EVERTEC, Inc.
Form 10-Q
October 31, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018 or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 001-35872

EVERTEC, Inc.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico (State or other jurisdiction of incorporation or organization)	66-0783622 (I.R.S. employer identification number)
Cupey Center Building, Road 176, Kilometer 1.3, San Juan, Puerto Rico (Address of principal executive offices)	00926 (Zip Code)

(787) 759-9999
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Table of Contents

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
At October 25, 2018, there were 72,741,417 outstanding shares of common stock of EVERTEC, Inc.

Table of Contents

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

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

- our reliance on our relationship with Popular, Inc. ("Popular") for a significant portion of our revenues pursuant to our master services agreement with them, and our reliance on Banco Popular de Puerto Rico ("Banco Popular"), Popular's principal banking subsidiary, to grow our merchant acquiring business;
- as a regulated institution, we most likely will be required to obtain regulatory approval before engaging in certain new activities or businesses, whether organically or by acquisition, and may be unable to obtain such approval on a timely basis or at all, which may make transactions more expensive or impossible to complete, or make us less attractive to potential sellers;
- our ability to renew our client contracts on terms favorable to us, including our contract with Popular;
- our dependence on our processing systems, technology infrastructure, security systems and fraudulent payment detection systems, as well as on our personnel and certain third parties with whom we do business, and the risks to our business if our systems are hacked or otherwise compromised;
- our ability to develop, install and adopt new software, technology and computing systems;
- a decreased client base due to consolidations and failures in the financial services industry;
- the credit risk of our merchant clients, for which we may also be liable;
- the continuing market position of the ATH network;
- a reduction in consumer confidence, whether as a result of a global economic downturn or otherwise, which leads to a decrease in consumer spending;
- our dependence on credit card associations, including any adverse changes in credit card association or network rules or fees;
- changes in the regulatory environment and changes in international, legal, tax, political, administrative or economic conditions;
- the geographical concentration of our business in Puerto Rico, including our business with the government of Puerto Rico and its instrumentalities, which are facing severe fiscal challenges;
- additional adverse changes in the general economic conditions in Puerto Rico, whether as a result of the government's debt crisis or otherwise, including the continued migration of Puerto Ricans to the U.S. mainland, which could negatively affect our customer base, general consumer spending, our cost of operations and our ability to hire and retain qualified employees;
- the risks in connection with operating an international business in Latin America and the Caribbean, in jurisdictions with potential political and economic instability;
- our ability to execute our geographic expansion and acquisition strategies, including challenges in successfully acquiring new businesses and integrating and growing acquired businesses;
- our ability to protect our intellectual property rights against infringement and to defend ourselves against claims of infringement brought by third parties;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- our ability to comply with U.S. federal, state, local and foreign regulatory requirements;
- evolving industry standards and adverse changes in global economic, political and other conditions;
- our high level of indebtedness and restrictions contained in our debt agreements, including the senior secured credit facilities, as well as debt that could be incurred in the future;

- our ability to prevent a cybersecurity attack or breach in our information security;
- our ability to generate sufficient cash to service our indebtedness and to generate future profits;
- our ability to refinance our debt;
- the possibility that we could lose our preferential tax rate in Puerto Rico;
- the risk that the counterparty to our interest rate swap agreement fails to satisfy its obligations under the agreement;
- uncertainty of the pending debt restructuring process under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), as well as actions taken by the Puerto Rico government or by the PROMESA Board to address the Puerto Rico fiscal crisis;

Table of Contents

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

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. The Company does not undertake, and specifically disclaims any obligation, to update any of the "forward-looking statements" to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws. Investors should refer to the Company's Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") for a discussion of factors that could cause events to differ from those suggested by the forward-looking statements, including factors set forth in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Table of Contents

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

	September 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$91,310	$50,423
Restricted cash	12,686	9,944
Accounts receivable, net	82,865	83,328
Prepaid expenses and other assets	29,671	25,011
Total current assets	216,532	168,706
Investment in equity investee	12,039	13,073
Property and equipment, net	36,655	37,924
Goodwill	396,035	398,575
Other intangible assets, net	260,744	279,961
Deferred tax asset	1,093	988
Other long-term assets	5,500	3,561
Total assets	$928,598	$902,788
Liabilities and stockholders’ equity		
Current Liabilities:		
Accrued liabilities	$45,174	$38,451
Accounts payable	37,397	41,135
Unearned income	14,017	7,737
Income tax payable	5,684	1,406
Current portion of long-term debt	23,191	46,487
Short-term borrowings	—	12,000
Total current liabilities	125,463	147,216
Long-term debt	541,949	557,251
Deferred tax liability	11,509	13,820
Unearned income - long term	24,217	23,486
Other long-term liabilities	10,508	13,039
Total liabilities	713,646	754,812
Commitments and contingencies (Note 12)		
Stockholders’ equity		
Preferred stock, par value $0.01; 2,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01; 206,000,000 shares authorized; 72,740,277 shares issued and outstanding at September 30, 2018 (December 31, 2017 - 72,393,933)	727	723
Additional paid-in capital	12,910	5,350
Accumulated earnings	212,180	148,887
Accumulated other comprehensive loss, net of tax	(14,964)	(10,848)
Total EVERTEC, Inc. stockholders’ equity	210,853	144,112
Non-controlling interest	4,099	3,864
Total equity	214,952	147,976
Total liabilities and equity	$928,598	$902,788

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

1

Table of Contents

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

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

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

Table of Contents

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

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2017	72,393,933	$ 723	$ 5,350	$ 148,887	$ (10,848)	$ 3,864	$ 147,976
Cumulative adjustment from implementation of ASC 606	—	—	—	858	—	(16)	842
Share-based compensation recognized	—	—	9,692	—	—	—	9,692
Restricted stock units delivered, net of cashless	346,344	4	(2,132)	—	—	—	(2,128)
Net income	—	—	—	66,071	—	251	66,322
Cash dividends declared on common stock	—	—	—	(3,636)	—	—	(3,636)
Other comprehensive loss	—	—	—	—	(4,116)	—	(4,116)
Balance at September 30, 2018	72,740,277	$ 727	$ 12,910	$ 212,180	$ (14,964)	$ 4,099	$ 214,952

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

Table of Contents

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

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

Other long-term liabilities	62	(1,571)
Total adjustments	62,121	58,941
Net cash provided by operating activities	128,443	108,435
Cash flows from investing activities		
Additions to software	(15,385)	(15,955)
Acquisitions, net of cash acquired	—	(42,836)
Property and equipment acquired	(9,620)	(8,285)
Proceeds from sales of property and equipment	15	30
Net cash used in investing activities	(24,990)	(67,046)
Cash flows from financing activities		
Statutory withholding taxes paid on share-based compensation	(2,128)	(1,576)
Net (decrease) increase in short-term borrowings	(12,000)	5,000
Repayment of short-term borrowing for purchase of equipment and software	(686)	(1,872)
Dividends paid	(3,636)	(21,762)
Repurchase of common stock	—	(7,671)
Repayment of long-term debt	(41,374)	(14,748)
Net cash used in financing activities	(59,824)	(42,629)
Net increase (decrease) in cash, cash equivalents and restricted cash	43,629	(1,240)
Cash, cash equivalents and restricted cash at beginning of the period	60,367	60,032
Cash, cash equivalents and restricted cash at end of the period	$ 103,996	$ 58,792

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

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

Table of Contents

Notes to Unaudited Consolidated Condensed Financial Statements

Table of Contents

Note 1 – The Company and Basis of Presentation

The Company

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the “Company,” or “EVERTEC”) is a leading full-service transaction processing business in Latin America and the Caribbean. The Company is based in Puerto Rico and provides a broad range of merchant acquiring, payment processing and business process management. The Company provides services across 26 countries in the region. EVERTEC owns and operates the ATH network, one of the leading automated teller machine (“ATM”) and personal identification number (“PIN”) debit networks in Latin America. In addition, EVERTEC provides a comprehensive suite of services for core bank processing, cash processing and technology outsourcing in the regions the Company serves. EVERTEC serves a broad and diversified customer base of leading financial institutions, merchants, corporations and government agencies with solutions that are essential to their operations, enabling them to issue, process and accept transactions securely.

Basis of Presentation

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

Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these consolidated condensed financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2017, included in the Company’s 2017 Form 10-K. In the opinion of management, the accompanying consolidated condensed financial statements, prepared in accordance with GAAP, contain all adjustments necessary for a fair presentation. Intercompany accounts and transactions are eliminated in consolidation.

Note 2 – Recent Accounting Pronouncements

Recently issued accounting pronouncements

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

In August 2018, the FASB issued updated guidance for customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of the adoption of this update to the consolidated financial statements.

Accounting pronouncements issued prior to 2018 and not yet adopted

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

Table of Contents

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

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

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

Note 3 – Property and Equipment, net

Property and equipment, net consists of the following:

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

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

Table of Contents

Note 4 – Goodwill and Other Intangible Assets

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

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

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

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

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

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

For the three and nine months ended September 30, 2018, the Company recorded amortization expense related to other intangibles of $11.9 million and $36.4 million, respectively, compared to $12.7 million and $36.9 million for the corresponding 2017 periods.

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

8

Table of Contents

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

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

Note 5 – Debt and Short-Term Borrowings

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

(In thousands)	September 30, 2018	December 31, 2017
Senior Secured Credit Facility (2018 Term A) due on April 17, 2018 paying interest at a variable interest rate (London InterBank Offered Rate ("LIBOR") plus applicable margin(1)(3))	$—	$26,690
Senior Secured Credit Facility (2020 Term A) due on January 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin(3)(4))	189,974	200,653
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin(2)(3))	375,165	376,395
Senior Secured Revolving Credit Facility(6)	—	12,000
Note Payable due on August 31, 2019(5)	—	584
Note Payable due on April 30, 2021(3)	330	418
Total debt	$565,469	$616,740

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

Senior Secured Credit Facilities

On April 17, 2013, EVERTEC Group entered into a credit agreement (the "2013 Credit Agreement") governing the senior secured credit facilities, consisting of a $300.0 million term loan A facility (the "Term A Loan"), a $400.0 million term loan B facility (the "Term B Loan", together with the Term A Loan, the "Senior Secured term loans") and a $100.0 million revolving credit facility (the "Revolving Facility"). During 2016, the Company entered into two separate amendments to the 2013 Credit Agreement. In the second quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a second amendment and waiver to the outstanding 2013 Credit Agreement (the "Second Amendment"). In the fourth quarter of 2016, EVERTEC Group, together with certain other direct and indirect subsidiaries of the Company, entered into a third amendment (the "Third Amendment") to the 2013 Credit Agreement. The Third Amendment extends the maturity of (a) approximately $219 million of EVERTEC Group's existing approximately $250 million of Term A loan facility to January 17, 2020 (the "2020 Term A Loan") and (b) $65 million of EVERTEC Group's existing $100 million of Revolving Facility to January 17,

2020. The remaining approximately $30 million of Term A loan (the “2018 Term A Loan”) and the $35 million of Revolving Facility were not extended and matured as originally scheduled on April 17, 2018. The Term B Loan will remain in place and mature as originally scheduled on April 17, 2020.

The unpaid principal balance at September 30, 2018 of the 2020 Term A Loan and the Term B Loan was $191.4 million and $379.0 million, respectively. At September 30, 2018, the 2018 Term A Loan had been fully repaid. The additional borrowing capacity for the Revolving Facility at September 30, 2018 was $65.0 million.

Table of Contents

Notes payable

In May 2016, EVERTEC Group entered into a non-interest bearing financing agreement amounting to $0.7 million and in October 2016 entered into an interest bearing agreement of $1.1 million, to purchase software. As of September 30, 2018 and December 31, 2017, the outstanding principal balance of the notes payable is $0.4 million and $1.0 million, respectively. The October 2016 interest bearing note payable outstanding principal balance was prepaid without penalties during the second quarter of 2018. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swap

As of September 30, 2018, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B Loan from variable to fixed:

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

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

At September 30, 2018 and December 31, 2017, the carrying amount of the derivative on the Company’s balance sheets is as follows:

(Dollar amounts in thousands)	September 30, 2018	December 31, 2017
Other long-term assets	$ 2,546	$ 214

During the nine months ended September 30, 2018, the Company reclassified losses of $0.1 million from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates, the Company expects to reclassify gains of $0.5 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 6 for tabular disclosure of the fair value of derivatives and to Note 7 for tabular disclosure of gains recorded on cash flow hedging activities.

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

Note 6 – Financial Instruments and Fair Value Measurements

Recurring Fair Value Measurements

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

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

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

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

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

Table of Contents

judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions. The following table summarizes the fair value measurement by level at September 30, 2018 and December 31, 2017 for the asset measured at fair value on a recurring basis:

(In thousands)	Level 1	Level 2	Level 3	Total
September 30, 2018				
Financial asset:				
Interest rate swap	$ —	$ 2,546	$ —	$ 2,546
December 31, 2017				
Financial asset:				
Interest rate swap	$ —	$ 214	$ —	$ 214

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

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

The fair values of the term loans at September 30, 2018 and December 31, 2017 were obtained using the prices provided by third party service providers. Their pricing is based on various inputs such as: market quotes, recent trading activity in a non-active market or imputed prices. Also, the pricing may include the use of an algorithm that could take into account movement in the general high yield market, among other variants.
The Senior Secured term loans, which are not measured at fair value in the balance sheets, would be categorized as Level 3 in the fair value hierarchy.

Note 7 – Equity

Accumulated Other Comprehensive Loss

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

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

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

Table of Contents

Note 8 – Share-based Compensation

Long-term Incentive Plan ("LTIP")

In the first quarter of 2016, 2017 and 2018, the Compensation Committee of the Board of Directors approved grants of restricted stock units (“RSUs”) to executives and certain employees pursuant to the 2016 LTIP, 2017 LTIP and 2018 LTIP, respectively, all under the terms of our 2013 Equity Incentive Plan. Additionally, in the fourth quarter of 2017, a special retention grant to certain executives and employees of the Company was approved. Under the LTIPs, the Company granted restricted stock units to eligible participants as time-based awards and/or performance-based awards.

The vesting of the RSUs is dependent upon service, market, and/or performance conditions as defined in the grants. Employees that received time-based awards with service conditions are entitled to receive a specific number of shares of the Company’s common stock on the vesting date if the employee is providing services to the Company on the vesting date. Time-based awards vest over a period of three years in substantially equal installments commencing on the grant date and ending on February 19 of each year for the 2016 LTIP, on February 24 of each year for the 2017 LTIP and on February 28 of each year for the 2018 LTIP.

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

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

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

Nonvested restricted shares and RSUs	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2017	2,340,892	$ 15.08
Forfeited	(382,371)	17.32
Vested	(461,097)	18.29
Granted	636,322	17.07
Nonvested at September 30, 2018	2,133,746	$ 15.02

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

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

Note 9 - Revenues

Summary of Revenue Recognition Accounting Policy

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

Revenue is measured on the consideration specified in a contract with a customer. Once the Company determines a contract's performance obligations and the transaction price, including an estimate of any variable consideration, the Company allocates the transaction price to each performance obligation in the contract using a relative stand-alone selling price. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of goods and services

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

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

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

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

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

The Company’s service contracts may include service level arrangements (“SLA”) generally allowing the customer to receive a credit for part of the service fee when the Company has not provided the agreed level of services. If triggered, the SLA is deemed a consideration payable that may impact the transaction price of the contract, thus SLA performance is monitored and

Table of Contents

assessed for compliance with arrangements on a monthly basis, including determination and accounting for its economic impact, if any.

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

Significant Judgments

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

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

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

Impact of adoption of Topic 606

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

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

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

Disaggregation of revenue

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

14

Table of Contents

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

	Three months ended September 30, 2018				
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	$114	$15	$—	$1,652	$1,781
Products and services transferred over time	19,679	18,892	24,486	47,179	110,236
	$19,793	$18,907	$24,486	$48,831	$112,017

	Nine months ended September 30, 2018				
(In thousands)	Payment Services - Puerto Rico & Caribbean	Payment Services - Latin America	Merchant Acquiring, net	Business Solutions	Total
Timing of revenue recognition					
Products and services transferred at a point in time	$307	$444	$—	$3,861	$4,612
Products and services transferred over time	56,983	58,090	73,829	142,124	331,026
	$57,290	$58,534	$73,829	$145,985	$335,638

Contract balances

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

(In thousands)	Contract Assets
Balance at beginning of period	$1,903
Services transferred to customers	1,053
Transfers to accounts receivable	(1,253)
September 30, 2018	$1,703

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

Accounts receivable, net at September 30, 2018 amounted to $82.9 million. Unearned income and Unearned income - Long term, which refer to contract liabilities, at September 30, 2018 amounted to $14.0 million and $24.2 million, respectively, and arise when consideration is received or due in advance from customers prior to performance. Unearned income is mainly related to upfront fees for implementation or set up activities, including fees charged in pre-production periods in connection with hosting services. During the three and nine months ended September 30, 2018, the Company recognized revenue of $1.2 million and $6.9 million that was included in unearned income at December 31, 2017.

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

Table of Contents

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

The estimated aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at September 30, 2018 is $249.0 million. This amount primarily consists of professional service fees for implementation or set up activities related to hosting services and maintenance services, which are typically recognized over the life of the contract which vary from 2 to 5 years, with the exception of one contract which represents the majority of the performance obligations under these professional services with a remaining life of 7 years. It also includes professional service fees for customizations or development of on-premise licensing agreements, which are recognized over time based on inputs relative to the total expected inputs to satisfy a performance obligation. This estimate excludes any contracts that are accounted for using the practical expedients noted above.

Note 10 – Income Tax

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

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

The Company conducts operations in Puerto Rico and certain countries in Latin America. As a result, the income tax expense includes the effect of taxes paid to the Puerto Rico government as well as foreign jurisdictions. The following table presents the components of income tax expense for the three and nine months ended September 30, 2018 and 2017, respectively, and its segregation based on location of operations:

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

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

As of September 30, 2018, the Company has $38.5 million of unremitted earnings from foreign subsidiaries. The Company has not recognized a deferred tax liability on undistributed earnings for the Company's foreign subsidiaries because these earnings are intended to be indefinitely reinvested.

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

Table of Contents

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

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

Note 11 – Net Income Per Common Share

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollar amounts in thousands, except per share information)	2018	2017	2018	2017
Net income attributable to EVERTEC, Inc.	$22,997	$ 6,102	$66,071	$ 49,220
Less: non-forfeitable dividends on restricted stock	2	4	2	7
Net income available to EVERTEC, Inc.’s common shareholders	$22,995	$ 6,098	$66,069	$ 49,213
Weighted average common shares outstanding	72,721,417	72,386,947	72,590,679	72,509,742
Weighted average potential dilutive common shares [1]	1,935,686	706,771	1,532,752	580,270
Weighted average common shares outstanding - assuming dilution	74,657,103	73,093,718	74,123,431	73,090,012
Net income per common share - basic	$0.32	$ 0.08	$0.91	$ 0.68
Net income per common share - diluted	$0.31	$ 0.08	$0.89	$ 0.67

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

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

Note 12 – Commitments and Contingencies

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

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

EVERTEC is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel and other factors, Management believes that the final disposition of these matters will not have a material adverse effect on the business, results of operations, financial condition, or cash flows of the Company. The Company has identified certain claims as a result of which a loss may be incurred, but in the aggregate the loss would be insignificant. For other claims

Table of Contents

regarding proceedings that are in an initial phase, the Company is unable to estimate the range of possible loss, if any, but at this time believes that any loss related to such claims will not be material.

Note 13 – Related Party Transactions

The following table presents the Company's transactions with related parties for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
(Dollar amounts in thousands)	2018	2017	2018	2017
Total revenues (1)(2)	$47,216	$44,090	$139,954	$134,045
Cost of revenues	$840	$1,775	$2,192	$2,610
Rent and other fees	$2,016	$1,962	$5,9	