

EVERTEC, Inc.  
Form 10-Q  
May 11, 2015  
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**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, 2015**

**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 4, 2015, there were 77,443,004 outstanding shares of common stock of EVERTEC, Inc.



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**FORWARD-LOOKING STATEMENTS**

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

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

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;

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

other factors discussed in this Report, including in the section entitled "Risk Factors."

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

Investors should refer to the Company's Form 10-K for the year ended December 31, 2014 (the "2014 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 Balance Sheets****(In thousands, except for share information)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current Assets:		
Cash	\$ 32,430	\$ 32,114
Restricted cash	6,924	5,718
Accounts receivable, net	78,745	75,810
Deferred tax asset	2,899	399
Prepaid expenses and other assets	21,659	20,565
Total current assets	142,657	134,606
Investment in equity investee	11,903	11,756
Property and equipment, net	28,080	29,535
Goodwill	369,171	368,837
Other intangible assets, net	323,941	334,584
Other long-term assets	10,227	10,917
Total assets	\$ 885,979	\$ 890,235
<b>Liabilities and Stockholders equity</b>		
Current Liabilities:		
Accrued liabilities	\$ 27,650	\$ 26,052
Accounts payable	19,396	22,879
Unearned income	11,118	9,825
Income tax payable	712	1,956
Current portion of long-term debt	19,000	19,000
Short-term borrowings	20,000	23,000
Deferred tax liability, net	405	1,799
Total current liabilities	98,281	104,511
Long-term debt	643,053	647,579
Long-term deferred tax liability, net	19,708	15,674
Other long-term liabilities	2,552	2,898
Total liabilities	763,594	770,662
Commitments and contingencies (Note 10)		
Stockholders equity		
Preferred Stock, par value \$0.01; 2,000,000 shares authorized, none issued		
	774	779

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Common Stock, par value \$0.01; 206,000,000 shares authorized;  
77,443,004 shares issued and outstanding at March 31, 2015  
(December 31, 2014 - 77,893,144)

Additional paid-in capital	50,403	59,740
Accumulated earnings	76,841	65,576
Accumulated other comprehensive loss, net of tax	(5,633)	(6,522)
Total stockholders equity	122,385	119,573
Total liabilities and stockholders equity	\$ 885,979	\$ 890,235

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



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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Merchant Acquiring, net	\$ 20,091	\$ 19,291
Payment Processing (from affiliates: \$7,372 and \$7,104)	26,377	25,225
Business Solutions (from affiliates: \$33,691 and \$33,358)	44,864	42,917
<b>Total revenues</b>	<b>91,332</b>	<b>87,433</b>
<b>Operating costs and expenses</b>		
Cost of revenues, exclusive of depreciation and amortization shown below	39,795	37,868
Selling, general and administrative expenses	7,703	8,062
Depreciation and amortization	16,828	16,614
<b>Total operating costs and expenses</b>	<b>64,326</b>	<b>62,544</b>
<b>Income from operations</b>	<b>27,006</b>	<b>24,889</b>
<b>Non-operating expenses</b>		
Interest income	104	75
Interest expense	(6,201)	(6,909)
Earnings of equity method investment	115	321
Other income	285	1,991
<b>Total non-operating expenses</b>	<b>(5,697)</b>	<b>(4,522)</b>
<b>Income before income taxes</b>	<b>21,309</b>	<b>20,367</b>
Income tax expense	2,246	2,161
<b>Net income</b>	<b>19,063</b>	<b>18,206</b>
Other comprehensive income (loss), net of income tax expense of \$7 and \$6		
Foreign currency translation adjustments	889	(7,745)
<b>Total comprehensive income</b>	<b>\$ 19,952</b>	<b>\$ 10,461</b>
<b>Net income per common share - basic</b>	<b>\$ 0.25</b>	<b>\$ 0.23</b>

<b>Net income per common share - diluted</b>	\$	0.24	\$	0.23
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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

	<b>Number of Shares of Common Stock</b>	<b>Common Stock</b>	<b>Additional Paid in capital</b>	<b>Accumulated Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Stockholders' Equity</b>
<b>Balance at December 31, 2014</b>	77,893,144	\$ 779	\$ 59,740	\$ 65,576	\$ (6,522)	\$ 119,573
Share-based compensation recognized			649			649
Repurchase of common stock	(452,175)	(5)	(9,986)			(9,991)
Restricted stock grants	2,035					
Net income				19,063		19,063
Cash dividends paid on common stock				(7,798)		(7,798)
Other comprehensive income					889	889
<b>Balance at March 31, 2015</b>	77,443,004	\$ 774	\$ 50,403	\$ 76,841	\$ (5,633)	\$ 122,385

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

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 19,063	\$ 18,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,828	16,614
Amortization of debt issue costs and premium and accretion of discount	808	770
Provision for doubtful accounts and sundry losses	236	571
Deferred tax expense (benefit)	200	(1,428)
Share-based compensation	649	350
Unrealized (gain) loss of indemnification assets	(3)	179
Loss on disposition of property and equipment and other intangibles	34	57
Earnings of equity method investment	(115)	(321)
Decrease (increase) in assets:		
Accounts receivable, net	(3,053)	261
Prepaid expenses and other assets	(1,497)	(1,435)
Other long-term assets	149	1,108
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(3,704)	(8,039)
Income tax payable	(1,243)	1,503
Unearned income	1,293	1,618
Total adjustments	10,582	11,808
Net cash provided by operating activities	29,645	30,014
<b>Cash flows from investing activities</b>		
Net (increase) decrease in restricted cash	(1,206)	186
Intangible assets acquired	(1,542)	(986)
Property and equipment acquired	(1,042)	(1,501)
Proceeds from sales of property and equipment		1
Net cash used in investing activities	(3,790)	(2,300)
<b>Cash flows from financing activities</b>		
Net decrease in short-term borrowing	(3,000)	(10,000)
Repayment of short-term borrowing for purchase of equipment		(600)
Repayment of long-term debt	(4,750)	(4,750)
Repayment of other financing agreement		(32)

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Dividends paid	(7,798)	(7,839)
Repurchase of common stock	(9,991)	
Tax windfall benefits on exercise of stock options		398
Statutory minimum withholding taxes paid on cashless exercise of stock options		(134)
<b>Net cash used in financing activities</b>	<b>(25,539)</b>	<b>(22,957)</b>
<b>Net increase in cash</b>	<b>316</b>	<b>4,757</b>
<b>Cash at beginning of the period</b>	<b>32,114</b>	<b>22,485</b>
<b>Cash at end of the period</b>	<b>\$ 32,430</b>	<b>\$ 27,242</b>

**Supplemental disclosure of non-cash activities:**

Foreign currency translation adjustments	\$ 889	\$ (7,745)
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**Notes to Unaudited Consolidated Financial Statements**

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**Note 1 The Company and Basis of Presentation**

**The Company**

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the Company, or EVERTEC ) is 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 19 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 mission-critical technology 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 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 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 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 financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2014, included in the Company s 2014 Form 10-K. In the opinion of management, the accompanying consolidated financial statements, prepared in accordance with GAAP, contain all adjustments, all of which are normal and recurring in nature, necessary for a fair presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the prior period unaudited consolidated financial statements to conform to the presentation in 2015.

**Note 2 Recent Accounting Pronouncements**

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

On February 18, 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis . The new guidance applies to entities in all industries and provides a new scope exception to registered money market funds and similar unregistered money market funds. It makes targeted amendments to the current consolidation guidance and ends the deferral granted to investment companies from applying the VIE guidance. Amendments in this Update are effective for public companies for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect this guidance to have an impact on the financial statements when

adopted.

On April 7, 2015, the FASB issued ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs . The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. Amendments in this update are effective for public companies for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements.



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On April 15, 2015, the FASB issued ASU 2015-05 Customer's 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 is currently evaluating the impact of the adoption of this guidance on its financial statements.

**Note 3 Property and Equipment, net**

Property and equipment, net consists of the following:

<i>(Dollar amounts in thousands)</i>	Useful life in years	March 31, 2015	December 31, 2014
Buildings	30	\$ 1,620	\$ 1,602
Data processing equipment	3 - 5	78,863	77,588
Furniture and equipment	3 - 20	8,956	7,540
Leasehold improvements	5 - 10	2,994	2,964
		92,433	89,694
Less - accumulated depreciation and amortization		(65,790)	(61,580)
Depreciable assets, net		26,643	28,114
Land		1,437	1,421
Property and equipment, net		\$ 28,080	\$ 29,535

Depreciation and amortization expense related to property and equipment amounted to \$4.1 million and \$3.9 million for the three months ended March 31, 2015 and 2014, respectively.

**Note 4 Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill, allocated by reportable segments, were as follows (See Note 12):

<i>(Dollar amounts in thousands)</i>	Merchant Acquiring, net	Payment Processing	Business Solutions	Total
Balance at December 31, 2014	\$ 138,121	\$ 184,228	\$ 46,488	\$ 368,837
Foreign currency translation adjustments		206	128	334
Balance at March 31, 2015	\$ 138,121	\$ 184,434	\$ 46,616	\$ 369,171

Goodwill is tested for impairment at least annually, or more often if events or circumstances indicate there may be impairment, using the qualitative assessment option or step zero process. Using this process, the Company first assesses whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There were no triggering events or changes in circumstances that, subsequent to the impairment test, would have required an additional impairment evaluation.

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The carrying amount of other intangible assets for the three months ended March 31, 2015 and the year ended December 31, 2014 consisted of the following:

*(Dollar amounts in thousands)*

			<b>March 31, 2015</b>	
	<b>Useful life in years</b>	<b>Gross amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
Customer relationships	14	\$ 312,853	\$ (101,055)	\$ 211,798
Trademark	10 - 15	39,950	(15,588)	24,362
Software packages	3 - 10	140,139	(91,935)	48,204
Non-compete agreement	15	56,539	(16,962)	39,577
<b>Other intangible assets, net</b>		<b>\$ 549,481</b>	<b>\$ (225,540)</b>	<b>\$ 323,941</b>

*(Dollar amounts in thousands)*

			<b>December 31, 2014</b>	
	<b>Useful life in years</b>	<b>Gross amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
Customer relationships	14	\$ 312,735	\$ (95,482)	\$ 217,253
Trademark	10 - 15	39,950	(14,722)	25,228
Software packages	3 - 10	138,188	(86,605)	51,583
Non-compete agreement	15	56,539	(16,019)	40,520
<b>Other intangible assets, net</b>		<b>\$ 547,412</b>	<b>\$ (212,828)</b>	<b>\$ 334,584</b>

For each of the three month periods ended March 31, 2015 and 2014, the Company recorded amortization expense related to other intangibles of \$12.7 million.

The estimated amortization expense of the balances outstanding at March 31, 2015 for the next five years is as follows:

*(Dollar amounts in thousands)*

Remaining	2015	\$ 27,593
	2016	38,346
	2017	35,168
	2018	32,524
	2019	31,696
	2020	31,690

**Table of Contents****Note 5 Debt and Short-Term Borrowings**

Total debt was as follows:

<i>(Dollar amounts in thousands)</i>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
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 <sup>(1)(3)</sup> )	\$ 273,510	\$ 277,239
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin <sup>(2)(3)</sup> )	388,543	389,340
Senior Secured Revolving Credit Facility expiring on April 17, 2018 paying interest at a variable interest rate	20,000	23,000
Note Payable due on October 1, 2017 <sup>(3)</sup>	3,987	4,333
<b>Total debt</b>	<b>\$ 686,040</b>	<b>\$ 693,912</b>

(1) Applicable margin of 2.50% at March 31, 2015 and December 31, 2014.

(2) Subject to a minimum rate ( LIBOR floor ) of 0.75% plus applicable margin of 2.75% at March 31, 2015 and December 31, 2014.

(3) Includes unamortized discount.

*Senior Secured Credit Facilities**Term A Loan*

As of March 31, 2015, the outstanding principal amount of the Term A Loan was \$273.8 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, LLC's (EVERTEC Group) first lien secured net leverage ratio and payable at a rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.00% to 2.50%, or (b) Base Rate 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, 2015, the outstanding principal amount of the Term B Loan was \$393.0 million. The Term B Loan requires principal payments on the last business day of each quarter equal to 0.250% of the original principal amount commencing on September 30, 2013 and the remaining outstanding principal amount on the maturity of the Term B Loan on April 17, 2020. Interest is based on EVERTEC Group's first lien secured net leverage ratio and payable at a

rate equal to, at the Company's option, either (a) LIBOR Rate plus an applicable margin ranging from 2.50% to 2.75%, or (b) Base Rate plus an applicable margin ranging from 1.50% to 1.75%. The LIBOR Rate and Base Rate are subject to floors of 0.75% and 1.75%, respectively.

#### *Revolving Credit Facility*

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

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. As of March 31, 2015, the Company was in compliance with the applicable restrictive covenants under the 2013 Credit Agreement.

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In December 2014, EVERTEC entered into a non-interest bearing \$4.6 million financing agreement to purchase software. The note will be repaid over a 36-month term in twelve quarterly installments. As of March 31, 2015 the outstanding principal balance of this note payable is \$4.3 million. The current portion of this note is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

**Note 6 Financial Instruments and Fair Value Measurements***Recurring Fair Value Measurements*

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

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

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

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

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

The following table summarizes fair value measurements by level at March 31, 2015 and December 31, 2014 for assets measured at fair value on a recurring basis:

<i>(Dollar amounts in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>March 31, 2015</b>				
Financial assets:				
Indemnification assets:				
Software cost reimbursement	\$	\$	\$ 971	\$ 971
<b>December 31, 2014</b>				
Financial assets:				
Indemnification assets:				

Software cost reimbursement	\$	\$	\$ 1,428	\$ 1,428
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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.

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Indemnification assets include the present value of the expected future cash flows of certain expense reimbursement agreements with Popular. These contracts have termination dates up to September 2015 and were entered into in connection with the merger transaction completed on September 30, 2010 (the Merger), pursuant to which Popular transferred a 51% indirect ownership interest in our wholly owned subsidiary, EVERTEC Group, LLC, to a third party. Management prepared estimates of the expected reimbursements to be received from Popular until the termination of the contracts, discounted the estimated future cash flows and recorded the indemnification assets as of the Merger closing date. Payments received during the quarters reduced the indemnification asset balance. The remaining balance was adjusted to reflect its fair value as of March 31, 2015, resulting in a net unrealized gain of approximately \$3,000 for the three months ended March 31, 2015 and an unrealized loss of \$0.2 million for the three months ended March 31, 2014, which are reflected within the other income caption in the unaudited consolidated statements of income and comprehensive income. The current portion of the indemnification assets is included within accounts receivable, net and the other long-term portion is included within other long-term assets in the accompanying unaudited consolidated balance sheets.

The unobservable inputs related to the Company's indemnification assets as of March 31, 2015 using the discounted cash flow model include the discount rate of 5.25% and the projected cash flows of \$1.0 million.

For indemnification assets a significant increase or decrease in market rates and cash flows could result in a significant impact to the fair value. Also, the credit rating and/or the non-performance credit risk of Popular, which is subjective in nature, also could increase or decrease the sensitivity of the fair value of these assets.

The following table presents the carrying value, as applicable, and estimated fair values for financial instruments at March 31, 2015 and December 31, 2014:

<i>(Dollar amounts in thousands)</i>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets:</b>				
<b>Indemnification assets:</b>				
Software cost reimbursement	\$ 971	\$ 971	\$ 1,428	\$ 1,428
<b>Financial liabilities:</b>				
Senior secured term A	\$ 273,510	\$ 269,644	\$ 277,239	\$ 266,400
Senior secured term B	388,543	385,879	389,340	385,462

The fair value of the senior secured term loan and the senior notes at March 31, 2014 and December 31, 2013 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 and senior notes, which are not measured at fair value in the balance sheets, would be categorized as Level 3 in the fair value hierarchy.

The following table provides a summary of the change in fair value of the Company's Level 3 assets:



<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Indemnification assets:</b>		
Beginning balance	\$ 1,428	\$ 3,586
Payments received	(460)	(460)
Unrealized gain (loss) recognized in other income	3	(179)
Ending balance	\$ 971	\$ 2,947

**Table of Contents****Note 7 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 ( LTIP ) under the terms of our 2013 Equity Incentive Plan. Under the LTIP, the Company granted restricted stock units to eligible participants as time-based awards or performance-based awards.

The vesting of the RSUs is dependent upon market, performance and service 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 1<sup>st</sup> of each year. 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 Cumulative 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. Awards are forfeited if the employee ceases to be employed by the Company prior to vesting.

The following table summarizes the RSU's granted under the LTIP as of March 31, 2015:

	Units	Fair Value Per Unit at Grant Date
Awards with market conditions	32,414	\$ 30.80
Awards with performance conditions	44,885	\$ 22.24
Awards with service conditions	153,568	\$ 22.24

The following table summarizes the stock options activity for the three months ended March 31, 2015:

	Shares	Weighted-average exercise prices
Outstanding at December 31, 2014	316,000	\$ 19.56
Outstanding at March 31, 2015	316,000	\$ 19.56
Exercisable at March 31, 2015	83,333	\$ 23.62

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

The following table summarizes the nonvested restricted shares and RSUs activity for the three months ended March 31, 2015:

<b>Nonvested restricted shares and RSUs</b>	<b>Awards</b>	<b>Weighted-average grant date fair value</b>
Nonvested at December 31, 2014	23,252	\$ 22.04
Forfeited	1,411	20.34
Granted	291,537	22.83
Nonvested at March 31, 2015	313,378	\$ 22.78

For the three months ended March 31, 2015 and March 31, 2014, the Company recognized \$0.6 million and \$0.4 million of share-based compensation expense, respectively. As of March 31, 2015, there was \$1.2 million of total unrecognized compensation cost related to stock options, which is expected to be recognized over the next 2.5 years. In addition, for the same period, there was \$6.5 million of total unrecognized compensation cost related to nonvested shares of restricted stock and RSUs. That cost is expected to be recognized over the next three years.

**Table of Contents****Note 8 Income Tax**

The components of income tax expense for the three months ended March 31, 2015 and 2014 consisted of the following:

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Current tax provision	\$ 2,046	\$ 3,589
Deferred tax expense (benefit)	200	(1,428)
<b>Income tax expense</b>	<b>\$ 2,246</b>	<b>\$ 2,161</b>

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, 2015 and 2014 and its segregation based on location of operations:

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Current tax provision</b>		
Puerto Rico	\$ 1,155	\$ 937
United States	141	198
Foreign countries	750	2,454
<b>Total current tax provision</b>	<b>\$ 2,046</b>	<b>\$ 3,589</b>
<b>Deferred tax expense (benefit)</b>		
Puerto Rico	\$ 299	\$ 27
United States	(26)	(1)
Foreign countries	(73)	(1,454)
<b>Total deferred tax expense (benefit)</b>	<b>\$ 200</b>	<b>\$ (1,428)</b>

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

As of March 31, 2015, the gross deferred tax asset amounted to \$8.9 million and the gross deferred tax liability amounted to \$26.1 million, compared to \$9.7 million and \$26.8 million as of December 31, 2014. At March 31, 2015 the recorded value of the Company's net operating loss ( NOL ) carryforwards was \$6.0 million. The recorded value of the NOL carryforwards is approximately \$4.2 million lower than the total NOL carryforwards available due to a windfall tax benefit. The windfall tax benefit is available to offset future taxable income and is considered an off-balance sheet item until the deduction reduces taxes payable. This windfall tax benefit results from tax deductions

that were in excess of previously recorded compensation expense because the fair value of stock options at the time they were granted differed from their fair value when they were exercised. The total gross NOL carryforwards available, including the windfall benefit, amount to \$26.1 million as of March 31, 2015.

There are no open uncertain tax positions as of March 31, 2015.

**Table of Contents****Note 9 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 data)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 19,063	\$ 18,206
Weighted average common shares outstanding	77,807,289	78,375,335
Weighted average potential dilutive common shares (1)	59,437	860,860
Weighted average common shares outstanding - assuming dilution	77,866,726	79,236,195
Net income per common share - basic	\$ 0.25	\$ 0.23
Net income per common share - diluted	\$ 0.24	\$ 0.23

(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. There were no potential antidilutive shares. On February 18, 2015, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 19, 2015 to stockholders of record as of the close of business on March 2, 2015.

**Note 10 Commitments and Contingencies**

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

Rent expense of office facilities and real estate for both the three months ended March 31, 2015 and 2014 amounted to \$2.0 million. Also, rent expense for telecommunications and other equipment for the three months ended March 31, 2015 and 2014 amounted to \$1.3 million and \$1.5 million, respectively.

In the ordinary course of business, the Company may enter into commercial commitments. As of March 31, 2015, EVERTEC has an outstanding letter of credit of \$0.9 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.

#### Note 11 Related Party Transactions

The following table presents the Company's transactions with related parties for the three months ended March 31, 2015 and 2014:

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Total revenues</b> <sup>(1)(2)</sup>	\$ 41,063	\$ 40,462
<b>Cost of Revenues</b>	\$ 586	\$ 91
<b>Selling, general and administrative expenses</b>		
Rent and other fees	\$ 1,993	\$ 1,917
<b>Interest earned from and charged by affiliate</b>		
Interest income	\$ 44	\$ 52

- (1) Total revenues from Popular as a percentage of revenues were 44% and 46% for the three months ended March 31, 2015 and 2014, respectively.
- (2) Includes revenues generated from investee accounted for under the equity method of \$0.5 million and \$0.7 million for the three months ended March 31, 2015 and 2014, respectively.

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At March 31, 2015 and December 31, 2014, EVERTEC had the following balances arising from transactions with related parties:

<i>(Dollar amounts in thousands)</i>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Cash and restricted cash deposits in affiliated bank	\$ 13,312	\$ 13,566
Indemnification assets from Popular reimbursement <sup>(1)</sup>		
Accounts receivable	\$ 971	\$ 1,428
Other due to/from affiliate		
Accounts receivable	\$ 18,701	\$ 17,006
Prepaid expenses and other assets	\$ 1,265	\$ 1,141
Accounts payable <sup>(2)</sup>	\$ 2,852	\$ 5,260
Unearned income	\$ 8,823	\$ 8,154
Other long-term liabilities <sup>(2)</sup>	\$ 45	\$ 45

(1) Recorded in connection with reimbursement from Popular regarding certain software license fees.

(2) Includes an account payable of \$0.2 million and a long-term liability of \$45,000 for both March 31, 2015 and December 31, 2014, 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.

At March 31, 2015, EVERTEC Group has a credit facility with Popular for \$3.6 million, on behalf of EVERTEC Costa Rica, S.A., under which a letter of credit of a similar amount was issued.

**Note 12 Segment Information**

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

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

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



<i>(Dollar amounts in thousands)</i>	<b>Merchant Acquiring, net</b>	<b>Payment Processing</b>	<b>Business Solutions</b>	<b>Other</b>	<b>Total</b>
<b>Three months ended March 31, 2015</b>					
Revenues	\$ 20,091	\$ 33,105	\$ 44,864	\$ (6,728) <sup>(1)</sup>	91,332
Income from operations	9,264	13,545	14,066	(9,869) <sup>(2)</sup>	27,006
<b>Three months ended March 31, 2014</b>					
Revenues	19,291	31,842	42,917	(6,617) <sup>(1)</sup>	87,433
Income from operations	8,404	14,717	11,424	(9,656) <sup>(2)</sup>	24,889

(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.

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The reconciliation of income from operations to consolidated net income for the three months ended March 31, 2015 and 2014 is as follows:

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Segment income from operations		
Merchant Acquiring	\$ 9,264	\$ 8,404
Payment Processing	13,545	14,717
Business Solutions	14,066	11,424
<b>Total segment income from operations</b>	<b>36,875</b>	<b>34,545</b>
Merger related depreciation and amortization and other unallocated expenses <sup>(1)</sup>	(9,869)	(9,656)
<b>Income from operations</b>	<b>\$ 27,006</b>	<b>\$ 24,889</b>
Interest expense, net	(6,097)	(6,834)
Earnings of equity method investment	115	321
Other income	285	1,991
Income tax expense	(2,246)	(2,161)
<b>Net income</b>	<b>\$ 19,063</b>	<b>\$ 18,206</b>

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

**Note 13 Subsequent Events**

On May 6, 2015, 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 5, 2015 to stockholders of record as of the close of business on May 18, 2015.

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**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, 2015 and 2014, respectively; and (ii) the financial condition as of March 31, 2015. 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, 2014, included in the Company's Form 10-K and with the unaudited consolidated financial statements (the Unaudited Consolidated Financial Statements ) and related notes appearing elsewhere herein. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those indicated in the forward-looking statements. See Forward-Looking Statements for a discussion of the risks, uncertainties and assumptions associated with these statements.*

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

**Executive Summary**

EVERTEC is the leading full-service transaction processing business in Latin America, providing a broad range of merchant acquiring, payment processing and business process management services. According to the July 2014 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 19 countries in the region from our base in Puerto Rico. We manage a system of electronic payment networks that process more than 2.1 billion transactions annually, and offer a comprehensive suite of services for core bank processing, cash processing and technology outsourcing. In addition, we own and operate the ATH network, one of the leading personal identification number ( PIN ) debit networks in Latin America. We serve a diversified customer base of leading financial institutions, merchants, corporations and government agencies with mission-critical technology solutions that enable them to issue, process and accept transactions securely. We believe our business is well-positioned to continue to expand across the fast-growing Latin American region.

We are differentiated, in part, by our diversified business model, which enables us to provide our varied customer base with a broad range of transaction-processing services from a single source across numerous channels and geographic markets. We believe this 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 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.

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We sell and distribute our services primarily through a proprietary direct sales force with strong 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 51% indirect ownership interest in EVERTEC Group as part of a merger (the Merger) and EVERTEC Group became a wholly-owned subsidiary of EVERTEC Intermediate Holdings, LLC.

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.

## **Factors and Trends Affecting the Results of Our Operations**

The ongoing migration from cash and paper methods of payment to electronic payments continues to benefit the transaction processing industry globally. We believe that the penetration of electronic payments in the markets in which we operate is significantly lower relative to the U.S. market, and that this ongoing shift will continue to generate substantial growth opportunities for our business. For example, currently the adoption of banking products,

including electronic payments, in the Latin American region is lower relative to the more mature U.S. and European markets. We believe that the unbanked and underbanked population in our markets will continue to shrink, therefore driving incremental penetration and growth of electronic payments in Puerto Rico and other Latin American regions. We also benefit from the trend for financial institutions and government agencies to outsource technology systems and processes. Many medium- and small-size institutions in the Latin American markets in which we operate have outdated computer systems and updating these IT legacy systems is financially and logistically challenging. We believe that our technology and business outsourcing solutions cater to the evolving needs of the financial institution customer base we target, providing integrated, open, flexible, customer-centric and efficient IT products and services.

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

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.

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**Table of Contents****Overview of Results of Operations**

The following briefly describes the components of revenues and expenses as presented in the unaudited consolidated statements of income (loss) and comprehensive income (loss). Descriptions of the revenue recognition policies are detailed in Note 1 of the Notes to Audited Consolidated Financial Statements included in our 2014 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 \$20.1 million or 22% of total revenues for the three months ended March 31, 2015, compared with \$19.3 million, or 22%, for the same period in 2014; and \$9.3 million or 25% of total segment income from operations for the three month period ended March 31, 2015 compared with \$8.4 million, or 24%, for the same period in 2014.

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

We generally enter into one to five year contracts with our private payment processing clients and one year contracts with our government payment processing clients. For ATH network and processing services, revenue is driven mainly by the number of transactions processed. Revenue is derived mainly from network fees, transaction switching and processing fees, and leasing of POS 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 \$26.4 million or 29% of total revenues for the three months ended March 31, 2015, compared with \$25.2 million, or 29%, of total revenues for the same period in 2014; and \$13.5 million or 37% of total segment income from operations for the three months ended March 31, 2015, compared with \$14.7 million, or 43%, of total segment income from operations for the three months ended March 31, 2014.

*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 business accounted for \$44.9 million or 49% of total revenues for the three months ended March 31, 2015, compared with \$42.9 million, or 49%, of total revenues for the comparable period in 2014; and \$14.1 million or 38% of total segment income from operations for the three months ended March 31, 2015, compared with \$11.4 million, or 33%, of total segment income from operations for the three months ended March 31, 2014.

*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.



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*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, 2015 and 2014. The following tables and discussion should be read in conjunction with the information contained in our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

**Comparison of the three months ended March 31, 2015 and 2014**

The following tables present the components of our unaudited consolidated statements of income and comprehensive income by business segment and the change in those amounts for the three months ended March 31, 2015 and 2014.

*Revenues*

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>			
	<b>2015</b>	<b>2014</b>	<b>Variance</b>	
Merchant Acquiring, net	\$ 20,091	\$ 19,291	\$ 800	4%
Payment Processing	26,377	25,225	1,152	5%
Business Solutions	44,864	42,917	1,947	5%
Total revenues	\$ 91,332	\$ 87,433	\$ 3,899	4%

Total revenues for the three months ended March 31, 2015 increased to \$91.3 million when compared with \$87.4 million for the comparable period in 2014.

Merchant Acquiring revenue for the three months ended March 31, 2015 increased by \$0.8 million or 4% compared with the corresponding 2014 period. The growth was primarily driven by higher spread and transaction growth, partially offset by a slight decrease in sales volume, mainly in our gas station and utilities verticals, which was led by the decrease in oil prices.

Payment Processing revenue for the three months ended March 31, 2015 increased \$1.2 million or 5% compared with the corresponding 2014 period. Revenue growth was mainly driven by an increase in our ATH debit network and processing business as a result of an increase in transactions processed and higher accounts on file within our credit card business.

Business Solutions revenue for the three months ended March 31, 2015 increased \$1.9 million or 5% compared with the corresponding 2014 period. The growth is attributable to higher hardware and software sales and higher core banking service revenues, partially offset by lower IT consulting services.



**Table of Contents***Operating costs and expenses*

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>			
	<b>2015</b>	<b>2014</b>	<b>Variance</b>	
Cost of revenues, exclusive of depreciation and amortization shown below	\$ 39,795	\$ 37,868	\$ 1,927	5%
Selling, general and administrative expenses	7,703	8,062	(359)	-4%
Depreciation and amortization	16,828	16,614	214	1%
Total operating costs and expenses	\$ 64,326	\$ 62,544	\$ 1,782	3%

Total operating costs and expenses for the three months ended March 31, 2015 increased \$1.8 million or 3% when compared with the same period in 2014.

Cost of revenues for the three months ended March 31, 2015 increased \$1.9 million or 5% compared with the corresponding 2014 period. The increase is primarily due to higher cost of sales incurred as a result of the aforementioned increase in hardware and software sales.

Selling, general and administrative expenses for the three months ended March 31, 2015 decreased \$0.4 million or 4% compared with the corresponding 2014 period. The decline was mainly due to a decrease in professional fees.

Depreciation and amortization expense for the three months ended March 31, 2014 increased \$0.2 million or 1% compared with the corresponding 2014 period.

*Income from operations*

The following table presents income from operations by reportable segments.

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>			
	<b>2015</b>	<b>2014</b>	<b>Variance</b>	
Segment income from operations				
Merchant Acquiring, net	\$ 9,264	\$ 8,404	\$ 860	10%
Payment Processing	13,545	14,717	(1,172)	-8%
Business Solutions	14,066	11,424	2,642	23%
Total segment income from operations	36,875	34,545	2,330	7%
Merger related depreciation and amortization and other unallocated expenses <sup>(1)</sup>	(9,869)	(9,656)	(213)	2%
Income from operations	\$ 27,006	\$ 24,889	\$ 2,117	9%

- (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, 2015 was \$27.0 million, representing an increase of \$2.1 million or 9% compared with the corresponding 2014 period. The increase in income from operations in the Merchant Acquiring and the Business Solution segments is driven by increases in revenue and slightly lower operating expenses. The slight decrease in operating expenses in the Merchant Acquiring segment is due to lower allocation of expenses. Lower operating expenses in the Business Solutions segment is the net of higher cost of sales, due to higher hardware and software sales, offset by lower depreciation expense and equipment and software maintenance expenses. Decrease in income from operations in the Payment Services segment is the net of higher revenues offset by higher operating expenses. Higher operating expenses are the result of higher depreciation expense, professional services and software license expenses.

See Note 12 of the Notes to Unaudited Consolidated 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.

**Table of Contents***Non-operating expenses*

<i>(Dollar amounts in thousands)</i>	<b>Three months ended March 31,</b>			<b>Variance</b>
	<b>2015</b>	<b>2014</b>		
Non-operating expenses				
Interest income	\$ 104	\$ 75	\$ 28	39%
Interest expense	(6,201)	(6,909)	709	-10%
Earnings of equity method investment	115	321	(206)	-64%
Other income	285	1,991	(1,706)	-86%
 Total non-operating expenses	 \$ (5,697)	 \$ (4,522)	 \$ (1,175)	 26%

Total non-operating expenses for the three months ended March 31, 2015 increased \$1.2 million or 26% when compared with the same period in 2014.

Decrease of \$0.7 million in interest expense is directly driven by lower outstanding loan balances as well as lower average interest rates in 2015 when compared to the same period in 2014.

Other income decreased by \$1.7 million. The decline in other income was due to lower foreign exchange gains related to the translation of an inter-company loan with our Costa Rica subsidiary as well as lower gains on purchases of local currency.

*Income tax expense*

Income tax expense for the three months ended March 31, 2015 of \$2.2 million increased by \$0.1 million, compared with the corresponding 2014 period.

See Note 8 of the Notes to Unaudited Consolidated 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 \$80.0 million was available as of March 31, 2015.

At March 31, 2015, we had cash of \$32.4 million, of which \$26.4 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, 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>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash provided by operating activities	\$ 29,645	\$ 30,014
Cash used in investing activities	(3,790)	(2,300)
Cash used in financing activities	(25,539)	(22,957)
Increase in cash	\$ 316	\$ 4,757

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Net cash provided by operating activities for the three months ended March 31, 2015 was \$29.6 million as compared to \$30.0 million for the corresponding 2014 period. The decrease was mostly attributable to a decrease in accounts payable and accrued liabilities and an increase in accounts receivable and prepaid expenses. The decrease was partially offset by an increase in income from operations.

Net cash used in investing activities for the three months ended March 31, 2015 was \$3.8 million compared with \$2.3 million for the corresponding period in 2014. The increase is mainly attributable to higher purchases of computer software, property and equipment and an increase in restricted cash.

Net cash used in financing activities for the three months ended March 31, 2015 was \$ 25.5 million compared with \$23.0 million for the corresponding period in 2014. Cash used in the first quarter of 2015 consisted of \$7.8 million in debt repayments, \$7.8 million in dividends paid, and \$10.0 million for common stock repurchase. Cash used in financing activities in 2014 consisted mainly of \$15.4 million in debt repayments and \$7.8 million in dividends paid.

## ***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 \$2.6 million and \$2.5 million for the three months ended March 31, 2015 and 2014, respectively. Capital expenditures are expected to be funded by cash flow from operations and, if necessary, borrowings under our revolving credit facility.

## ***Dividend Payments***

We currently have a policy under which we pay a regular quarterly dividend on our common stock, subject to the declaration thereof by our Board each quarter. On February 18, 2015, our Board declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 19, 2015 to stockholders of record as of March 2, 2014. On May 6, 2015, 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 5, 2015 to stockholders of record as of close of business on May 18, 2015.

## ***Stock Repurchase***

During the first quarter of 2015, the Company repurchased 452,175 shares of the Company's common stock at a cost of \$10.0 million. The Company funded such repurchase with cash on hand.

## ***Financial Obligations***

### ***Senior Secured Credit Facilities***

#### ***Term A Loan***

As of March 31, 2015, the unpaid principal balance of the Term A Loan was \$273.8 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. For the three months ended March 31, 2015, 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, 2015, the unpaid principal balance of the Term B Loan was \$393.0 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. For the three months ended March 31, 2015, 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.



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**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% based on EVERTEC Group's first lien secured net leverage ratio. As of March 31, 2015, the outstanding balance of the revolving credit facility was \$20.0 million. For the three months ended March 31, 2015, the Company made a paydown amounting to \$3.0 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 5 of the Notes to Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information.

*Note payable*

In December 2014, EVERTEC entered into a non-interest bearing \$4.6 million financing agreement to purchase software. The note will be repaid over a 36-month term in twelve quarterly installments. As of March 31, 2015 the outstanding principal balance of this note payable is \$4.3 million. The current portion of this note is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

*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, 2015, the senior secured leverage ratio was 3.57 to 1.00 and we are in compliance with the applicable restrictive covenants under the 2013 Credit Agreement.

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.

***Net Income Reconciliation to EBITDA, Adjusted EBITDA and Adjusted Net Income***

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

We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. In addition, our presentation of Adjusted EBITDA is consistent with the equivalent measurements that are contained in the senior secured credit facilities in testing EVERTEC Group's compliance with covenants therein such as the senior secured leverage ratio. We use Adjusted Net Income to measure our overall profitability because it better reflects our cash flows generation by capturing the actual cash taxes paid rather than our tax expense as calculated under GAAP and excludes the impact of the non-cash

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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.

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>	<b>Three months ended</b>		
	<b>March 31, 2015</b>	<b>March 31, 2015</b>	<b>March 31, 2014</b>
<b>Net income</b>	\$ 19,063	\$ 68,389	\$ 18,206
Income tax expense	2,246	7,663	2,161
Interest expense, net	6,097	25,015	6,834

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Depreciation and amortization	16,828	66,202	16,614
<b>EBITDA</b>	<b>44,234</b>	<b>167,269</b>	<b>43,815</b>
Software maintenance reimbursement and other costs <sup>(1)</sup>	474	2,176	546
Equity income <sup>(2)</sup>	(190)	(684)	(321)
Compensation and benefits <sup>(3)</sup>	833	6,497	488
Transaction, refinancing and other non-recurring fees <sup>(4)</sup>	321	7,734	517
Purchase Accounting <sup>(5)</sup>	(3)	264	179
<b>Adjusted EBITDA</b>	<b>\$ 45,669</b>	<b>\$ 183,255</b>	<b>\$ 45,224</b>
Operating depreciation and amortization <sup>(6)</sup>	(7,461)	(29,496)	(7,483)
Cash interest expense <sup>(7)</sup>	(5,333)	(21,929)	(5,755)
Cash income taxes <sup>(8)</sup>	(2,620)	(3,596)	
<b>Adjusted Net Income</b>	<b>\$ 30,255</b>	<b>\$ 128,234</b>	<b>\$ 31,986</b>
<b>Adjusted Net Income per common share</b>			
Basic	0.39		0.41
Diluted	0.39		0.40
<b>Shares used in computing Adjusted Net Income per common share</b>			
Basic	77,807,289		78,375,335
Diluted	77,866,726		79,236,195

- (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.

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- (3) Primarily represents non-cash equity based compensation expense.
- (4) Represents fees and expenses associated with non-recurring fees and corporate transactions, including costs related to the CEO succession in the fourth quarter of 2014 and fees associated with the withdrawn senior secured notes offerings in the second quarter of 2014.
- (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 cash taxes paid.

**Off Balance Sheet Arrangements**

In the ordinary course of business, the Company may enter into commercial commitments. As of March 31, 2015, we had an outstanding letter of credit of \$0.9 million with a maturity of less than three months. Also, as of March 31, 2015 we had an off balance sheet item of \$11.0 million related to the unused amount of the windfall tax benefit that is available to offset future taxable income.

See Note 8 of the Unaudited Consolidated Financial Statements within Item I of this Form 10-Q for additional information related to this off balance sheet item.

**Seasonality**

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

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### **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, 2015, under the senior secured credit facilities would increase our annual interest expense by approximately \$6.7 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 income (loss) in the unaudited consolidated 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 income. At March 31, 2015, the Company had \$5.6 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss compared with an unfavorable foreign currency translation adjustment of \$6.5 million at December 31, 2014.

### **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) and 15d-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, 2015, the Company's disclosure controls and procedures are effective.

***Change in Internal Control Over Financial Reporting***

During the quarter that ended on March 31, 2015, the Company completed its remediation efforts related to the Company's controls over segregation of duties within the accounting system, specifically restriction to prepare and post journal entries. As a result of the completed remediation efforts noted below, there were improvements in internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were no other changes in internal control over financial reporting (as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Remediation Actions***

In our Annual Report on Form 10-K for the year ended December 31, 2014, management identified a material weakness in our internal control over financial reporting because the segregation of duties within the accounting system was inadequate for multiple

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individuals within the Company, including members of executive management. Specifically, certain individuals had access to prepare and post journal entries across substantially all key accounts of the Company without an independent review performed by someone other than the preparer. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In response to this material weakness, management developed remediation plans to address the control deficiency identified in 2014. The company has implemented the following remediation actions during 2015:

Performed a detailed assessment of the accounting system settings and configurations to restrict access to functions within the system;

Reviewed access of specific individuals within the accounting system to determine that their access is commensurate with their job responsibilities; and

Designed detective controls to review and approve journal entry activity that is conducted by certain individuals and/or using certain access rights that may bypass intended systematically enforced approvals. Management has determined that the remediation actions discussed above were effectively designed and demonstrated effective operation for a sufficient period of time to enable the Company to conclude that the 2014 material weakness regarding its internal controls associated with segregation of duties within the accounting system has been remediated as of March 31, 2015.



**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**

In addition to the risk factors previously disclosed under Item 1A. of the Company's 2014 Form 10-K, investors should consider the following updated risk:

***Rating downgrades on the Government of Puerto Rico's debt obligations could slow the Puerto Rico economy and affect consumer spending***

In February 2014, the principal nationally recognized statistical rating organizations downgraded the general-obligation bonds of the Commonwealth of Puerto Rico and other obligations of Puerto Rico instrumentalities to non-investment grade categories. The downgrades are based mostly on concerns about financial flexibility and a reduced capacity to borrow in the financial markets. If the government is unable to access the capital markets to place new debt or roll its upcoming maturities, the government may reduce spending, impose new taxes, and take other actions which could slow the economy. A prolonged recession or future fiscal measures may also impact our business. The continuing challenging economic environment could affect our customer base, depress general consumer spending, and lengthen the government's payments, thus increasing our government accounts receivables; these outcomes, if realized, could have a material adverse effect on our business, financial condition and results of operations.

Further ratings downgrades for the Commonwealth of Puerto Rico and its instrumentalities have occurred since then. At March 31, 2015, the Company has no direct exposure to the Puerto Rico government, instrumentalities or municipalities' debt obligations. The Company has accounts receivable with the Puerto Rico government and its agencies amounting to \$22.7 million as of March 31, 2015.

The foregoing risk and the risks described in our 2014 Form 10-K and elsewhere 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, 2015:

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of a publicly announced program</b>	<b>Approximate dollar value of shares that may yet be purchased under the program</b>

1/1/2015 - 3/31/2015 <sup>(1)</sup>	452,175	22.114	452,175	\$	40,000,000
Total	452,175	\$ 22.114	452,175		

<sup>(1)</sup> 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.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Table of Contents****Item 6. Exhibits**

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
10.41*+	Restricted Stock Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 6, 2015, by and between EVERTEC, Inc. and Brian J. Smith.
10.42*+	Restricted Stock Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 6, 2015, by and between EVERTEC, Inc. and Jorge Junquera.
10.43*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Juan J. Román.
10.44*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Alan I. Cohen.
10.45*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Philip E. Steurer.
10.46*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Eduardo Camargo.
10.47*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Miguel Vizcarrondo.
10.48*+	Restricted Stock Unit Award Agreement under the EVERTEC, Inc. 2013 Equity Incentive Plan, dated as of March 13, 2015, by and between EVERTEC, Inc. and Carlos J. Ramírez.
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.

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**SIGNATURES**

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

EVERTEC, Inc.

(Registrant)

Date: May 11, 2015

By: /s/ Morgan Schuessler

Morgan Schuessler  
Chief Executive Officer

Date: May 11, 2015

By: /s/ Juan J. Román

Juan J. Román  
Chief Financial Officer