*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of February 19, 2016, by and between EVERTEC Group, LLC and Miguel Vizcarrondo
10.45*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of February 19, 2016, by and between EVERTEC Group, LLC and Morgan M. Schuessler, Jr.
10.46*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of February 19, 2016, by and between EVERTEC Group, LLC and Peter J.S. Smith.
10.47*+	Separation Agreement and General Release, dated as of April 1, 2016, by and between EVERTEC Group, LLC and Alan Cohen.
10.48*+	Employment Agreement, dated as of April 4, 2016, by and between EVERTEC Group, LLC and Guillermo Rospigliosi.
31.1*	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL***	Instance document
101.SCH XBRL***	Taxonomy Extension Schema
101.CAL XBRL***	Taxonomy Extension Calculation Linkbase
101.DEF XBRL***	Taxonomy Extension Definition Linkbase
101.LAB XBRL***	Taxonomy Extension Label Linkbase
101.PRE XBRL***	Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

*** Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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

Table of Contents

SIGNATURES

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

EVERTEC, Inc.
(Registrant)

Date: May 26, 2016

By: /s/ Morgan Schuessler
Morgan Schuessler
Chief Executive Officer

Date: May 26, 2016

By: /s/ Peter J.S. Smith
Peter J.S. Smith
Chief Financial Officer