EVERTEC, Inc.
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017 or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 001-35872

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

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

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

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

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

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

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

At July 28, 2017, there were 72,381,305 outstanding shares of common stock of EVERTEC, Inc.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of, and subject to the protection of, the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or 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;
- 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, 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;
- the nature, timing and amount of any restatement; and

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- other factors discussed in this Report.

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, 2016 (the “2016 Form 10-K”) for a discussion of factors that could cause events to differ from those suggested by the forward-looking statements, including factors set forth in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$93,060	$51,920
Restricted cash	8,196	8,112
Accounts receivable, net	76,902	77,803
Prepaid expenses and other assets	26,500	20,430
Total current assets	204,658	158,265
Investment in equity investee	12,646	12,252
Property and equipment, net	36,095	38,930
Goodwill	371,204	370,986
Other intangible assets, net	284,316	299,119
Long-term deferred tax asset	988	805
Other long-term assets	4,720	5,305
Total assets	$914,627	$885,662
Liabilities and stockholders' equity		
Current Liabilities:		
Accrued liabilities	$34,203	$34,243
Accounts payable	31,697	40,845
Unearned income	5,383	4,531
Income tax payable	2,687	1,755
Current portion of long-term debt	46,344	19,789
Short-term borrowings	48,000	28,000
Total current liabilities	168,314	129,163
Long-term debt	565,425	599,667
Long-term deferred tax liability	14,378	14,978
Unearned income - long term	20,577	17,303
Other long-term liabilities	11,918	16,376
Total liabilities	780,612	777,487
Commitments and contingencies (Note 11)		
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; 72,381,305 shares issued and outstanding at June 30, 2017 (December 31, 2016 - 72,635,032)	723	726
Additional paid-in capital	—	—
Accumulated earnings	144,175	116,341
Accumulated other comprehensive loss, net of tax	(14,616)	(12,391)
Total EVERTEC, Inc. stockholders' equity	130,282	104,676
Non-controlling interest	3,733	3,499
Total equity	134,015	108,175
Total liabilities and equity	$914,627	$885,662

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Merchant acquiring, net	$23,506	$23,277	$45,991	$46,167
Payment processing (from affiliates: $8,526, $7,951, $16,649 and $15,806)	30,693	28,157	60,809	55,132
Business solutions (from affiliates: $36,416, $35,660, $73,306 and $70,958)	49,312	46,238	97,991	91,852
Total revenues	103,511	97,672	204,791	193,151
Operating costs and expenses				
Cost of revenues, exclusive of depreciation and amortization shown below	43,030	41,966	87,203	85,374
Selling, general and administrative expenses	14,588	12,573	25,419	23,408
Depreciation and amortization	15,899	14,941	31,583	29,611
Total operating costs and expenses	73,517	69,480	144,205	138,393
Income from operations	29,994	28,192	60,586	54,758
Non-operating income (expenses)				
Interest income	216	92	401	179
Interest expense	(7,406)	(6,138)	(14,442)	(12,016)
Earnings (losses) of equity method investment	115	29	258	(101)
Other income	1,363	860	2,637	1,258
Total non-operating expenses	(5,712)	(5,157)	(11,146)	(10,680)
Income before income taxes	24,282	23,035	49,440	44,078
Income tax expense	4,068	2,801	6,088	4,677
Net income	20,214	20,234	43,352	39,401
Less: Net income (loss) attributable to non-controlling interest	125	(1)	234	18
Net income attributable to EVERTEC, Inc.'s common stockholders	20,089	20,235	43,118	39,383
Other comprehensive (loss) income, net of tax of $(18), $442, $19 and $446				
Foreign currency translation adjustments	(1,956)	(2,047)	(2,601)	(1,579)
(Loss) gain on cash flow hedge	(242)	(1,475)	376	(4,547)
Total comprehensive income attributable to EVERTEC, Inc.'s common stockholders	$17,891	$16,713	$40,893	$33,257
Net income per common share - basic attributable to EVERTEC, Inc.'s common stockholders	$0.28	$0.27	$0.59	$0.53
Net income per common share - diluted attributable to EVERTEC, Inc.'s common stockholders	$0.27	$0.27	$0.59	$0.53
Cash dividends declared per share	$0.10	$0.10	$0.20	$0.20

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

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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, 2016	72,635,032	$ 726	$ —	$ 116,341	$ (12,391)	$ 3,499	$ 108,175
Cumulative adjustment from implementation of ASU 2016-09	—	—	—	4,203	—	—	4,203
Share-based compensation recognized	—	—	4,189	—	—	—	4,189
Repurchase of common stock	(465,240)	(5)	(2,702)	(4,964)	—	—	(7,671)
Restricted stock units delivered, net of cashless	211,513	2	(1,487)	—	—	—	(1,485)
Net income	—	—	—	43,118	—	234	43,352
Cash dividends declared on common stock	—	—	—	(14,523)	—	—	(14,523)
Other comprehensive loss	—	—	—	—	(2,225)	—	(2,225)
Balance at June 30, 2017	72,381,305	723	—	144,175	(14,616)	$ 3,733	$ 134,015

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

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

	Six months ended June 30, 2017	2016
Cash flows from operating activities		
Net income	$43,352	$39,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,583	29,611
Amortization of debt issue costs and accretion of discount	2,490	1,939
Provision for doubtful accounts and sundry losses	107	858
Deferred tax benefit	(1,799)	(1,537)
Share-based compensation	4,189	3,403
Loss on disposition of property and equipment and other intangibles	176	122
(Earnings) losses of equity method investment	(258)	101
Decrease (increase) in assets:		
Accounts receivable, net	953	2,776
Prepaid expenses and other assets	(6,067)	(2,972)
Other long-term assets	188	(1,826)
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(9,215)	(6,793)
Income tax payable	932	1,553
Unearned income	4,126	2,578
Other long-term liabilities	297	210
Total adjustments	27,702	30,023
Net cash provided by operating activities	71,054	69,424
Cash flows from investing activities		
Net (increase) decrease in restricted cash	(83)	4,217
Additions to software	(9,989)	(10,015)
Acquisitions, net of cash acquired	—	(5,947)
Property and equipment acquired	(5,485)	(9,017)
Proceeds from sales of property and equipment	25	40
Net cash used in investing activities	(15,532)	(20,722)
Cash flows from financing activities		
Statutory withholding taxes paid on share-based compensation	(1,485)	(290)
Net increase in short-term borrowings	20,000	3,000
Repayment of short-term borrowing for purchase of equipment and software	(996)	(778)
Dividends paid	(14,523)	(14,964)
Credit amendment fees	—	(3,587)
Repurchase of common stock	(7,671)	(15,602)
Repayment of long-term debt	(9,707)	(9,500)
Net cash used in financing activities	(14,382)	(41,721)
Net increase in cash	41,140	6,981
Cash at beginning of the period	51,920	28,747
Cash at end of the period	$93,060	$35,728
Supplemental disclosure of cash flow information:		
Cash paid for interest	$12,280	$10,225
Cash paid for income taxes	5,116	4,815

Supplemental disclosure of non-cash activities:		
Foreign currency translation adjustments	$(2,601)	$(1,579)
Payable due to vendor related to software acquired	2,360	3,556

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

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Notes to Unaudited Consolidated Condensed Financial Statements

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Note 1 – The Company and Basis of Presentation

The Company

EVERTEC, Inc. (formerly known as Carib Latam Holdings, Inc.) and its subsidiaries (collectively the "Company," or "EVERTEC") is a leading full-service transaction processing business in Latin America and the Caribbean. The Company is based in Puerto Rico and provides a broad range of merchant acquiring, payment processing and business process management. As of July 3, 2017, with the completion of the acquisition of 100% of the share capital of EFT Group S.A., a Chilean-based payment processing and software company known commercially as PayGroup ("PayGroup"), the Company provides services across 27 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, 2016, included in the Company's 2016 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

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

In May 2017, the FASB issued updated guidance to clarify the scope of modifications under share based compensation accounting. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Accounting pronouncements issued prior to 2017 and not yet adopted

During 2014, the FASB issued new guidance for revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and also includes changes in the accounting for customer contract acquisition costs and fulfillment costs. During 2016, the FASB issued several additional updates that amended the proposed guidance. These new standards will replace most existing revenue recognition guidance in U.S. GAAP, and are effective for public reporting companies for interim and annual periods beginning after December 15, 2017. The standards permit two methods of adoption: retrospectively to each prior reporting period presented (retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The effective date for the Company is January 1, 2018. Management has determined to apply the amendments in this update retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application.

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Management is continuing to evaluate the potential impact this new guidance will have on the Company's financial statements. Management has conducted initial analysis and is completing detailed contract reviews to determine necessary adjustments to accounting policies and to support an evaluation of the standard's impact on the Company's consolidated results of operations and financial condition. Based on work completed at this time, Management believes the new standard may have potentially significant impacts in the following areas:
- Under current policies, upfront activities (such as setup activities) are not generally analyzed to determine whether they have standalone value because the contingent revenue cap under the existing revenue guidance would prohibit allocation of hosting revenue to that upfront activity. Under the new standards, the contingent revenue cap no longer exists, so certain upfront activities included in the implementation process will need to be evaluated to determine whether they qualify as separate units of accounting. If they are separate units of accounting, then revenue would be allocated to the upfront activity, recognized as those activities are performed, rather than over the hosting period.
- Where the Company charges upfront fees for implementation or set-up activities, including fees charged in pre-production periods, the period over which these fees will be recognized may in some cases be shorter than our current practice.
- Revenue for certain professional services that are recognized upon completion of the services will be evaluated under the new standards to determine if revenue should be recognized over time.
- Required enhancements to current disclosures around revenue recognition.

At this time, Management is not able to reasonably estimate the impact that adoption is expected to have. The Company continues to implement appropriate changes to its business processes, systems and controls to support recognition and disclosures under the new standard. Significant activities that are in process are the calculation of the transition adjustment, drafting and approval of new accounting policies and the implementation of new processes, controls and systems to accommodate the new policies and to compile the information for the enhanced disclosures under the new standards. The implementation process is ongoing and Management expects to be in a position to report under the new accounting standard upon adoption in the first quarter of 2018.

During 2016, the FASB issued updated guidance for financial reporting about leasing transactions. The amendments in this update require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. In addition, the update requires that both financing and operating leases be recognized on the balance sheet. The guidance also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company expects to adopt this guidance in the period required by the update and continues to evaluate the impact that this update will have on its consolidated financial statements.

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.

During 2016, the FASB issued updated guidance for the classification of certain cash receipts and cash payments on the statement of cash flows. The amendments in this update provide specific guidance for the classification of eight issues: debt prepayment or extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of an insurance claim; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and applications of the predominance principle. 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.

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During 2016, the FASB issued updated guidance for tax treatment of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The FASB decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this update do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. 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.

Note 3 – Property and Equipment, net

Property and equipment, net consists of the following:

(Dollar amounts in thousands)	Useful life in years	June 30, 2017	December 31, 2016
Buildings	30	$1,529	$1,559
Data processing equipment	3 - 5	106,482	105,052
Furniture and equipment	3 - 20	6,278	7,311
Leasehold improvements	5 -10	3,162	3,057
		117,451	116,979
Less - accumulated depreciation and amortization		(82,692)	(79,431)
Depreciable assets, net		34,759	37,548
Land		1,336	1,382
Property and equipment, net		$36,095	$38,930

Depreciation and amortization expense related to property and equipment for the three and six months ended June 30, 2017 amounted to $3.7 million and $7.4 million, compared to $3.4 million and $6.8 million for the same period in 2016.

Note 4 – Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill, allocated by reportable segments, were as follows (See Note 13):

(Dollar amounts in thousands)	Merchant Acquiring, net	Payment Processing	Business Solutions	Total
Balance at December 31, 2016	$ 138,121	$186,688	$46,177	$370,986
Adjustment to goodwill from prior year acquisition	—	1,099	—	1,099
Foreign currency translation adjustments	—	(516)	(365)	(881)
Balance at June 30, 2017	$ 138,121	$187,271	$45,812	$371,204

Goodwill is tested for impairment on an annual basis, or more often if events or changes in circumstances indicate there may be impairment. For 2016, the Company used the qualitative assessment option or step zero process. Using this process, the Company first assessed whether it was “more likely than not” that the fair value of a reporting unit was less than its carrying amount. The Company conducted a qualitative assessment of each reporting unit’s fair value, or step zero process, as of August 31, 2016. As part of the Company’s qualitative assessment, Management considered the results of the Company’s 2015 impairment test (which indicated that the fair value of each reporting unit was in excess of it carrying amount by 120.9%—145.5%) as well as current market conditions and changes in the carrying amount of the Company’s reporting units that occurred subsequent to the 2015 impairment test. Based on the results of this qualitative assessment, EVERTEC believes the fair value of goodwill for each of the Company’s reporting units continues to exceed their respective carrying amounts and concluded that it was not necessary to conduct the two-step goodwill impairment test. There were no triggering events or changes in circumstances that, subsequent to the impairment test, would have required an additional impairment evaluation. No impairment losses were recognized for the six months ended June 30, 2017 or 2016.

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The carrying amount of other intangible assets at June 30, 2017 and December 31, 2016 was as follows:

(Dollar amounts in thousands)	Useful life in years	June 30, 2017 Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	$334,207	$(154,632)	$179,575
Trademark	10 - 15	39,950	(23,382)	16,568
Software packages	3 -10	185,892	(128,815)	57,077
Non-compete agreement	15	56,539	(25,443)	31,096
Other intangible assets, net		$616,588	$(332,272)	$284,316

(Dollar amounts in thousands)	Useful life in years	December 31, 2016 Gross amount	Accumulated amortization	Net carrying amount
Customer relationships	8 - 14	$334,455	$(141,829)	$192,626
Trademark	10 - 15	39,950	(21,650)	18,300
Software packages	3 - 10	176,267	(121,055)	55,212
Non-compete agreement	15	56,539	(23,558)	32,981
Other intangible assets, net		$607,211	$(308,092)	$299,119

For the three and six months ended June 30, 2017, the Company recorded amortization expense related to other intangibles of $12.2 million and $24.2 million, respectively, compared to $11.4 million and $22.7 million for the corresponding 2016 period.

The estimated amortization expense of the balances outstanding at June 30, 2017 for the next five years is as follows:

(Dollar amounts in thousands)	
Remaining 2017	$23,689
2018	43,436
2019	39,943
2020	35,115
2021	31,845

Note 5 – Debt and Short-Term Borrowings

Total debt at June 30, 2017 and December 31, 2016 follows:

(Dollar amounts in thousands)	June 30, 2017	December 31, 2016
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))	$27,894	$28,721
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))	206,657	212,661
Senior Secured Credit Facility (Term B) due on April 17, 2020 paying interest at a variable interest rate (LIBOR plus applicable margin(2)(3))	377,218	378,074
Senior Secured Revolving Credit Facility(6)	48,000	28,000
Note Payable due on October 1, 2017(3)	772	1,524
Note Payable due on July 31, 2017(3)	372	357
Note Payable due on August 31, 2019(5)	740	890
Note Payable due on April 30, 2021(3)	476	532
Total debt	$662,129	$650,759

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(1) Applicable margin of 2.25% at June 30, 2017 and December 31, 2016.
(2) Subject to a minimum rate ("LIBOR floor") of 0.75% plus applicable margin of 2.50% at June 30, 2017 and December 31, 2016.
(3) Net of unaccreted discount and unamortized debt issue costs, as applicable.
(4) Applicable margin of 2.50% at June 30, 2017 and December 31, 2016.
(5) Fixed interest rate of 7.50%.
(6) Applicable margin of 2.50% at June 30, 2017 and December 31, 2016.

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 that were not extended will remain in place and mature as originally scheduled on April 17, 2018. The Term B loan facility will remain in place and mature as originally scheduled on April 17, 2020.

The unpaid principal balance at June 30, 2017 of the 2018 Term A Loan, the 2020 Term A Loan and the Term B Loan was $28.4 million, $209.5 million and $384.0 million, respectively. The additional borrowing capacity for the Revolving Facility loan at June 30, 2017 was $52.0 million.

Notes payable

In December 2014, June 2015 and May 2016, EVERTEC Group entered into non-interest bearing financing agreements amounting to $4.6 million, $1.1 million, and $0.7 million, respectively, and in October 2016 entered into an interest bearing agreement of $1.1 million, to purchase software. As of June 30, 2017 and December 31, 2016, the outstanding principal balance of the notes payable is $2.4 million and $3.4 million, respectively. The current portion of these notes is recorded as part of accounts payable and the long-term portion is included in other long-term liabilities.

Interest Rate Swap

As of June 30, 2017, the Company has the following interest rate swap agreement converting a portion of the interest rate exposure on the Company's Term B loan from variable to fixed:

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

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

As of June 30, 2017 and December 31, 2016, the carrying amount of the derivative on the Company's balance sheet is as follows:

(Dollar amounts in thousands)	June 30, 2017	December 31, 2016
Other long-term liabilities	$1,588	$ 1,964

During the three and six months ended June 30, 2017, the Company reclassified losses of $0.5 million and $0.9 million respectively, from accumulated other comprehensive loss into income through interest expense. Based on current LIBOR rates,

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the Company expects to reclassify $1.7 million from accumulated other comprehensive loss into income through interest expense over the next 12 months. Refer to Note 6 for tabular disclosure of the fair value of derivatives and to Note 7 for tabular disclosure of gains recorded on cash flow hedging activities.
The cash flow hedge is considered highly effective and no impact on earnings is expected due to hedge ineffectiveness.

Note 6 – Financial Instruments and Fair Value Measurements

Recurring Fair Value Measurements

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

Level 1: Inputs are unadjusted, quoted prices for identical assets or liabilities in an active market at the measurement date.
Level 2: Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3: Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

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

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions. The following table summarizes the fair value measurement by level at June 30, 2017 and December 31, 2016 for the liability measured at fair value on a recurring basis:

(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2017				
Financial liabilities:				