

HEIMES TERRY J
Form 5
February 14, 2008

FORM 5

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).
Form 3 Holdings Reported Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
HEIMES TERRY J

(Last) (First) (Middle)

121 SOUTH 13TH STREET, SUITE 201

(Street)

LINCOLN, NE 68508

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
NELNET INC [NNI]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
Chief Financial Officer

6. Individual or Joint/Group Reporting

(check applicable line)

Form Filed by One Reporting Person
 Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D) Amount Price			
Class A Common Stock	02/13/2007	^	G	50,000 (1) D \$ 0	155,967 (2)	D	^
Class A Common Stock	02/13/2007	^	G	50,000 A \$ 0	50,000	I	By spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. of D S B O E F (I
					(A) (D)	Date Exercisable Expiration Date	Title Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HEIMES TERRY J 121 SOUTH 13TH STREET SUITE 201 LINCOLN, NE 68508	Â	Â	Â Chief Financial Officer	Â

Signatures

/s/ William J. Munn, Attorney-in of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

On November 21, 2017, 50,000 shares of time-based restricted stock awards were granted to the reporting person pursuant to the registrant's Second Amended and Restated 2009 Equity Participation Plan. These awards will vest in three equal annual installments beginning on the first anniversary of the grant date.

(2) On November 21, 2017, the reporting person was also granted performance-based restricted stock awards ("performance-based restricted shares") pursuant to the registrant's Second Amended and Restated 2009 Equity Participation plan that will vest if the registrant satisfies certain return on equity and total shareholder return conditions. The maximum amount of performance-based restricted shares that may vest to the reporting person is 150,000, but some or all of such shares may not vest if the above-described performance conditions are not satisfied by the registrant. The amount of performance-based restricted shares that vest will be reported by the reporting person after the applicable vesting date.

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1; border-bottom-width: 1" > Class A Common Stock 06/03/2008 S 200 D \$ 67.83 1,440,958 D Class A Common Stock 06/03/2008 S 100 D \$ 67.87 1,440,858 D Class A Common Stock 06/03/2008 S 100 D \$ 67.9 1,440,758 D Class A Common Stock 06/03/2008 S 100 D \$ 67.92 1,440,658 D Class A Common Stock 06/03/2008 S 300 D \$ 67.94 1,440,358 D Class A Common Stock 06/03/2008 S 100 D \$ 67.99 1,440,258 D Class A Common Stock 06/03/2008 S 200 D \$ 68 1,440,058 D Class A Common Stock 06/03/2008 S 200 D \$ 68.01 1,439,858 D Class A Common Stock 06/03/2008 S 100 D \$ 68.02 1,439,758 D Class A Common Stock 06/03/2008 S 300 D \$ 68.05 1,439,458 D Class A Common Stock 06/03/2008 S 100 D \$ 68.06 1,439,358 D Class A Common

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Stock 06/03/2008 S 300 D \$ 68.07 1,439,058 D Class A Common Stock 06/03/2008 S 300 D \$ 68.08 1,438,758 D
 Class A Common Stock 06/03/2008 S 200 D \$ 68.09 1,438,558 D Class A Common Stock 06/03/2008 S 600 D \$
 68.1 1,437,958 D Class A Common Stock 06/03/2008 S 900 D \$ 68.11 1,437,058 ⁽¹⁾ D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Option - Right to Buy	\$ 44	06/03/2008		M	50,000	⁽²⁾ 07/23/2009	Class A Common Stock	50,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
JEFFRIES MICHAEL S 6301 FITCH PATH NEW ALBANY, OH 43054	X		Chairman and CEO	

Signatures

By: Robert J. Tannous,
 Attorney-in-Fact

06/04/2008

__Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) All sales made by Mr. Jeffries and reported on this Form 4 were effected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on September 19, 2007.
- (2) Option vests 25% per year beginning 7/23/03.

Remarks:

This is the first Form 4 to be filed for transactions made on June 3, 2008. Multiple Forms 4 are being filed due to the 30 transactions.

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Risk Factors

34

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

34

Item 3.

Defaults Upon Senior Securities

34

Item 4.

Mine Safety Disclosures

34

Item 5.

Other Information

34

Item 6.

Exhibits

34

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature or that relate to future events and conditions are, or may be deemed to be, forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections and management's beliefs and assumptions concerning future events and financial trends affecting our financial condition and results of operations. In some cases, you can identify these statements by terminology such as "may," "will," "should," "predicts," "expects," "believes," "anticipates," "projects," "potential" or "continue" or the negative or other comparable terminology. These statements are only predictions and are subject to substantial risks and uncertainties and are not guarantees of performance. Future actions, events and conditions and future results of operations may differ materially from those expressed in these statements. In evaluating those statements, you should carefully consider the information above as well as the risks outlined in Part I "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the three months ended March 31, 2018 and in the other reports we file with the Securities and

Explanation of Responses:

Exchange Commission.

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report except as required by law. All of our written and oral forward-looking statements are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements.

Important factors that may affect our expectations, estimates or projections include, but are not limited to, the following:

- conditions in the oil and natural gas industry, especially oil and natural gas prices and capital expenditures by oil and natural gas companies;
- volatility in oil and natural gas prices;
- our ability to implement price increases or maintain pricing on our core services;
- risks that we may not be able to reduce, and could even experience increases in, the costs of labor, fuel, equipment and supplies employed in our businesses;
- industry capacity;
- asset impairments or other charges;
- the periodic low demand for our services and resulting operating losses and negative cash flows;
- our highly competitive industry as well as operating risks, which are primarily self-insured, and the possibility that our insurance may not be adequate to cover all of our losses or liabilities;

2

Table of Contents

significant costs and potential liabilities resulting from compliance with applicable laws, including those resulting from environmental, health and safety laws and regulations, specifically those relating to hydraulic fracturing, as well as climate change legislation or initiatives;

- our historically high employee turnover rate and our ability to replace or add workers, including executive officers and skilled workers;
- our ability to incur debt or long-term lease obligations;
- our ability to implement technological developments and enhancements;
- severe weather impacts on our business, including from hurricane activity;
- our ability to successfully identify, make and integrate acquisitions and our ability to finance future growth of our operations or future acquisitions;
- our ability to achieve the benefits expected from disposition transactions;
- the loss of one or more of our larger customers;
- our ability to generate sufficient cash flow to meet debt service obligations;
- the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt, including our ability to comply with covenants under our debt agreements;
- an increase in our debt service obligations due to variable rate indebtedness;
- our inability to achieve our financial, capital expenditure and operational projections, including quarterly and annual projections of revenue, operating income and/or loss margin and our inaccurate assessment of future activity levels, customer demand, and pricing stability which may not materialize (whether for Key as a whole or for geographic regions and/or business segments individually);
- our ability to respond to changing or declining market conditions;
- our ability to maintain sufficient liquidity;
- adverse impact of litigation; and

other factors affecting our business described in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2018 and in the other reports we file with the Securities and Exchange Commission.

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Key Energy Services, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share amounts)

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,294	\$ 73,065
Restricted cash	—	4,000
Accounts receivable, net of allowance for doubtful accounts of \$926 and \$875, respectively	89,926	69,319
Inventories	18,112	20,942
Other current assets	13,942	19,477
Total current assets	165,274	186,803
Property and equipment	432,691	413,127
Accumulated depreciation	(145,085)	(85,813)
Property and equipment, net	287,606	327,314
Intangible assets, net	419	462
Other non-current assets	9,434	14,542
TOTAL ASSETS	\$ 462,733	\$ 529,121
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 18,444	\$ 13,697
Current portion of long-term debt	2,500	2,500
Other current liabilities	79,275	87,579
Total current liabilities	100,219	103,776
Long-term debt	241,585	243,103
Workers' compensation, vehicular and health insurance liabilities	25,194	25,393
Other non-current liabilities	28,456	28,166
Commitments and contingencies		
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 authorized and one share issued and outstanding	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized, 20,297,359 and 20,217,641 outstanding	203	202
Additional paid-in capital	263,627	259,314
Retained deficit	(196,551)	(130,833)
Total equity	67,279	128,683
TOTAL LIABILITIES AND EQUITY	\$ 462,733	\$ 529,121

See the accompanying notes which are an integral part of these condensed consolidated financial statements.

Table of Contents

Key Energy Services, Inc. and Subsidiaries
 Condensed Consolidated Statements of Operations
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
REVENUES	\$134,721	\$110,653	\$404,442	\$319,885
COSTS AND EXPENSES:				
Direct operating expenses	106,103	87,115	314,061	237,981
Depreciation and amortization expense	21,808	21,114	62,881	63,325
General and administrative expenses	23,925	37,168	71,353	98,498
Impairment expense	—	—	—	187
Operating loss	(17,115)	(34,744)	(43,853)	(80,106)
Interest expense, net of amounts capitalized	8,708	8,090	25,425	23,672
Other income, net	(213)	(4,578)	(1,972)	(5,779)
Reorganization items, net	—	60	—	1,501
Loss before income taxes	(25,610)	(38,316)	(67,306)	(99,500)
Income tax benefit	1,750	96	1,588	1,238
NET LOSS	\$(23,860)	\$(38,220)	\$(65,718)	\$(98,262)
Loss per share:				
Basic and diluted	\$(1.18)	\$(1.90)	\$(3.25)	\$(4.89)
Weighted average shares outstanding:				
Basic and diluted	20,252	20,106	20,234	20,101

See the accompanying notes which are an integral part of these condensed consolidated financial statements.

Table of Contents

Key Energy Services, Inc. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Loss
 (in thousands)
 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
NET LOSS	\$(23,860)	\$(38,220)	\$(65,718)	\$(98,262)
Other comprehensive income loss:				
Foreign currency translation loss	—	(1,257)	—	(239)
COMPREHENSIVE LOSS	\$(23,860)	\$(39,477)	\$(65,718)	\$(98,501)

See the accompanying notes which are an integral part of these condensed consolidated financial statements.

Table of Contents

Key Energy Services, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(65,718)	\$(98,262)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	62,881	63,325
Impairment expense	—	187
Bad debt expense	387	631
Accretion of asset retirement obligations	121	146
Loss from equity method investments	—	560
Amortization of deferred financing costs	357	358
Deferred income tax benefit	—	(27)
Income on disposal of assets, net	(7,402)	(26,987)
Share-based compensation	4,582	11,581
Changes in working capital:		
Accounts receivable	(20,994)	1,084
Other current assets	8,365	10,920
Accounts payable, accrued interest and accrued expenses	(4,392)	(19,943)
Share-based compensation liability awards	835	—
Other assets and liabilities	5,916	7,794
Net cash used in operating activities	(15,062)	(48,633)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(28,521)	(9,610)
Proceeds from sale of assets	11,955	31,844
Net cash provided by (used in) investing activities	(16,566)	22,234
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(1,875)	(1,875)
Payment of deferred financing costs	—	(350)
Repurchases of common stock	(271)	(85)
Proceeds from exercise of warrants	3	—
Net cash used in financing activities	(2,143)	(2,310)
Effect of changes in exchange rates on cash	—	(146)
Net decrease in cash, cash equivalents and restricted cash	(33,771)	(28,855)
Cash, cash equivalents, and restricted cash, beginning of period	77,065	115,212
Cash, cash equivalents, and restricted cash, end of period	\$43,294	\$86,357
See the accompanying notes which are an integral part of these condensed consolidated financial statements.		

Table of Contents

Key Energy Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1. GENERAL

Key Energy Services, Inc., and its wholly owned subsidiaries (collectively, “Key,” the “Company,” “we,” “us,” “its,” and “our”) provide a full range of well services to major oil companies and independent oil and natural gas production companies. Our services include rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services, and other ancillary oilfield services. Additionally, certain of our rigs are capable of specialty drilling applications. We operate in most major oil and natural gas producing regions of the continental United States. An important component of the Company’s growth strategy is to make acquisitions that will strengthen its core services or presence in selected markets, and the Company also makes strategic divestitures from time to time. The Company expects that the industry in which it operates will experience consolidation, and the Company expects to explore opportunities and engage in discussions regarding these opportunities, which could include mergers, consolidations or acquisitions or further dispositions or other transactions, although there can be no assurance that any such activities will be consummated. The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed December 31, 2017 balance sheet was prepared from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”). Certain information relating to our organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in this Quarterly Report on Form 10-Q. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2017 Form 10-K.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented herein. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full year or any other interim period, due to fluctuations in demand for our services, timing of maintenance and other expenditures, and other factors.

We have evaluated events occurring after the balance sheet date included in this Quarterly Report on Form 10-Q and through the date on which the unaudited condensed consolidated financial statements were issued, for possible disclosure of a subsequent event.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of these unaudited condensed consolidated financial statements requires us to develop estimates and to make assumptions that affect our financial position, results of operations and cash flows. These estimates may also impact the nature and extent of our disclosure, if any, of our contingent liabilities. Among other things, we use estimates to (i) analyze assets for possible impairment, (ii) determine depreciable lives for our assets, (iii) assess future tax exposure and realization of deferred tax assets, (iv) determine amounts to accrue for contingencies, (v) value tangible and intangible assets, (vi) assess workers’ compensation, vehicular liability, self-insured risk accruals and other insurance reserves, (vii) provide allowances for our uncollectible accounts receivable, (viii) value our asset retirement obligations, and (ix) value our equity-based compensation. We review all significant estimates on a recurring basis and record the effect of any necessary adjustments prior to publication of our financial statements. Adjustments made with respect to the use of estimates relate to improved information not previously available. Because of the limitations inherent in this process, our actual results may differ materially from these estimates. We believe that the estimates used in the preparation of these interim financial statements are reasonable.

Revenue Recognition

We recognize revenues to depict the transfer of control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See “Note 3. Adoption of ASC 606, Revenue from Contracts with Customers” for further discussion on Revenues.

Explanation of Responses:

We recognize revenue based on the ASC 606 model, comprising the following five steps: (i) a contract with the customer exists, (ii) performance obligations have been identified, (iii) the price to the customer has been determined, (iv) the price has been allocated to the performance obligations, and (v) the performance obligation is satisfied. We generally determine that these steps have been satisfied as follows:

8

Table of Contents

A contract with the customer exists when a final understanding between us and our customer has occurred, and can be evidenced by a completed customer purchase order, field ticket, supplier contract, or master service agreement. Performance obligations have been identified when we have determined the contractual requirements pursuant to the terms of the arrangement. We have a process to determine performance obligations for our contracts.

The price to the customer is determinable and allocated when the amount that is required to be paid is estimated. A price that is determinable is evidenced by contractual terms, our price book, a completed customer purchase order, or a field ticket.

The performance obligation is satisfied in a manner that best depicts the transfer of goods or services to the customer. The control over services is transferred as the services are rendered to the customer. Specifically, we recognize revenue as the services are provided, typically daily, as we have the right to invoice the customer for the services performed.

As an accounting policy election, the Company excludes from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer.

There have been no material changes or developments in our evaluation of accounting estimates and underlying assumptions or methodologies that we believe to be a “Critical Accounting Policy or Estimate” as disclosed in our 2017 Form 10-K.

Recent Accounting Developments

ASU 2018-02. In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This standard allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the “2017 Tax Act”) that was enacted on December 22, 2017. We adopted this guidance as of January 1, 2018. The adoption of this standard did not have an impact on our consolidated financial statements.

ASU 2016-18. In November 2016, the FASB issued ASU, 2016-18 Statement of Cash Flows (Topic 230), Restricted Cash. This standard provides guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. The amendments of this ASU should be applied using a retrospective transition method and are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. We adopted the new standard effective January 1, 2018 and other than the revised statement of cash flows presentation of restricted cash, the adoption of this standard did not have an impact on our consolidated financial statements.

ASU 2016-15. In August 2016 the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, that clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance will be effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. We adopted the new standard effective January 1, 2018 and the adoption of this standard did not have a material impact on our consolidated financial statements.

ASU 2016-13. In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments that will change how companies measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. The standard will replace today’s “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount. The amendments in this update will be effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018. The Company is evaluating the effect of this standard on our consolidated financial statements.

ASU 2016-02. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will replace the existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees

to record right-of-use assets and corresponding lease liabilities on the balance sheet. Additional disclosure requirements include qualitative disclosures along with specific quantitative disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for the Company for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. As part of our assessment work to-date, we have formed an implementation work team, conducted training for the relevant staff regarding the potential impacts of the new ASU and are continuing our contract analysis and policy review. We have engaged external resources to assist us in our efforts to complete the analysis of potential changes to current accounting practices. Additionally, we have not yet determined the effect of the ASU on our internal control over financial reporting or other changes

Table of Contents

in business practices and processes. Key has elected the new prospective “Comparatives Under 840” transition method as defined in ASU 2018-11 and will adopt the new standard as of January 1, 2019.

ASU 2014-09. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of this ASU is to establish the principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers. The core principle is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 must be adopted using either a full retrospective method or a modified retrospective method. We adopted the new standard effective January 1, 2018 using the full retrospective method and the adoption of this standard did not have a material impact on our consolidated financial statements.

NOTE 3. ADOPTION OF ASC 606, "REVENUE FROM CONTRACTS WITH CUSTOMERS"

On January 1, 2018, we adopted ASC 606 using the full retrospective method applied to those contracts that were not completed as of December 15, 2016. As noted in prior periods, we emerged from voluntary reorganization under Chapter 11 of the United States Bankruptcy Code on December 15, 2016 and therefore applied fresh-start accounting and adopted ASC 606 in effect at the fresh-start accounting date. As a result of electing to use the full retrospective adoption approach as described above, results for reporting periods beginning after December 15, 2016 are presented under ASC 606.

The adoption of ASC 606 did not have a material impact on our consolidated financial statements, and we did not record any adjustments to opening retained earnings as of December 15, 2016, because our services and rental contracts are principally charged on an hourly or daily rate basis and are primarily short-term in nature, typically less than 30 days.

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The following table presents our revenues disaggregated by revenue source (in thousands). Sales taxes are excluded from revenues.

	Nine Months Ended	
	September 30,	
	2018	2017
Rig Services	\$227,913	\$184,026
Fishing and Rental Services	47,801	45,808
Coiled Tubing Services	60,513	27,005
Fluid Management Services	68,215	57,475
International	—	5,571
Total	\$404,442	\$319,885

Disaggregation of Revenue

We have disaggregated our revenues by our reportable segments including Rig Services, Fishing & Rental Services, Coiled Tubing Services and Fluid Management Services.

Rig Services

Our Rig Services include the completion of newly drilled wells, workover and recompletion of existing oil and natural gas wells, well maintenance, and the plugging and abandonment of wells at the end of their useful lives. We also provide specialty drilling services to oil and natural gas producers with certain of our larger rigs that are capable of providing conventional and horizontal drilling services. Our rigs encompass various sizes and capabilities, allowing us to service all types of oil and gas wells.

We recognize revenue within the Rig Services segment by measuring progress toward satisfying the performance obligation in a manner that best depicts the transfer of goods or services to the customer. The control over services is transferred as the services are rendered to the customer. Specifically, we recognize revenue as the services are provided, typically daily, as we have the right to invoice the customer for the services performed. Rig Services are billed and paid monthly. Payment terms for Rig Services are usually 30 days from invoice receipt.

Fishing and Rental Services

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We offer a full line of services and rental equipment designed for use in providing drilling and workover services. Fishing services involve recovering lost or stuck equipment in the wellbore utilizing a broad array of “fishing tools.” Our rental tool inventory consists of drill pipe, tubulars, handling tools (including our patented Hydra-Walk® pipe-handling units and services), pressure-control equipment, pumps, power swivels, reversing units, foam air units.

10

Table of Contents

We recognize revenue within the Fishing and Rental Services segment by measuring progress toward satisfying the performance obligation in a manner that best depicts the transfer of goods or services to the customer. The control over services is transferred as the services are rendered to the customer. Specifically, we recognize revenue as the services are provided, typically daily, as we have the right to invoice the customer for the services performed. Fishing and Rental Services are billed and paid monthly. Payment terms for Fishing and Rental Services are usually 30 days from invoice receipt.

Coiled Tubing Services

Coiled Tubing Services involve the use of a continuous metal pipe spooled onto a large reel, which is then deployed into oil and natural gas wells to perform various applications, such as wellbore clean-outs, nitrogen jet lifts, through-tubing fishing, and formation stimulations utilizing acid and chemical treatments. Coiled tubing is also used for a number of horizontal well applications such as milling temporary isolation plugs that separate frac zones, and various other pre- and post-hydraulic fracturing well preparation services.

We recognize revenue within the Coiled Tubing Services segment by measuring progress toward satisfying the performance obligation in a manner that best depicts the transfer of goods or services to the customer. The control over services is transferred as the services are rendered to the customer. Specifically, we recognize revenue, typically daily, as the services are provided as we have the right to invoice the customer for the services performed. Coiled Tubing Services are billed and paid monthly. Payment terms for Coiled Tubing Services are usually 30 days from invoice receipt.

Fluid Management Services

We provide transportation and well-site storage services for various fluids utilized in connection with drilling, completions, workover and maintenance activities. We also provide disposal services for fluids produced subsequent to well completion. These fluids are removed from the well site and transported for disposal in saltwater disposal wells owned by us or a third party.

We recognize revenue within the Fluid Management Services segment by measuring progress toward satisfying the performance obligation in a manner that best depicts the transfer of goods or services to the customer. The control over services is transferred as the services are rendered to the customer. Specifically, we recognize revenue as the services are provided, typically daily, as we have the right to invoice the customer for the services performed. Fluid Management Services are billed and paid monthly. Payment terms for Fluid Management Services are usually 30 days from invoice receipt.

International

Our former International segment included our former operations in Canada and Russia. Our services in Russia consisted of rig-based services such as the maintenance, workover, and recompletion of existing oil wells, completion of newly-drilled wells, and plugging and abandonment of wells at the end of their useful lives. We also had a technology development and control systems business based in Canada, which was focused on the development of hardware and software related to oilfield service equipment controls, data acquisition and digital information flow. We recognized revenue within the International segment by measuring progress toward satisfying the performance obligation in a manner that best depicted the transfer of goods or services to the customer. The control over services was transferred as the services were rendered to the customer. Specifically, we recognized revenue as the services were provided, typically daily, as we had the right to invoice the customer for the services performed. Services within the international segment were billed and paid monthly. Payment terms for services within the International segment were usually 30 days from invoice receipt.

Arrangements with Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers or using expected cost-plus margin. For combined products and services within a contract, we account for individual products and services separately if they are distinct—i.e. if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate products and services within a contract based on the prices at which we

separately sell our services. For items that are not sold separately, we estimate the standalone selling prices using the expected cost-plus margin approach.

Contract Balances

Under our revenue contracts, we invoice customers once our performance obligations have been satisfied, at which point payment is unconditional. Accordingly, our revenue contracts do not give rise to contract assets or liabilities under ASC 606.

11

Table of Contents

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within general and administrative expenses.

The majority of our services are short-term in nature with a contract term of one year or less. For those contracts, we have utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Additionally, our payment terms are short-term in nature with settlements of one year or less. We have, therefore, utilized the practical expedient in ASC 606-10-32-18 exempting the Company from adjusting the promised amount of consideration for the effects of a significant financing component given that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Further, in many of our service contracts we have a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided). For those contracts, we have utilized the practical expedient in ASC 606-10-55-18 exempting the Company from disclosure of the entity to recognize revenue in the amount to which the Company has a right to invoice.

Accordingly, we do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

NOTE 4. EQUITY

A reconciliation of the total carrying amount of our equity accounts for the nine months ended September 30, 2018 is as follows (in thousands):

	COMMON STOCKHOLDERS				
	Common Stock Number of Shares	Amount at Par	Additional Paid-in Capital	Retained Deficit	Total
Balance at December 31, 2017	20,217	\$ 202	\$259,314	\$(130,833)	\$128,683
Common stock purchases	—	—	(271)	—	(271)
Exercise of warrants	—	—	3	—	3
Share-based compensation	80	1	4,581	—	4,582
Net loss	—	—	—	(65,718)	(65,718)
Balance at September 30, 2018	20,297	\$ 203	\$263,627	\$(196,551)	\$67,279

NOTE 5. OTHER BALANCE SHEET INFORMATION

The table below presents comparative detailed information about other current assets at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Other current assets:		
Prepaid current assets	\$ 5,490	\$ 9,598
Reinsurance receivable	7,209	7,328
Other	1,243	2,551
Total	\$ 13,942	\$ 19,477

Table of Contents

The table below presents comparative detailed information about other non-current assets at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, December 31,	
	2018	2017
Other non-current assets:		
Reinsurance receivable	\$ 7,605	\$ 7,768
Deposits	1,228	1,246
Other	601	5,528
Total	\$ 9,434	\$ 14,542

The table below presents comparative detailed information about other current liabilities at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, December 31,	
	2018	2017
Other current liabilities:		
Accrued payroll, taxes and employee benefits	\$ 16,304	\$ 19,874
Accrued operating expenditures	15,312	11,644
Income, sales, use and other taxes	8,881	12,151
Self-insurance reserve	26,693	26,761
Accrued interest	7,069	6,605
Accrued insurance premiums	12	4,077
Unsettled legal claims	3,381	4,747
Accrued severance	567	250
Other	1,056	1,470
Total	\$ 79,275	\$ 87,579

The table below presents comparative detailed information about other non-current liabilities at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, December 31,	
	2018	2017
Other non-current liabilities:		
Asset retirement obligations	\$ 8,972	\$ 8,931
Environmental liabilities	1,980	1,977
Accrued sales, use and other taxes	17,123	17,142
Other	381	116
Total	\$ 28,456	\$ 28,166

NOTE 6. INTANGIBLE ASSETS

The components of our other intangible assets as of September 30, 2018 and December 31, 2017 are as follows (in thousands):

	September 30, December 31,	
	2018	2017
Trademark:		
Gross carrying value	\$ 520	\$ 520
Accumulated amortization (101) (58)		
Net carrying value	\$ 419	\$ 462

Table of Contents

The weighted average remaining amortization periods and expected amortization expense for the next five years for our definite lived intangible assets are as follows:

Weighted average remaining amortization period (years)	Expected amortization expense (in thousands)				
	Remainder of 2018	2019	2020	2021	2022 2023
Trademarks	7.3	\$ 14	\$ 58	\$ 58	\$ 58 \$ 58

Amortization expense for our intangible assets was less than \$0.1 million for the three and nine months ended September 30, 2018 and 2017.

NOTE 7. DEBT

As of September 30, 2018 and December 31, 2017, the components of our debt were as follows (in thousands):

	September 30, 2018	December 31, 2017
Term Loan Facility due 2021	\$ 245,625	\$ 247,500
Unamortized debt issuance costs	(1,540)	(1,897)
Total	244,085	245,603
Less current portion	(2,500)	(2,500)
Long-term debt	\$ 241,585	\$ 243,103

ABL Facility

On December 15, 2016, the Company and Key Energy Services, LLC, as borrowers (the “ABL Borrowers”), entered into the ABL Facility with the financial institutions party thereto from time to time as lenders (the “ABL Lenders”), Bank of America, N.A., as administrative agent for the lenders (the “Administrative Agent”) and Bank of America, N.A. and Wells Fargo Bank, National Association, as co-collateral agents for the lenders. The ABL Facility provides for aggregate initial commitments from the ABL Lenders of \$80 million, which, on February 3, 2017 was increased to \$100 million, and matures on June 15, 2021.

The ABL Facility provides the ABL Borrowers with the ability to borrow up to an aggregate principal amount equal to the lesser of (i) the aggregate revolving commitments then in effect and (ii) the sum of (a) 85% of the value of eligible accounts receivable plus (b) 80% of the value of eligible unbilled accounts receivable, subject to a limit equal to the greater of (x) \$35 million and (y) 25% of the commitments. The amount that may be borrowed under the ABL Facility is subject to increase or reduction based on certain segregated cash or reserves provided for by the ABL Facility. In addition, the percentages of accounts receivable and unbilled accounts receivable included in the calculation described above is subject to reduction to the extent of certain bad debt write-downs and other dilutive items provided in the ABL Facility.

Borrowings under the ABL Facility will bear interest, at the ABL Borrowers’ option, at a per annum rate equal to (i) LIBOR for 30, 60, 90, 180, or, with the consent of the ABL Lenders, 360 days, plus an applicable margin that varies from 2.5% to 4.5% depending on the Borrowers’ fixed charge coverage ratio at such time or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the federal funds rate, plus 0.50% or (z) 30-day LIBOR, plus 1.0% plus (b) an applicable margin that varies from 1.50% to 3.50% depending on the Borrowers’ fixed charge coverage ratio at such time. In addition, the ABL Facility provides for unused line fees of 1.00% to 1.25% per year, depending on utilization, letter of credit fees and certain other factors.

The ABL Facility may in the future be guaranteed by certain of the Company’s existing and future subsidiaries (the “ABL Guarantors,” and together with the ABL Borrowers, the “ABL Loan Parties”). To secure their obligations under the ABL Facility, each of the ABL Loan Parties has granted or will grant, as applicable, to the Administrative Agent a first-priority security interest for the benefit of the ABL Lenders in its present and future accounts receivable, inventory and related assets and proceeds of the foregoing (the “ABL Priority Collateral”). In addition, the obligations of the ABL Loan Parties under the ABL Facility are secured by second-priority liens on the Term Priority Collateral (as described below under “Term Loan Facility”).

The revolving loans under the ABL Facility may be voluntarily prepaid, in whole or in part, without premium or penalty, subject to breakage or similar costs.

The ABL Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the ABL Loan Parties to take certain actions including, among other things and subject to certain significant exceptions, the incurrence of debt, the granting of liens, the making of investments, entering into transactions with affiliates, the payment of dividends and

Table of Contents

the sale of assets. The ABL Facility also contains a requirement that the ABL Borrowers comply, during certain periods, with a fixed charge coverage ratio of 1.00 to 1.00.

As of September 30, 2018, we have no borrowings outstanding and \$35.6 million of letters of credit outstanding with borrowing capacity of \$29.5 million available subject to covenant constraints under our ABL Facility.

Term Loan Facility

On December 15, 2016, the Company entered into the Term Loan Facility among the Company, as borrower, certain subsidiaries of the Company named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the “Term Loan Lenders”) and Cortland Capital Market Services LLC and Cortland Products Corp., as agent for the Lenders. The Term Loan Facility had an initial outstanding principal amount of \$250 million. The Term Loan Facility will mature on December 15, 2021, although such maturity date may, at the Company’s request, be extended by one or more of the Term Loan Lenders pursuant to the terms of the Term Loan Facility.

Borrowings under the Term Loan Facility will bear interest, at the Company’s option, at a per annum rate equal to (i) LIBOR for one, two, three, six, or, with the consent of the Term Loan Lenders, 12 months, plus 10.25% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% and (z) 30-day LIBOR, plus 1.0% plus (b) 9.25%.

The Term Loan Facility is guaranteed by certain of the Company’s existing and future subsidiaries (the “Term Loan Guarantors,” and together with the Company, the “Term Loan Parties”). To secure their obligations under the Term Loan Facility, each of the Term Loan Parties has granted or will grant, as applicable, to the agent a first-priority security interest for the benefit of the Term Loan Lenders in substantially all of each Term Loan Party’s assets other than certain excluded assets and the ABL Priority Collateral (the “Term Priority Collateral”). In addition, the obligations of the Term Loan Parties under the Term Loan Facility are secured by second-priority liens on the ABL Priority Collateral (as described above under “ABL Facility”).

The loans under the Term Loan Facility may be prepaid at the Company’s option, subject to the payment of a prepayment premium in certain circumstances as provided in the Term Loan Facility. A prepayment prior to the first anniversary of the loan would have been required to have been made with a make-whole amount with the calculation of the make-whole amount as specified in the Term Loan Facility. If a prepayment is made after the first anniversary of the loan but prior to the second anniversary, such prepayment must be made at 106% of the principle amount, if a prepayment is made after the second anniversary but prior to the third anniversary, such prepayment must be made at 103% of the principle amount. After the third anniversary, if a prepayment is made, no prepayment premium is due. The Company is required to make principal payments in the amount of \$625,000 per quarter. In addition, pursuant to the Term Loan Facility, the Company must prepay or offer to prepay, as applicable, term loans with the net cash proceeds of certain debt incurrences and asset sales, excess cash flow, and upon certain change of control transactions, subject in each case to certain exceptions.

The Term Loan Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the Term Loan Parties to take certain actions including, among other things and subject to certain significant exceptions, the incurrence of debt, the granting of liens, the making of investments, entering into transactions with affiliates, the payment of dividends and the sale of assets. The Term Loan Facility also contains financial covenants requiring that the Company maintain an asset coverage ratio of at least 1.35 to 1.0 and that Liquidity (as defined in the Term Loan Facility) must not be less than \$37.5 million (of which at least \$20.0 million must be in cash or cash equivalents held in deposit accounts) as of the last day of any fiscal quarter, subject to certain exceptions and cure rights.

The weighted average interest rates on the outstanding borrowings under the Term Loan Facility for the three and nine month periods ended September 30, 2018 were as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018		
Term Loan Facility	12.59	%	12.34	%
Debt Compliance				

Explanation of Responses:

At September 30, 2018, we were in compliance with all the financial covenants under our ABL Facility and the Term Loan Facility. Based on management's current projections, we expect to be in compliance with all the covenants under our ABL Facility and Term Loan Facility for the next twelve months. A breach of any of these covenants, ratios or tests could result in a default under our indebtedness.

Table of Contents

NOTE 8. OTHER INCOME

The table below presents comparative detailed information about our other income and expense, shown on the condensed consolidated statements of operations as “other income, net” for the periods indicated (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
Interest income	\$(201)	\$(182)	\$(580)	\$(534)
Other	(12)	(4,396)	(1,392)	(5,245)
Total	\$(213)	\$(4,578)	\$(1,972)	\$(5,779)

NOTE 9. INCOME TAXES

The 2017 Tax Act was enacted on December 22, 2017. It is comprehensive tax reform legislation that contains significant changes to corporate taxation. Provisions on the enacted law include a permanent reduction of the corporate income tax rate from 35% to 21%, imposing a mandatory one-time tax on un-repatriated accumulated earnings of foreign subsidiaries, a partial limitation on the deductibility of business interest expense, a limitation on net operating losses to 80% of taxable income each year, a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a partial territorial system (along with rules that create a new U.S. minimum tax on earnings of foreign subsidiaries), and other related provisions to maintain the U.S. tax base.

We recognized the income tax effects of the 2017 Tax Act in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes. The guidance allows for a measurement period of up to one year after the enactment date to finalize the recording of the related tax impacts. We believe the provisional amounts recorded during the fourth quarter of 2017 continue to represent a reasonable estimate of the accounting implications of the 2017 Tax Act. We did not identify any items for which the income tax effects of the 2017 Tax Act could not be reasonably estimated as of September 30, 2018. However, tax laws and regulations are subject to interpretation and the outcomes of tax disputes are inherently uncertain, and therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

We are subject to U.S. federal income tax as well as income taxes in multiple state and foreign jurisdictions. Our effective tax rates for the three months ended September 30, 2018 and 2017 were 6.8% and 0.3%, respectively, and 2.4% and 1.2% for the nine months ended September 30, 2018 and 2017, respectively. The variance between our effective rate and the U.S. statutory rate is due to the mix of pre-tax profit between the U.S. and international taxing jurisdictions with varying statutory rates, the impact of permanent differences, and other tax adjustments, such as valuation allowances against deferred tax assets, and tax expense or benefit recognized for uncertain tax positions. We continued recording income taxes using a year-to-date effective tax rate method for the three and nine months ended September 30, 2018 and 2017. The use of this method was based on our expectations that a small change in our estimated ordinary income could result in a large change in the estimated annual effective tax rate. We will re-evaluate our use of this method each quarter until such time as a return to the annualized effective tax rate method is deemed appropriate.

The Company assesses the realizability of its deferred tax assets each period by considering whether it is more likely than not that all or a portion of the deferred tax assets will not be realized. Due to the history of losses in recent years and the continued challenges affecting the oil and gas industry, management continues to believe it is more likely than not that we will not be able to realize our net deferred tax assets. No release of our deferred tax asset valuation allowance was made during the three or nine months ended September 30, 2018.

As of September 30, 2018, we had \$0.1 million of unrecognized tax benefits, net of federal tax benefit, which, if recognized, would impact our effective tax rate. We record interest and penalties related to unrecognized tax benefits as income tax expense. We have accrued a liability of less than \$0.1 million for the payment of interest and penalties as of September 30, 2018. We believe that it is reasonably possible that all remaining unrecognized tax positions may be recognized in the next twelve months as a result of a lapse of statute of limitations and settlement of ongoing audits.

Table of Contents

NOTE 10. COMMITMENTS AND CONTINGENCIES

Litigation

Various suits and claims arising in the ordinary course of business are pending against us. We conduct business throughout the continental United States and may be subject to jury verdicts or arbitrations that result in outcomes in favor of the plaintiffs. We are also exposed to various claims abroad. We continually assess our contingent liabilities, including potential litigation liabilities, as well as the adequacy of our accruals and our need for the disclosure of these items, if any. We establish a provision for a contingent liability when it is probable that a liability has been incurred and the amount is reasonably estimable. We have \$3.4 million of other liabilities related to litigation that is deemed probable and reasonably estimable as of September 30, 2018. We do not believe that the disposition of any of these matters will result in an additional loss materially in excess of amounts that have been recorded.

Self-Insurance Reserves

We maintain reserves for workers' compensation and vehicle liability on our balance sheet based on our judgment and estimates using an actuarial method based on claims incurred. We estimate general liability claims on a case-by-case basis. We maintain insurance policies for workers' compensation, vehicle liability and general liability claims. These insurance policies carry self-insured retention limits or deductibles on a per occurrence basis. The retention limits or deductibles are accounted for in our accrual process for all workers' compensation, vehicular liability and general liability claims. The deductibles have a \$5 million maximum per vehicular liability claim, and a \$2 million maximum per general liability claim and a \$1 million maximum per workers' compensation claim. As of September 30, 2018 and December 31, 2017, we have recorded \$51.9 million and \$52.2 million, respectively, of self-insurance reserves related to workers' compensation, vehicular liabilities and general liability claims. Partially offsetting these liabilities, we had \$14.8 million and \$15.1 million of insurance receivables as of September 30, 2018 and December 31, 2017, respectively. We believe that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued for existing claims.

Environmental Remediation Liabilities

For environmental reserve matters, including remediation efforts for current locations and those relating to previously disposed properties, we record liabilities when our remediation efforts are probable and the costs to conduct such remediation efforts can be reasonably estimated. As of each of September 30, 2018 and December 31, 2017, we have recorded \$2.0 million for our environmental remediation liabilities. We believe that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued.

NOTE 11. LOSS PER SHARE

Basic loss per share is determined by dividing net loss attributable to Key by the weighted average number of common shares actually outstanding during the period. Diluted loss per common share is based on the increased number of shares that would be outstanding assuming conversion of potentially dilutive outstanding securities using the treasury stock and "as if converted" methods.

The components of our loss per share are as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	2018	2017
Basic and Diluted EPS Calculation: Numerator				

Banking regulators could take additional adverse action against us.

We are subject to supervision and regulation by the Federal Reserve. We are a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act). As such, we are permitted to engage in a broader spectrum of activities than those permitted to bank holding companies that are not financial holding companies. At this time, under the BHC Act, we may not be able to

Table of Contents

engage in new activities or acquire shares or control of other companies. As of June 30, 2010, we and FirstBank continue to satisfy all applicable established capital guidelines. However, we have agreed to regulatory actions by our banking regulators that include, among other things, the submission of a capital plan by FirstBank to comply with more stringent capital requirements under an established time period in the capital plan. Our regulators could take additional action against us if we fail to comply with the Agreements, including the requirements of the submitted capital plans. Additional adverse action against us by our primary regulators could adversely affect our business.

Credit quality may result in future additional losses.

The quality of our credits has continued to be under pressure as a result of continued recessionary conditions in Puerto Rico and the State of Florida that have led to, among other things, higher unemployment levels, much lower absorption rates for new residential construction projects and further declines in property values. Our business depends on the creditworthiness of our customers and counterparties and the value of the assets securing our loans or underlying our investments. When the credit quality of the customer base materially decreases or the risk profile of a market, industry or group of customers changes materially, our business, financial condition, allowance levels, asset impairments, liquidity, capital and results of operations are adversely affected.

We have a significant construction loan portfolio, in the amount of \$1.31 billion as of June 30, 2010, mostly secured by commercial and residential real estate properties. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. Although we have ceased new originations of construction loans, decreasing collateral values, difficult economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to our current nonperforming assets. Furthermore, given the current slowdown in the real estate market, the properties securing these loans may be difficult to dispose of if they are foreclosed.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate. We establish a provision for loan losses, which leads to reductions in our income from operations, in order to maintain our allowance for inherent loan losses at a level which our management deems to be appropriate based upon an assessment of the quality of the loan portfolio. Although our management strives to utilize its best judgment in providing for loan losses, our management may fail to accurately estimate the level of inherent loan losses or may have to increase our provision for loan losses in the future as a result of new information regarding existing loans, future increases in non-performing loans, changes in economic and other conditions affecting borrowers or for other reasons beyond our control. In addition, bank regulatory agencies periodically review the adequacy of our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional classified loans and loan charge-offs, based on judgments different than those of our management.

While we have substantially increased our allowance for loan and lease losses in 2009 and the first half of 2010, we may have to recognize additional provisions in the third and fourth quarters of 2010 to cover future credit losses in the portfolio. The level of the allowance reflects management's estimates based upon various assumptions and judgments as to specific credit risks, evaluation of industry concentrations, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires management to make significant estimates and judgments regarding current credit risks and future trends, all of which may undergo material changes. If our estimates prove to be incorrect, our allowance for credit losses may not be

Table of Contents

sufficient to cover losses in our loan portfolio and our expense relating to the additional provision for credit losses could increase substantially.

Any such increases in our provision for loan losses or any loan losses in excess of our provision for loan losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, these borrowers may fail to continue to repay their loans on a timely basis or we may not be able to assess accurately any risk of loss from the loans to these borrowers.

Changes in collateral values of properties located in stagnant or distressed economies may require increased reserves.

Substantially all of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the USVI, the BVI or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Recent economic reports related to the real estate market in Puerto Rico indicate that certain pockets of the real estate market are subject to readjustments in value driven not by demand but more by the purchasing power of the consumers and general economic conditions. In southern Florida, we have been seeing the negative impact associated with low absorption rates and property value adjustments due to overbuilding. We measure the impairment based on the fair value of the collateral, if collateral dependent, which is generally obtained from appraisals. Updated appraisals are obtained when we determine that loans are impaired and are updated annually thereafter. In addition, appraisals are also obtained for certain residential mortgage loans on a spot basis based on specific characteristics such as delinquency levels, age of the appraisal and loan-to-value ratios. The appraised value of the collateral may decrease or we may not be able to recover collateral at its appraised value. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations.

Worsening in the financial condition of critical counterparties may result in higher losses than expected.

The financial stability of several counterparties is critical for their continued financial performance on covenants that require the repurchase of loans, posting of collateral to reduce our credit exposure or replacement of delinquent loans. Many of these transactions expose us to credit risk in the event of a default by one of our counterparties. Any such losses could adversely affect our business, financial condition and results of operations.

Interest rate shifts may reduce net interest income.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities rises more quickly than the rate of interest that we receive on our interest-bearing assets, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Increases in interest rates may reduce the value of holdings of securities.

Fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise, which may require recognition of a loss (e.g., the identification of other-than-temporary impairment on our available for sale or held to maturity investments portfolio), thereby adversely affecting our results of operations. Market-related

reductions in value also influence our ability to finance these securities.

Table of Contents

Increases in interest rates may reduce demand for mortgage and other loans.

Higher interest rates increase the cost of mortgage and other loans to consumers and businesses and may reduce demand for such loans, which may negatively impact our profits by reducing the amount of loan origination income.

Accelerated prepayments may adversely affect net interest income.

Net interest income of future periods will be affected by our decision to deleverage our investment securities portfolio to preserve our capital position. Also, net interest income could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities.

Changes in interest rates may reduce net interest income due to basis risk.

Basis risk is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the spread, between two or more rates for different instruments with the same maturity and occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. The interest expense for liability instruments such as brokered CDs at times does not change by the same amount as interest income received from loans or investments. The liquidity crisis that erupted in late 2008, and that slowly began to subside during 2009, caused a wider than normal spread between brokered CD costs and London Interbank Offered Rates (LIBOR) for similar terms. This, in turn, has prevented us from capturing the full benefit of a decrease in interest rates, as the floating rate loan portfolio re-prices with changes in the LIBOR indices, while the brokered CD rates decreased less than the LIBOR indices. To the extent that such pressures fail to subside in the near future, the margin between our LIBOR-based assets and the higher cost of the brokered CDs may compress and adversely affect net interest income.

If all or a significant portion of the unrealized losses in our investment securities portfolio on our consolidated balance sheet were determined to be other-than-temporarily impaired, we would recognize a material charge to our earnings and our capital ratios would be adversely affected.

For the year ended December 31, 2009 and the first half of 2010, we recognized a total of \$1.7 million and \$0.6 million, respectively, in other-than-temporary impairments. To the extent that any portion of the unrealized losses in our investment securities portfolio is determined to be other-than-temporary and, in the case of debt securities, the loss is related to credit factors, we would recognize a charge to earnings in the quarter during which such determination is made and capital ratios could be adversely affected. Even if we do not determine that the unrealized losses associated with this portfolio require an impairment charge, increases in these unrealized losses adversely affect our tangible common equity ratio, which may adversely affect credit rating agency and investor sentiment towards us. This negative perception also may adversely affect our ability to access the capital markets or might increase our cost of capital. Valuation and other-than-temporary impairment determinations will continue to be affected by external market factors including default rates, severity rates and macro-economic factors.

Downgrades in our credit ratings could further increase the cost of borrowing funds.

Fitch Ratings Ltd. (Fitch) currently rates First BanCorp s and FirstBank s long-term senior debt B- , six notches below investment grade. Standard and Poor s (S&P) rates First BanCorp CCC+ , or seven notches below investment grade. Moody s Investor Service (Moody s) rates FirstBank s long-term senior debt B3 , and S&P rates it CCC+ . On June 4

2010, Moody's placed FirstBank on Credit Watch

Table of Contents

Negative. Furthermore, on June 25, 2010, Fitch placed First BanCorp and FirstBank on Credit Watch Negative.

We do not have any outstanding debt or derivative agreements that would be affected by a credit downgrade. Our liquidity is contingent upon our ability to obtain new external sources of funding to finance our operations; however, our current credit ratings and any future downgrades in credit ratings could hinder our access to external funding and/or cause external funding to be more expensive, which could in turn adversely affect our results of operations. Changes in credit ratings may also affect the fair value of certain liabilities and unsecured derivatives, measured at fair value in the financial statements, for which our own credit risk is an element considered in the fair value determination.

These debt and financial strength ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

Our controls and procedures may fail or be circumvented, our risk management policies and procedures may be inadequate and operational risk could adversely affect our consolidated results of operations.

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various controls, procedures, policies and systems to monitor and manage risk. While we currently believe that our risk management policies and procedures are effective, the Order required us to review and revise our policies relating to risk management, including the policies relating to the assessment of the adequacy of the allowance for loan and lease losses and credit administration. Any improvements to our controls, procedures, policies and systems may not be adequate to identify and manage the risks in our various businesses. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

We may also be subject to disruptions from external events that are wholly or partially beyond our control, which could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. In addition, our customers, vendors and counterparties could suffer from such events. Should these events affect us, or the customers, vendors or counterparties with which we conduct business, our consolidated results of operations could be negatively affected. When we record balance sheet reserves for probable loss contingencies related to operational losses, we may be unable to accurately estimate our potential exposure, and any reserves we establish to cover operational losses may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition for the periods in which we recognize the losses.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and to retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them, particularly in light of uncertainty concerning evolving compensation restrictions applicable to banks but not applicable to other financial services firms. The unexpected loss of services of one or more of our key personnel could adversely affect our business because of the loss of their skills, knowledge of our markets and years of industry experience and, in some cases, because of the difficulty of promptly finding qualified replacement personnel. Similarly, the loss of key employees, either individually or as a group, can adversely affect our customers' perception of our ability to continue to manage certain types of investment management mandates.

Table of Contents***Further increases in the FDIC deposit insurance premium or required reserves may have a significant financial impact on us.***

The FDIC insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund (the "DIF"). Current economic conditions have resulted in higher bank failures and expectations of future bank failures. In the event of a bank failure, the FDIC takes control of a failed bank and ensures payment of deposits up to insured limits (which have recently been increased) using the resources of the DIF. The FDIC is required by law to maintain adequate funding of the DIF, and the FDIC may increase premium assessments to maintain such funding.

The Dodd-Frank Act signed into law on July 21, 2010 requires the FDIC to increase the DIF's reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of greater than \$10 billion. Although the precise impact on us will not be clear until implementing rules are issued, any future increases in assessments will decrease our earnings and could have a material adverse effect on the value of, or market for, our common stock.

On October 19, 2010, the FDIC further addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. Current assessment rates will remain in effect until such time as the industry's reserve ratio reaches 1.15 percent, which the FDIC estimates will occur at the end of 2018. The FDIC also proposed to raise its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met until 2027.

We may not be able to recover all assets pledged to Lehman Brothers Special Financing, Inc.

Lehman Brothers Special Financing, Inc. ("Lehman") was the counterparty to First BanCorp on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to us, which constituted an event of default under those interest rate swap agreements. We terminated all interest rate swaps with Lehman and replaced them with other counterparties under similar terms and conditions. In connection with the unpaid net cash settlement due as of June 30, 2010 under the swap agreements, we have an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. We had pledged collateral of \$63.6 million with Lehman to guarantee our performance under the swap agreements in the event payment thereunder was required. The book value of pledged securities with Lehman as of June 30, 2010 amounted to approximately \$64.5 million.

We believe that the securities pledged as collateral should not be part of the Lehman bankruptcy estate given the facts that the posted collateral constituted a performance guarantee under the swap agreements and was not part of a financing agreement, and that ownership of the securities was never transferred to Lehman. Upon termination of the interest rate swap agreements, Lehman's obligation was to return the collateral to us. During the fourth quarter of 2009, we discovered that Lehman Brothers, Inc., acting as agent of Lehman, had deposited the securities in a custodial account at JP Morgan Chase, and that, shortly before the filing of the Lehman bankruptcy proceedings, it had provided instructions to have most of the securities transferred to Barclays Capital ("Barclays") in New York. After Barclays's refusal to turn over the securities, during December 2009, we filed a lawsuit against Barclays in federal court in New York demanding the return of the securities. During February 2010, Barclays filed a motion with the court requesting that our claim be dismissed on the grounds that the allegations of the complaint are not sufficient to justify the granting of the remedies therein sought. Shortly thereafter, we filed our opposition motion. A hearing on the motions was held in court on April 28, 2010. The court, on that date, after hearing the arguments by both sides, concluded that our equitable-based causes of action, upon which the return of the investment securities is being demanded, contain

allegations that sufficiently plead facts warranting the denial of Barclays' motion to dismiss our claim. Accordingly, the judge ordered the case to proceed to trial. Subsequent to the decision handed down by the court, the district court judge transferred the case to the Lehman bankruptcy court for

Table of Contents

trial. While we believe we have valid reasons to support our claim for the return of the securities, we may not succeed in our litigation against Barclays to recover all or a substantial portion of the securities.

Additionally, we continue to pursue our claim filed in January 2009 in the proceedings under the Securities Protection Act with regard to Lehman Brothers Incorporated in Bankruptcy Court, Southern District of New York. An estimated loss was not accrued as we are unable to determine the timing of the claim resolution or whether we will succeed in recovering all or a substantial portion of the collateral or its equivalent value. If additional relevant negative facts become available in future periods, a need to recognize a partial or full reserve of this claim may arise. Considering that the investment securities have not yet been recovered by us, despite our efforts in this regard, we decided to classify such investments as non-performing during the second quarter of 2009.

Our businesses may be adversely affected by litigation.

From time to time, our customers, or the government on their behalf, may make claims and take legal action relating to our performance of fiduciary or contractual responsibilities. We may also face employment lawsuits or other legal claims. In any such claims or actions, demands for substantial monetary damages may be asserted against us resulting in financial liability or an adverse effect on our reputation among investors or on customer demand for our products and services. We may be unable to accurately estimate our exposure to litigation risk when we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition.

In the ordinary course of our business, we are also subject to various regulatory, governmental and law enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In regulatory enforcement matters, claims for disgorgement, the imposition of penalties and the imposition of other remedial sanctions are possible.

The resolution of certain pending legal actions or regulatory matters, if unfavorable, could have a material adverse effect on our consolidated results of operations for the quarter in which such actions or matters are resolved or a reserve is established.

Our businesses may be negatively affected by adverse publicity or other reputational harm.

Our relationships with many of our customers are predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, like the Agreements, litigation, operational failures, the failure to meet customer expectations and other issues with respect to one or more of our businesses could materially and adversely affect our reputation, ability to attract and retain customers or sources of funding for the same or other businesses. Preserving and enhancing our reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses, the market places in which we operate, the regulatory environment and customer expectations. If any of these developments has a material adverse effect on our reputation, our business will suffer.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. Generally Accepted Accounting Principles (GAAP), which is periodically revised and expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by the Financial Accounting Standards Board. Market conditions have prompted

accounting standard setters to promulgate new requirements that further interpret or seek to revise accounting pronouncements related to financial instruments, structures or transactions as well as

Table of Contents

to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our annual reports on Form 10-K and quarterly reports on Form 10-Q, which are incorporated by reference into this prospectus. See Incorporation by Reference. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Losses in future reporting periods may require us to adjust the valuation allowance against our deferred tax assets.

We evaluate the deferred tax assets for recoverability based on all available evidence. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances between the future projected operating performance and the actual results. We are required to establish a valuation allowance for deferred tax assets if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the more-likely-than-not criterion, we consider all positive and negative evidence as of the end of each reporting period. Future adjustments, either increases or decreases, to the deferred tax asset valuation allowance will be determined based upon changes in the expected realization of the net deferred tax assets. The realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under the tax law. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record adjustments to the valuation allowance in future reporting periods. Such a charge could have a material adverse effect on our results of operations, financial condition and capital position.

If our goodwill or amortizable intangible assets become impaired, it may adversely affect our operating results.

If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of the goodwill or amortizable intangible assets may not be recoverable, include reduced future cash flow estimates and slower growth rates in the industry.

The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where the goodwill is recorded.

We conducted our annual evaluation of goodwill during the fourth quarter of 2009. This evaluation is a two-step process. The Step 1 evaluation of goodwill allocated to the Florida reporting unit, which is one level below the United States Operations segment, indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the December 31, 2009 valuation date, requiring the completion of Step 2. Step 2 required a valuation of all assets and liabilities of the Florida unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, we subtracted from the unit's Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value of \$27 million, resulting in no goodwill impairment. If we are required to record a charge to earnings in our consolidated financial statements because an impairment of the goodwill or amortizable intangible assets is determined, our results of operations could be adversely affected.

Table of Contents

We must respond to rapid technological changes, and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly and in order to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

Risks Related to Business Environment and Our Industry

Difficult market conditions have affected the financial industry and may adversely affect us in the future.

Given that almost all of our business is in Puerto Rico and the U.S. mainland and given the degree of interrelation between Puerto Rico's economy and that of the U.S., we are exposed to downturns in the U.S. economy. Dramatic declines in the U.S. housing market over the past few years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial banks and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital from private and government entities, to merge with larger and stronger financial institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets in general and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, erosion of consumer confidence, increased market volatility and widespread reduction of business activity in general. The resulting economic pressure on consumers and erosion of confidence in the financial markets has already adversely affected our industry and may adversely affect our business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular, we may face the following risks in connection with these events:

Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite the loans become less predictive of future behaviors.

The models used to estimate losses inherent in the credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of the borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the models.

Our ability to borrow from other financial institutions or to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with government-sponsored entities) on favorable terms, or at all, could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.

Competitive dynamics in the industry could change as a result of consolidation of financial services companies in connection with current market conditions.

We may be unable to comply with the Agreements, which could result in further regulatory enforcement actions.

Table of Contents

We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

We will be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

There may be additional downward pressure on our stock price.

If current levels of market disruption and volatility continue or worsen, our ability to access capital and our business, financial condition and results of operations may be materially and adversely affected.

A prolonged economic slowdown or decline in the residential real estate market in the U.S. mainland and in Puerto Rico and an increase in continued unemployment in Puerto Rico could continue to harm our results of operations.

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of shrinking volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline and this trend could also reduce the level of mortgage loans we may produce in the future and adversely affect our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. Over the past two years, residential real estate values in many areas of the U.S. have decreased significantly, which has led to lower volumes and higher losses across the industry, adversely impacting our mortgage business.

The actual rates of delinquencies, foreclosures and losses on loans have been higher during the recent economic slowdown. Rising unemployment, higher interest rates or declines in housing prices have had a greater negative effect on the ability of borrowers to repay their mortgage loans. Any sustained period of increased delinquencies, foreclosures or losses could continue to harm our ability to sell loans, the prices we receive for loans, the values of mortgage loans held-for-sale or residual interests in securitizations, which could harm our financial condition and results of operations. In addition, any additional material decline in real estate values would further weaken the collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. In such event, we will be subject to the risk of loss on such real asset arising from borrower defaults to the extent not covered by third-party credit enhancement.

Our business concentration in Puerto Rico imposes risks.

We conduct our operations in a geographically concentrated area, as our main market is Puerto Rico. This imposes risks from lack of diversification in the geographical portfolio. Our financial condition and results of operations are highly dependent on the economic conditions of Puerto Rico, where adverse political or economic developments, among other things, could affect the volume of loan originations, increase the level of non-performing assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio.

Our credit quality may be adversely affected by Puerto Rico's current economic condition.

Since March 2006, a number of key economic indicators have shown that the economy of Puerto Rico has been in recession.

Construction has remained weak since 2009 as Puerto Rico's fiscal situation and decreasing public investment in construction projects affected the sector. As of July 2010, cement sales, which is an indicator of construction activity,

were 7.9% lower than in July 2009.

On March 12, 2010, the Puerto Rico Planning Board announced the release of Puerto Rico's projected macroeconomic data for the fiscal year ending on June 30, 2010. The fiscal year 2009 showed a reduction of

Table of Contents

real GNP of 3.7%, while the projections for the 2010 fiscal year pointed toward a reduction of 3.6%. Although the Government Development Bank for Puerto Rico Economic Activity Index, which is a coincident index consisting of four major monthly economic indicators, namely total payroll employment, total electric power consumption, cement sales and gas consumption, and which monitors the actual trend of Puerto Rico's economy, reflected a decrease in the rate of contraction of Puerto Rico's economy in the six-month period ended June 30, 2010 as compared to the six-month period ended June 30, 2009, the results for July 2010 reflect a decline in the year-over-year growth rate notwithstanding the improvement in the first six months of 2010.

The above economic concerns and uncertainty in the private and public sectors may continue to have an adverse effect on the credit quality of our loan portfolios, as delinquency rates have increased, until the economy stabilizes.

The failure of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, we are required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, we may experience delays in recovering the assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty.

In addition, many of these transactions expose us to credit risk in the event of a default by our counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any losses resulting from our routine funding transactions may materially and adversely affect our financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

We and our subsidiaries are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we are asked to provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis, by temporarily enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances and increasing insurance on bank deposits.

These programs have subjected financial institutions, particularly those participating in the U.S. Treasury's Troubled Asset Relief Program (the TARP), to additional restrictions, oversight and costs. In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially

Table of Contents

increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If these regulatory trends continue, they could adversely affect our business and, in turn, our consolidated results of operations.

Financial services legislative and regulatory reforms may, if enacted or adopted, have a significant impact on our business and results of operations and on our credit ratings.

We face increased regulation and regulatory scrutiny as a result of our participation in the TARP. On July 7, 2010, we issued Series G Preferred Stock to the U.S. Treasury in exchange for the shares of Series F Preferred Stock plus accrued and unpaid dividends. We also issued to the U.S. Treasury an amended and restated warrant to replace the original warrant that we issued to the U.S. Treasury under the TARP. Pursuant to the terms of this issuance, we are prohibited from increasing the dividend rate on our common stock in an amount exceeding the last quarterly cash dividend paid per share, or the amount publicly announced (if lower), of common stock prior to October 14, 2008, which was \$0.07 per share, without approval.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law, which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes, and the regulations to be developed thereunder will include, provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future.

The Dodd-Frank Act, among other things, imposes new capital requirements on bank holding companies; changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raises the current standard deposit insurance limit to \$250,000; and expands the FDIC's authority to raise insurance premiums. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to offset the effect of increased assessments on insured depository institutions with assets of less than \$10 billion. The Dodd-Frank Act also limits interchange fees payable on debit card transactions, establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Dodd-Frank Act also includes provisions that affect corporate governance and executive compensation at all publicly-traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

The Collins Amendment to the Dodd-Frank Act, among other things, eliminates certain trust preferred securities from Tier 1 capital. TARP preferred securities are exempted from this treatment. In the case of certain trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of \$15 billion or more as of December 31, 2009, these regulatory capital deductions are to be phased in incrementally over a period of three years beginning on January 1, 2013. This provision also requires the federal banking agencies, to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding

companies. Regulations implementing the Collins Amendment must be issued within 18 months of July 21, 2010.

Table of Contents

These provisions, or any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition, and results of operations. Our management is actively reviewing the provisions of the Dodd-Frank Act, many of which are to be phased-in over the next several months and years, and assessing its probable impact on our operations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and us in particular, is uncertain at this time.

A separate legislative proposal would impose a new fee or tax on U.S. financial institutions as part of the 2010 budget plans in an effort to reduce the anticipated budget deficit and to recoup losses anticipated from the TARP. Such an assessment is estimated to be 15-basis points, levied against bank assets minus Tier 1 capital and domestic deposits. It appears that this fee or tax would be assessed only against the 50 or so largest financial institutions in the U.S., which are those with more than \$50 billion in assets, and therefore would not directly affect us. However, the large banks that are affected by the tax may choose to seek additional deposit funding in the marketplace, driving up the cost of deposits for all banks. The administration has also considered a transaction tax on trades of stock in financial institutions and a tax on executive bonuses.

The U.S. Congress has also recently adopted additional consumer protection laws such as the Credit Card Accountability Responsibility and Disclosure Act of 2009, and the Federal Reserve has adopted numerous new regulations addressing banks' credit card, overdraft and mortgage lending practices. Additional consumer protection legislation and regulatory activity is anticipated in the near future.

Internationally, both the Basel Committee on Banking Supervision (the Basel Committee) and the Financial Stability Board (established in April 2009 by the Group of Twenty (G-20) Finance Ministers and Central Bank Governors to take action to strengthen regulation and supervision of the financial system with greater international consistency, cooperation and transparency) have committed to raise capital standards and liquidity buffers within the banking system (Basel III). On September 12, 2010, the Group of Governors and Heads of Supervision agreed to the calibration and phase-in of the Basel III minimum capital requirements (raising the minimum Tier 1 common equity ratio to 4.5% and minimum Tier 1 equity ratio to 6.0%, with full implementation by January 2015) and introducing a capital conservation buffer of common equity of an additional 2.5% with implementation by January 2019. The U.S. federal banking agencies support this agreement. The Basel Committee is expected to finalize the new capital and liquidity standards later this year and to present them for approval of the G-20 Finance Minister and Central Bank Governors in November 2010.

Such proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. We cannot determine whether such proposals and legislation will be adopted, or the ultimate effect that such proposals and legislation, if enacted, or regulations issued to implement the same, would have upon our financial condition or results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market

operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall

Table of Contents

economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

On January 6, 2010, the member agencies of the Federal Financial Institutions Examination Council, which includes the Federal Reserve, issued an interest rate risk advisory reminding banks to maintain sound practices for managing interest rate risk, particularly in the current environment of historically low short-term interest rates.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations may be adverse.

The imposition of additional property tax payments in Puerto Rico may further deteriorate our commercial, consumer and mortgage loan portfolios.

On March 9, 2009, the Governor of Puerto Rico signed into law the Special Act Declaring a State of Fiscal Emergency and Establishing an Integral Plan of Fiscal Stabilization to Save Puerto Rico's Credit, Act No. 7 (the Credit Act). The Credit Act imposes a series of temporary and permanent measures, including the imposition of a 0.591% special tax applicable to properties used for residential (excluding those exempt as detailed in the Credit Act) and commercial purposes, and payable to the Puerto Rico Treasury Department. This temporary measure will be effective for tax years that commenced after June 30, 2009 and before July 1, 2012. The imposition of this special property tax could adversely affect the disposable income of borrowers from the commercial, consumer and mortgage loan portfolios and may cause an increase in our delinquency and foreclosure rates.

Risks Related to the Future Issuance of Common Stock

Issuances of common stock to the U.S. Treasury and BNS would dilute holders of our common stock, including purchasers of our common stock in this offering.

The issuance of at least \$500 million of common stock in this offering would satisfy the remaining substantive condition to our ability to compel the U.S. Treasury to convert the Series G Preferred Stock into approximately 380.2 million pre-reverse stock split shares of common stock. This number of shares will increase if we sell shares of common stock in this offering at a price below 90% of the market price per share of common stock on the trading day immediately preceding the pricing date of the offering. We do not know how this provision will be affected by the pricing of this offering on a post-reverse stock split basis when the market price of our common stock is on a pre-reverse stock split basis. In addition, the issuance of shares of common stock in this offering and upon the conversion of the Series G Preferred Stock will enable BNS, pursuant to its anti-dilution right in the Stockholder Agreement, to acquire additional shares of common stock so that it owns approximately 10% of our outstanding shares as it did prior to the completion of the Exchange Offer. In August 2010, BNS agreed to an amendment to the Stockholder Agreement pursuant to which BNS has the right to decide whether to exercise its anti-dilution right after our issuance of shares of common stock to the participants in our Exchange Offer, in this offering and to the U.S. Treasury upon the conversion of the Series G Preferred Stock. Finally, the U.S. Treasury has an amended and restated warrant to purchase 5,842,259 shares of our common stock at an exercise price of \$0.7252 per share, which is subject to adjustment as discussed below. This warrant, which replaced a warrant exercisable for \$10.27 per share that the U.S. Treasury acquired when it acquired the Series F Preferred Stock, was restated at the time we issued the Series G Preferred stock in exchange for the Series F Preferred Stock. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including when we effect the reverse stock split and if we issue shares of common stock for consideration per share that is lower than the initial pre-reverse stock split conversion price of the Series G Preferred Stock, or \$0.7252, in this offering. We do not

know how this provision will be affected by the

Table of Contents

pricing of this offering on a post-reverse stock split basis when the market price of our common stock is on a pre-reverse stock split basis.

The issuance of shares of common stock to the U.S. Treasury and to BNS will affect our current stockholders in a number of ways, including by:

diluting the voting power of the current holders of common stock; and

diluting the earnings per share and book value per share of the outstanding shares of common stock.

Finally, the additional issuances of shares of common stock may adversely impact the market price of our common stock.

Issuance of additional equity securities in the public markets and other capital management or business strategies that we may pursue could depress the market price of our common stock and result in the dilution of our common stockholders, including purchasers of our common stock in this offering.

Generally, we are not restricted from issuing additional equity securities, including our common stock. We may choose or be required in the future to identify, consider and pursue additional capital management strategies to bolster our capital position. We may issue equity securities (including convertible securities, preferred securities, and options and warrants on our common or preferred stock) in the future for a number of reasons, including to finance our operations and business strategy, to adjust our leverage ratio, to address regulatory capital concerns, to restructure currently outstanding debt or equity securities or to satisfy our obligations upon the exercise of outstanding options or warrants. Future issuances of our equity securities, including common stock, in any transaction that we may pursue may dilute the interests of our existing common stockholders, including purchasers of our common stock in this offering, and cause the market price of our common stock to decline.

Risks Related to the Market Price and Value of Our Common Stock

This offering will result in a substantial amount of our common stock becoming available for sale in the market, which could adversely affect the market price of our common stock.

As of October 28, 2010, we had 319,557,932 pre-reverse stock split shares of our common stock outstanding. Following completion of this offering at a public offering price per post-reverse stock split share determined through negotiation between us and the underwriters based upon market conditions, an estimate of the change in the market price of our common stock as a result of the reverse stock split and other factors on the day we price the shares, and assuming we compel the conversion of the Series G Preferred Stock at the initial conversion price and issue the anti-dilution shares to BNS, we would have post-reverse stock split shares of common stock outstanding. The issuance of such a large number of shares of our common stock in such a short period of time will significantly reduce earnings per share and could adversely affect the market price of our common stock.

The market price of our common stock may be subject to significant fluctuations and volatility.

The stock markets have recently experienced high levels of volatility. These market fluctuations have adversely affected, and may continue to adversely affect, the trading price of our common stock. In addition, the market price of our common stock has been subject to significant fluctuations and volatility because of factors specifically related to our businesses and may continue to fluctuate or further decline. Factors that could cause fluctuations, volatility or further decline in the market price of our common stock, many of which could be beyond our control, include the following:

our ability to comply with the Agreements;

any additional regulatory actions against us;

Table of Contents

our ability to complete this offering, the conversion into common stock of the Series G Preferred Stock or any other issuances of common stock;

changes or perceived changes in the condition, operations, results or prospects of our businesses and market assessments of these changes or perceived changes;

announcements of strategic developments, acquisitions and other material events by us or our competitors, including any future failures of banks in Puerto Rico;

our announcement of the sale of common stock at a particular price per share;

changes in governmental regulations or proposals, or new governmental regulations or proposals, affecting us, including those relating to the current financial crisis and global economic downturn and those that may be specifically directed to us;

the continued decline, failure to stabilize or lack of improvement in general market and economic conditions in our principal markets;

the departure of key personnel;

changes in the credit, mortgage and real estate markets;

operating results that vary from the expectations of management, securities analysts and investors;

operating and stock price performance of companies that investors deem comparable to us;

market assessments as to whether and when this offering and the acquisition of additional newly issued shares by BNS will be consummated; and

the public perception of the banking industry and its safety and soundness.

In addition, the stock market in general, and the NYSE and the market for commercial banks and other financial services companies in particular, has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources. As a result of these factors, among others, the value of your investment may decline, and you may be unable to sell your shares of our common stock at or above the offering price. You are urged to obtain current market quotations for our common stock when you consider participating in this offering. See The implementation of the reverse stock split authorized by our stockholders may adversely affect the market price of our common stock and the trading liquidity of our common stock.

Our suspension of dividends may have adversely affected and may further adversely affect our stock price and result in the expansion of our board of directors.

In March 2009, the Board of Governors of the Federal Reserve issued a supervisory guidance letter intended to provide direction to bank holding companies (BHCs) on the declaration and payment of dividends, capital

redemptions and capital repurchases by BHCs in the context of their capital planning process. The letter reiterates the long-standing Federal Reserve supervisory policies and guidance to the effect that BHCs should only pay dividends from current earnings. More specifically, the letter heightens expectations that BHCs will inform and consult with the Federal Reserve supervisory staff on the declaration and payment of dividends that exceed earnings for the period for which a dividend is being paid. In consideration of the financial results reported for the second quarter ended June 30, 2009, we decided, as a matter of prudent fiscal management and following the Federal Reserve guidance, to suspend payment of common stock dividends and dividends on our Preferred Stock and Series G Preferred Stock. Our Agreement with the Federal Reserve precludes us from declaring any dividends without the prior approval of the Federal Reserve. We cannot anticipate if and when the payment of dividends might be reinstated.

Table of Contents

This suspension may have adversely affected and may continue to adversely affect our stock price. Further, in general, if dividends on our preferred stock are not paid before February 28, 2011 (18 monthly dividend periods after we suspended dividend payments in August 2009), our preferred stockholders will have the right to elect two additional members of the our board of directors until all accrued and unpaid dividends for all past dividend periods have been declared and paid in full.

The price of our common stock is depressed and may not recover.

The price of our common stock has declined significantly during 2010 to a closing price of \$0.29 on October 28, 2010, the last trading day prior to the date of this prospectus. See **Market Price, Dividend and Distribution Information**. Our stock price may never recover to prior levels. Many factors discussed under **Risk Factors** in this prospectus that we cannot predict or control may cause sudden changes in the price of our common stock or prevent the price of our common stock from recovering.

The implementation of the reverse stock split authorized by our stockholders may adversely affect the market price of our common stock and the trading liquidity of our common stock.

Before the registration statement of which this prospectus is a part is declared effective, we will effect a reverse stock split in the range of between one new share of common stock for 10 old shares of common stock and one new share of common stock for 20 old shares of common stock, which is the range that our stockholders approved at our Special Meeting of Stockholders on August 24, 2010. We believe that the reverse stock split will return us to compliance with the NYSE listing requirements. See **Our common stock could be delisted if we fall below applicable compliance standards**. A reverse stock split in a ratio within the approved range will provide enough authorized shares of common stock for issuance (i) in this offering, (ii) in the conversion of the Series G Preferred Stock, (iii) pursuant to the amended and restated warrant of the U.S. Treasury and (iv) pursuant to outstanding options under our stock incentive plan. At this time, our board of directors has not made a decision as to what ratio to select.

Because some investors may view the reverse stock split negatively, the reverse stock split may adversely affect the market price of our common stock. In the usual case, as a result of the reverse stock split (all other things being equal), the market price of common stock may not rise proportionally to the decrease in outstanding shares resulting from the reverse stock split. In addition, the market price of our common stock may decline by a greater percentage than would occur in the absence of the reverse stock split. The post-reverse stock split stock price may not attract institutional investors or investment funds and may not satisfy the investing guidelines of such investors and, consequently, the trading liquidity of our common stock may not improve. Finally, the reverse stock split will likely increase the number of stockholders who own odd lots (less than 100 shares) and stockholders who hold odd lots typically may experience an increase in the cost of selling their shares, and may have greater difficulty effecting sales.

Our common stock could be delisted if we fall below applicable compliance standards.

Under the NYSE rules, a listed company will be considered below compliance standards if the average closing price of its common stock is less than \$1.00 over a consecutive 30 trading-day period. One July 10, 2010, the NYSE notified us that the average closing price of our common stock over the consecutive 30 trading-day period ended July 6, 2010 was less than \$1.00. Accordingly, the price of our common stock was below the price criteria compliance standard. The price of our common stock has remained below \$1.00 since then. Before the registration statement of which this prospectus is a part is declared effective, we will effect a reverse stock split within the range approved by our stockholders. We believe that the reverse stock split will return us to compliance with the NYSE's price criteria compliance standard and allow us to maintain the listing of our common stock on the NYSE. If we are unable to effect a reverse stock split, if we are unable to cure our failure to comply within six months following notification from the

NYSE, or if the reverse stock split does not result in our ability to maintain compliance with the applicable NYSE listing requirements, our common stock may be suspended from trading on, or delisted from, the NYSE, which will adversely impact the market liquidity of our common stock.

Table of Contents

If we do not raise gross proceeds of at least \$500 million in this offering, we would not be able to fulfill the remaining substantive condition required for us to compel the conversion of the Series G Preferred Stock into common stock, which may adversely affect investor interest in us and will require us to continue to accrue dividends payable on the Series G Preferred Stock.

If we are unable to sell a number of shares that results in gross proceeds to us of at least \$500 million, we would not be able to fulfill the remaining substantive condition required for us to compel the conversion of the shares of Series G Preferred Stock that the U.S. Treasury now owns. That inability would mean that our ratios of Tier 1 common equity to risk-weighted assets and tangible common equity to tangible assets, which are ratios that investors are likely to consider in making investment decisions, would not benefit from the increase in outstanding common equity resulting from the conversion. In addition, our inability to convert the Series G Preferred Stock would mean that we would continue to need to accrue dividends on the Series G Preferred Stock, which are 5% per year until January 16, 2014 (or \$21.2 million per year on an aggregate basis), and 9% thereafter (or \$38.2 million per year on an aggregate basis) until it automatically converts into common stock on July 7, 2017, if it is still outstanding at that time.

Risks Related to the Rights of Holders of Our Common Stock Compared to the Rights of Holders of Our Debt Obligations and Shares of Preferred Stock

The holders of our debt obligations, the shares of Preferred Stock still outstanding and any remaining Series G Preferred Stock after this offering will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of dividends.

In any liquidation, dissolution or winding up of First BanCorp, our common stock would rank below all debt claims against us and claims of all of our outstanding shares of preferred stock, including the shares of Preferred Stock that were not exchanged for common stock in the Exchange Offer, which has a liquidation preference of approximately \$63 million, and the Series G Preferred Stock, which has a liquidation preference of approximately \$424.2 million, if we cannot compel the conversion of the Series G Preferred Stock into common stock.

As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of First BanCorp until after all our obligations to our debt holders have been satisfied and holders of senior equity securities and trust preferred securities have received any payment or distribution due to them.

In addition, we are required to pay dividends on our preferred stock before we pay any dividends on our common stock. Holders of our common stock will not be entitled to receive payment of any dividends on their shares of our common stock unless and until we obtain the Federal Reserve's approval to resume payments of dividends on any shares of outstanding preferred stock.

Dividends on our common stock have been suspended and you may not receive funds in connection with your investment in our common stock without selling your shares of our common stock.

The Written Agreement that we entered into with the Federal Reserve prohibits us from paying any dividends or making any distributions without the prior approval of the Federal Reserve. Holders of our common stock are only entitled to receive dividends as our board of directors may declare out of funds legally available for payment of such dividends. We have suspended dividend payments on our common stock since August 2009. Furthermore, so long as any shares of preferred stock remain outstanding and until we obtain the Federal Reserve's approval, we cannot declare, set apart or pay any dividends on shares of our common stock (i) unless any accrued and unpaid dividends on our preferred stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment

date have been paid or are paid contemporaneously and the full monthly dividend on our preferred stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment and, (ii) with respect to our Series G Preferred Stock, unless all accrued and unpaid dividends for all past dividend periods, including the

Table of Contents

latest completed dividend period, on all outstanding shares have been declared and paid in full. Prior to January 16, 2012, unless we have redeemed or converted all of the shares of Series G Preferred Stock or the U.S. Treasury has transferred all of Series G Preferred Stock to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend rate per pre-reverse stock split share of common stock above \$0.07 per pre-reverse stock split share or repurchase or redeem equity securities, including our common stock, subject to certain limited exceptions. This could adversely affect the market price of our common stock.

Also, we are a bank holding company and our ability to declare and pay dividends is dependent also on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Moreover, the Federal Reserve has issued a policy statement stating that bank holding companies should generally pay dividends only out of current operating earnings. In the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% or higher level unless both asset quality and capital are very strong.

In addition, the terms of our outstanding junior subordinated debt securities held by trusts that issue trust preferred securities prohibit us from declaring or paying any dividends or distributions on our capital stock, including our common stock and preferred stock, or purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing. We recently elected to defer the interest payments that would be due in September 2010.

Accordingly, you may have to sell some or all of your shares of our common stock in order to generate cash flow from your investment. You may not realize a gain on your investment when you sell your shares of common stock and may lose the entire amount of your investment.

Offerings of debt, which would be senior to our common stock upon liquidation and/or to preferred equity securities, which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

Subject to any required approval of our regulators, if our capital ratios or those of our banking subsidiary fall below the required minimums, we or our banking subsidiary could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue preferred shares in the future that have a preference over our common stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Risk Related to this Offering

Management will have discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively.

We have not designated the amount of net proceeds we will use for any particular purpose. Accordingly,

Table of Contents

our management will have discretion as to the application of the net proceeds and could use them for purposes other than those contemplated at the time of this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and invest the net proceeds. Our use of the net proceeds may not increase profitability or market value and we may not be able to invest the net proceeds to yield a favorable return pending our use of such net proceeds.

If we determine to complete this offering for a lower amount of gross proceeds than \$500 million, we may be required to implement additional de-leveraging strategies to ensure our compliance with the capital plans we submitted to our regulators.

Although we want to receive gross proceeds of at least \$500 million, we may determine to complete an offering for a number of shares of common stock that results in a lower amount of gross proceeds. In that case, we would not be able to fulfill the remaining substantive condition required for us to compel the conversion of the Series G Preferred Stock into common stock. See Risks Related to the Market Price and Value of Our Common Stock. If we do not raise gross proceeds of at least \$500 million in this offering, we would not be able to fulfill the remaining substantive condition required for us to compel the conversion of the Series G Preferred Stock into common stock, which may adversely affect investor interest in us and will require us to continue to accrue dividends payable on the Series G Preferred Stock. In addition, the lower level of proceeds may require us to implement additional de-leveraging strategies to ensure our compliance with the capital plans we submitted to our regulators.

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this prospectus are forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements may relate to our financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan and lease losses, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity and the effect of new accounting guidance on our financial condition and results of operations. All statements contained herein or incorporated by reference in this prospectus that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar and future or conditional verbs such as will, would, should, could, might, can, may, or similar expressions generally intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks described above in the Risk Factors section, and the following:

uncertainty about whether we will be able to fully comply with the Agreements that, among other things, require us to attain certain capital levels and reduce our special mention, classified, delinquent and non-accrual assets;

uncertainty as to whether we will be able to issue \$500 million of equity so as to meet the remaining substantive condition necessary to compel the U.S. Treasury to convert into common stock the shares of our Series G Preferred Stock that we issued to the U.S. Treasury;

uncertainty as to whether we will be able to complete future capital-raising efforts;

uncertainty as to the availability of certain funding sources, such as retail brokered CDs;

the risk of not being able to fulfill our cash obligations or pay dividends in the future to our stockholders due to our inability to receive approval from the Federal Reserve to receive dividends from our main banking subsidiary;

the risk of being subject to possible additional regulatory action;

the strength or weakness of the real estate market and of the consumer and commercial credit sector and their impact on the credit quality of our loans and other assets, including our construction and commercial real estate loan portfolios, which have contributed and may continue to contribute to, among other things, the increase in the levels of non-performing assets, charge-offs and the provision expense and may subject us to further rise from loan defaults and foreclosures;

adverse changes in general economic conditions in the U.S. and in Puerto Rico, including the interest rate scenario, market liquidity, housing absorption rates, real estate prices and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for all of our products and services and the value of our assets, including the value of derivative instruments used for protection from

interest rate fluctuations;

our reliance on brokered CDs and our ability to obtain, on a periodic basis, approval to issue brokered certificates of deposit to fund operations and provide liquidity in accordance with the terms of the Order;

an adverse change in our ability to attract new clients and retain existing ones;

a decrease in demand for our products and services and lower revenues and earnings because of the continued recession in Puerto Rico and the current fiscal problems and budget deficit of the Puerto Rico government;

Table of Contents

a need to recognize additional impairments of financial instruments or goodwill relating to acquisitions;

uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI and the BVI, which could affect our financial performance and could cause our actual results for future periods to differ materially from prior results and anticipated or projected results;

uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on our business, financial condition and results of operations;

changes in the fiscal and monetary policies and regulations of the federal government, including those determined by the Federal Reserve, the FDIC, government-sponsored housing agencies and local regulators in Puerto Rico, the USVI and the BVI;

the risk of possible failure or circumvention of controls and procedures and the risk that our risk management policies may not be adequate;

the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in our non-interest expense;

risks of not being able to generate sufficient income to realize the benefit of the deferred tax asset;

risks of not being able to recover the assets pledged to Lehman Brothers Special Financing, Inc.;

risks relating to the impact of the reverse stock split on the price of our common stock;

changes in our expenses associated with acquisitions and dispositions;

the adverse effect of litigation;

developments in technology;

risks associated with further downgrades in the credit ratings of our long-term senior debt;

general competitive factors and industry consolidation;

risks associated with the depression of the price of our common stock, including the possibility of our common stock being delisted from the NYSE; and

the possible future dilution to holders of our common stock resulting from additional issuances of common stock or securities convertible into common stock.

Although the forward-looking statements are based on our current beliefs and expectations, we do not undertake, and specifically disclaim 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 federal and state securities laws.

We may not actually achieve the plans, intentions or expectations described in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations described in the forward- looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section, that we believe could cause actual results or events to differ materially from those expressed or implied by our forward-looking statements. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all.

Table of Contents

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. We do not assume any obligation to update any forward-looking statements.

Table of Contents**REGULATORY AND OTHER CAPITAL RATIOS**

The following table sets forth our regulatory capital ratios as of June 30, 2010 on an as reported basis, on a pro forma basis after giving effect to the Exchange Offer and the issuance to the U.S. Treasury of 424,174 shares of Series G Preferred Stock in exchange for the 400,000 shares of Series F Preferred Stock and dividends accrued thereon, and on a pro forma and as adjusted basis to give effect to the issuance of aggregate net proceeds of \$500,000,000 of our common stock in this offering and the mandatory conversion of the Series G Preferred Stock into 380,189,051 pre-reverse stock split shares of common stock at the initial pre-reverse stock split conversion price of \$0.7252 per share, which is subject to adjustment for the reverse stock split and possibly this offering, and assuming the proceeds of this offering (after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us) will be invested in cash and cash equivalents.

This table should be read in conjunction with the information set forth under Selected Financial Data and our consolidated unaudited financial statements in our Form 10-Q for the quarter ended June 30, 2010, which is incorporated by reference into this prospectus.

	As of June 30, 2010		Pro forma and as adjusted
	As reported	Pro forma	
Total capital ratio (total capital to risk-weighted assets)	13.35%	13.28%	%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	12.05	11.99	
Leverage ratio (Tier 1 capital to average assets)	8.14	8.10	
Tangible common equity ratio (tangible common equity to tangible assets)	2.57	5.40	
Tier 1 common ratio (Tier 1 common equity to risk-weighted assets)	2.86	6.93	

See Non-GAAP Data for reconciliations of Tier 1 common equity and tangible common equity to stockholders' equity, the most directly comparable GAAP financial measure, and tangible assets to total assets, the most directly comparable GAAP financial measure, as of June 30, 2010.

The following table sets forth the regulatory capital ratios of FirstBank as of June 30, 2010 on an as reported basis. Although all of FirstBank's regulatory capital ratios exceeded the established ratios for a well-capitalized institution at June 30, 2010, because of the Order, FirstBank cannot be treated as a well-capitalized institution under regulatory guidance.

As reported	As of June 30, 2010	
	Established ratios for a well- capitalized institution	

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Total capital ratio (total capital to risk-weighted assets)	12.83%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	11.53	6.00
Leverage ratio (Tier 1 capital to average assets)	7.79	5.00

Table of Contents**NON-GAAP DATA**

The ratios of Tier 1 common equity to risk-weighted assets and tangible common equity to tangible assets, the adjusted earnings data and net interest margin (on a tax equivalent basis and excluding valuations) mentioned above are not financial measures recognized under generally accepted accounting principles, or GAAP, and therefore are considered non-GAAP financial measures.

Tier 1 Common Equity to Risk-Weighted Assets Ratio

The Tier 1 common equity to risk-weighted assets ratio is calculated by dividing (a) Tier 1 capital less non-common elements, including qualifying perpetual preferred stock and qualifying trust preferred securities, by (b) risk-weighted assets, which is calculated in accordance with applicable bank regulatory requirements. The Tier 1 common equity ratio is not required by GAAP or on a recurring basis by applicable bank regulatory requirements. However, this ratio was used by the Federal Reserve in connection with its stress test administered to the 19 largest U.S. bank holding companies under the Supervisory Capital Assessment Program (SCAP), the results of which were announced on May 7, 2009. Management is currently monitoring this ratio, along with the applicable bank regulatory ratios, in evaluating our capital levels and believes that, at this time, the ratio may continue to be of interest to investors.

The following table reconciles stockholders' equity (GAAP) as of June 30, 2010 to Tier 1 common equity on (1) an actual basis, (2) a pro forma basis to reflect the issuance of shares of common stock in exchange for Preferred Stock in the Exchange Offer and the issuance to the U.S. Treasury of 424,174 shares of Series G Preferred Stock in exchange for the 400,000 shares of Series F Preferred Stock and dividends accrued thereon, and (3) a pro forma and as adjusted basis to also reflect the sale of common stock in this offering and the conversion of the Series G Preferred Stock into common stock:

	As of June 30, 2010		
	Actual	Pro forma (in thousands)	Pro forma and as adjusted
Tier 1 Common Equity:			
Total equity - GAAP	\$ 1,438,289	\$ 1,430,203	
Qualifying preferred stock	(930,830)	(410,433)	
Unrealized (gain) on available-for-sale securities ⁽¹⁾	(63,311)	(63,311)	
Disallowed deferred tax asset ⁽²⁾	(38,078)	(38,078)	
Goodwill	(28,098)	(28,098)	
Core deposits intangible	(15,303)	(15,303)	
Cumulative change gain in fair value of liabilities accounted for under a fair value option	(3,170)	(3,170)	
Other disallowed assets	(66)	(66)	
Tier 1 common equity	\$ 359,433	\$ 871,744	
Total risk-weighted assets	\$ 12,570,330	\$ 12,570,330	

Tier 1 common equity to risk-weighted assets ratio	2.86%	6.93%
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- (1) Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with regulatory risk-based capital guidelines. In arriving at Tier 1 capital, institutions are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax.
- (2) Approximately \$71 million of First BanCorp's deferred tax assets at June 30, 2010 were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately \$38 million of such assets at June 30, 2010 exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets, were deducted in arriving at Tier 1 capital. According to regulatory capital guidelines, the deferred tax assets that are dependent upon future taxable income are limited for inclusion in Tier 1 capital to the lesser of: (i) the amount of such deferred tax asset that the entity expects to realize within one year of the calendar quarter end-date, based on its projected future taxable income for that year or (ii) 10% of the amount of the entity's Tier 1 capital. Approximately \$12 million of First BanCorp's other net deferred tax liability at June 30, 2010 represented primarily

Table of Contents

the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines.

Tangible Common Equity Ratio

The tangible common equity ratio is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill and core deposit intangibles. Tangible assets are total assets less goodwill and core deposit intangibles. Management and many stock analysts use the tangible common equity ratio in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The following table reconciles stockholders' equity (GAAP) as of June 30, 2010 to tangible common equity on (1) an actual basis, (2) a pro forma basis to reflect the issuance of shares of common stock in exchange for Preferred Stock in the Exchange Offer and the issuance to the U.S. Treasury of 424,174 shares of Series G Preferred Stock in exchange for the 400,000 shares of Series F Preferred Stock and dividends accrued thereon, and (3) a pro forma and as adjusted basis to reflect also the sale of common stock in this offering and the conversion of the Series G Preferred Stock into common stock and reconciles total assets (GAAP) as of June 30, 2010 to tangible assets:

	As of June 30, 2010		
	Actual	Pro forma (in thousands)	Pro forma and as adjusted
Tangible Equity:			
Total equity GAAP	\$ 1,438,289	\$ 1,430,203	
Preferred equity	(930,830)	(410,433)	
Goodwill	(28,098)	(28,098)	
Core deposit intangible	(15,303)	(15,303)	
Tangible common equity	\$ 464,058	\$ 976,369	
Tangible Assets:			
Total assets GAAP	\$ 18,116,023	\$ 18,116,023	
Goodwill	(28,098)	(28,098)	
Core deposit intangible	(15,303)	(15,303)	
Tangible assets	\$ 18,072,622	\$ 18,072,622	
Tangible common equity ratio	2.57%	5.40%	

Adjusted Earnings Data

Management uses the non-GAAP measures of pre-tax, pre-provision earnings and adjusted pre-tax, pre-provision earnings to assess the performance of our core business and the strength of our capital position. We believe that these non-GAAP financial measures provide meaningful additional information about us to assist investors in evaluating our operating results and financial strength. These non-GAAP financial measures should not be considered as substitutes for operating results determined in accordance with GAAP and may not be comparable to other similarly titled measures at other companies.

Table of Contents

Presented below is a reconciliation of these financial measures to net income.

	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009	2009	Year ended December 31,			2005
				2008	2007	2006	
			(in thousands)				
	(unaudited)						
Net (loss) income (GAAP)	\$ (197,639)	\$ (56,767)	\$ (275,187)	\$ 109,937	\$ 68,136	\$ 84,634	\$ 114,604
Income tax expense (benefit)	10,684	(112,250)	4,534	(31,732)	21,583	27,442	15,016
Provision for loan and lease losses	317,758	294,581	579,858	190,948	120,610	74,991	50,644
Pre-tax, pre-provision earnings (non-GAAP)	\$ 130,803	\$ 125,564	\$ 309,205	\$ 269,153	\$ 210,329	\$ 187,067	\$ 180,264

	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009	2009	Year ended December 31,			2005
				2008	2007	2006	
			(in thousands)				
	(unaudited)						
Net (loss) income (GAAP)	\$ (197,639)	\$ (56,767)	\$ (275,187)	\$ 109,937	\$ 68,136	\$ 84,634	\$ 114,604
Income tax expense (benefit)	10,684	(112,250)	4,534	(31,732)	21,583	27,442	15,016
Provision for loan and lease losses	317,758	294,581	579,858	190,948	120,610	74,991	50,644
Net (gain) loss on sale of securities or other-than-temporary impairments	(55,001)	(26,694)	(85,146)	(21,193)	2,726	8,194	(12,339)
Adjusted pre-tax, pre-provision	\$ 75,802	\$ 98,870	\$ 224,059	\$ 247,960	\$ 213,055	\$ 195,261	\$ 167,925

earnings (non-GAAP)

Table of Contents*Net Interest Margin*

Net interest margin is reported on a tax-equivalent basis and excluding changes in the fair value of derivative instruments and financial liabilities elected to be measured at fair value (valuations). The presentation of net interest margin excluding valuations provides additional information about our net interest margin and facilitates comparability and analysis. The changes in the fair value of derivative instruments and unrealized gains and losses on liabilities measured at fair value have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The tax-equivalent adjustment to net interest margin recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. We believe that it is a standard practice in the banking industry to present net interest margin (as well as net interest income and interest rate spread) on a fully tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and certain loans, on a common basis that facilitates comparison of our results to results of our peers.

The following table reconciles the non-GAAP financial measures net interest spread and margin on a tax-equivalent basis and excluding fair value changes with net interest spread and margin calculated and presented in accordance with GAAP for the six-month periods ended June 30, 2010 and June 30, 2009 and years ended December 31, 2009, December 31, 2008, December 31, 2007, December 31, 2006 and December 31, 2005. The table also reconciles the non-GAAP financial measure net interest income on a tax-equivalent basis and excluding fair value changes with net interest income calculated and presented in accordance with GAAP.

	Six-month period ended		Year ended				
	June 30, 2010	June 30, 2009	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Net Interest Income (in thousands)							
Interest Income GAAP	\$ 435,852	\$ 511,103	\$ 996,574	\$ 1,126,897	\$ 1,189,247	\$ 1,288,813	\$ 1,067,590
Unrealized loss (gain) on derivative instruments	1,231	(4,240)	(5,519)	8,037	6,638	(75)	2,411
Interest income excluding valuations	437,083	506,863	991,055	1,134,934	1,195,885	1,288,738	1,070,001
Tax-equivalent adjustment	17,134	28,381	53,617	56,408	15,293	27,987	61,166
Interest income on a tax-equivalent basis excluding valuations	454,217	535,244	1,044,672	1,191,342	1,211,178	1,316,725	1,131,167
Interest Expense GAAP	199,927	258,491	477,532	599,016	738,231	845,119	635,271
Unrealized gain (loss) on derivative instruments and liabilities measured at fair value	2,907	1,791	(45)	13,214	(2,427)	(58,269)	(71,023)
	202,834	260,282	477,487	612,230	735,804	786,850	564,248

Interest expense excluding
valuations

Net interest income GAAP	\$ 235,925	\$ 252,612	\$ 519,042	\$ 527,881	\$ 451,016	\$ 443,694	\$ 432,319
Net interest income excluding valuations	\$ 234,249	\$ 246,581	\$ 513,568	\$ 522,704	\$ 460,081	\$ 501,888	\$ 505,753
Net interest income on a tax-equivalent basis excluding valuations	\$ 251,383	\$ 274,962	\$ 567,185	\$ 579,112	\$ 475,374	\$ 529,875	\$ 566,919

Table of Contents

	Six-month period ended				Year ended		
	June 30,	June 30,	December 31,	December 31,	December 31,	December 31,	December 31,
	2010	2009	2009	2008	2007	2006	2005
Balance Sheet Balances							
(in thousands)							
Accounts receivable and leases	\$ 13,296,054	\$ 13,370,113	\$ 13,460,562	\$ 12,393,589	\$ 11,288,745	\$ 11,767,736	\$ 11,500,000
Investments in securities and other							
Prepaid expenses and short-term investments	5,506,147	5,827,586	5,865,662	5,689,217	5,486,601	6,874,539	6,030,000
Property, plant and equipment							
Goodwill							
Intangible assets							
Other assets							
Accounts payable and accrued liabilities	\$ 18,802,201	\$ 19,197,699	\$ 19,326,224	\$ 18,082,806	\$ 16,775,346	\$ 18,642,275	\$ 17,540,000
Long-term debt							
Other long-term liabilities							
Equity							
Preferred stock							
Common stock							
Retained earnings							
Accumulated other comprehensive income							
Other equity							
Equity	\$ 16,619,030	\$ 16,983,792	\$ 17,099,692	\$ 16,278,116	\$ 14,928,807	\$ 16,690,265	\$ 15,740,000
Income Statement							
Revenue							
Cost of sales							
Gross profit							
Operating expenses							
Operating income							
Interest income							
Interest expense							
Other income (expense)							
Income before income taxes							
Income tax expense							
Net income	\$ 18,802,201	\$ 19,197,699	\$ 19,326,224	\$ 18,082,806	\$ 16,775,346	\$ 18,642,275	\$ 17,540,000
Financial Ratios							
Return on assets							
Return on equity							
Return on capital employed							
Yield on earnings							
GAAP	4.68%	5.37%	5.16%	6.23%	7.09%	6.91%	
Rate on bearing							
GAAP	2.43%	3.07%	2.79%	3.68%	4.95%	5.06%	
Rest							
GAAP	2.25%	2.30%	2.37%	2.55%	2.14%	1.85%	
Rest							
GAAP	2.53%	2.65%	2.69%	2.92%	2.69%	2.38%	
Yield on earnings							
including							
GAAP	4.69%	5.32%	5.13%	6.28%	7.13%	6.91%	
Rate on bearing							
GAAP	2.46%	3.09%	2.79%	3.76%	4.93%	4.71%	
Rest							
spread							
GAAP	2.23%	2.23%	2.34%	2.52%	2.20%	2.20%	
Rest							
margin							
GAAP	2.51%	2.59%	2.66%	2.89%	2.74%	2.69%	

yield on earning a valent basis uding ns	4.87%	5.62%	5.41%	6.59%	7.22%	7.06%
rate on bearing s excluding ns	2.46%	3.09%	2.79%	3.76%	4.93%	4.71%
rest spread on ivalent basis uding ns	2.41%	2.53%	2.62%	2.83%	2.29%	2.35%
rest margin equivalent d excluding ns	2.70%	2.89%	2.93%	3.20%	2.83%	2.84%

Table of Contents

OTHER CAPITAL RAISING EFFORTS

Prior to filing the registration statement of which this prospectus is a part, we were engaged in preliminary discussions with certain investors, all of whom we believe were accredited investors, concerning a private placement of our common stock. The proposed private placement sought to raise approximately \$500 million in gross proceeds. We terminated all offering activity related to the proposed private placement on August 24, 2010. We did not accept any offers to buy shares of our common stock and none of our shares of common stock were sold in the proposed private placement. This prospectus and any accompanying prospectus supplement supersede any offering materials used in the proposed private placement.

In connection with our proposed private placement, we intended to offer the right to our holders of common stock to acquire shares of common stock at the price at which the shares were sold in the offering. In as much as we have determined to conduct this offering, we have determined not to proceed with a rights offering to our common stockholders.

Table of Contents

USE OF PROCEEDS

We expect to use the net proceeds from the sale of our common stock for general corporate purposes, including strengthening FirstBank's capital position.

Table of Contents**MARKET PRICE, DIVIDEND AND DISTRIBUTION INFORMATION**

Our common stock is currently listed on the NYSE under the symbol **FBP**. As of October 28, 2010, we had 319,557,932 shares of our common stock outstanding, held by approximately 537 holders of record.

The following table sets forth, for the periods indicated, the high and low sales prices per pre-reverse stock split share of the common stock and the cash dividends declared per pre-reverse stock split share of the common stock.

	Share prices		Cash dividends declared per share
	High	Low	
2010			
Fourth Quarter (through October 28, 2010)	\$ 0.32	\$ 0.27	\$ 0.00*
Third Quarter ended September 30, 2010	0.65	0.27	0.00*
Second Quarter ended June 30, 2010	3.69	0.53	0.00*
First Quarter ended March 31, 2010	2.90	1.89	0.00*
2009			
Fourth Quarter ended December 31, 2009	\$ 3.03	\$ 1.47	\$ 0.00*
Third Quarter ended September 30, 2009	4.31	2.81	0.00*
Second Quarter ended June 30, 2009	7.64	3.94	0.07
First Quarter ended March 31, 2009	11.20	3.43	0.07
2008			
Fourth Quarter ended December 31, 2008	\$ 12.17	\$ 7.57	\$ 0.07
Third Quarter ended September 30, 2008	14.00	5.62	0.07
Second Quarter ended June 30, 2008	11.29	6.28	0.07
First Quarter ended March 31, 2008	11.11	7.26	0.07

* Cash dividends on the common stock have been suspended since August 2009.

On October 28, 2010, the closing sales price of our common stock on the NYSE was \$0.29 per pre-reverse stock split share.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization on a pre-reverse stock split as of June 30, 2010:

On an actual basis;

On a pro forma basis to give effect to:

the issuance of 227,015,210 shares of common stock in exchange for tendered Preferred Stock in the Exchange Offer;

the reduction in par value of our common stock from \$1.00 to \$0.10;

the increase in the number of shares of our authorized common stock from 750 million to 2 billion;

the issuance to the U.S. Treasury of 424,174 shares of Series G Preferred Stock in exchange for the 400,000 shares of Series F Preferred Stock and dividends accrued thereon; and

On a pro forma and as adjusted basis to give effect also to:

the issuance of 380,189,051 shares to the U.S. Treasury upon the conversion of 424,174 shares of our Series G Preferred Stock at an initial conversion price of \$0.7252 per share; and

the issuance and sale of _____ shares of our common stock in this offering at a public offering price of \$ _____ per share, and assuming the proceeds (after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us) will be invested in cash and cash equivalents.

The pro forma and as adjusted information set forth below is illustrative only and our capitalization following the closing of this offering will be adjusted based on the actual public offering price and other terms of this offering determined at pricing. The table should be read in conjunction with and is qualified in its entirety by our audited and unaudited consolidated financial statements and notes thereto incorporated by reference into this prospectus. For more information, see Incorporation by Reference.

The table will be restated on a post-reverse stock split basis after our board of directors determines the ratio for the reverse stock split.

Table of Contents

	As of June 30, 2010	
	Actual	Pro forma and as adjusted
	(in thousands, except share data)	
Long term borrowings	\$ 225,000	225,000
Stockholders' equity		
Preferred stock, \$1.00 par value, 50,000,000 shares authorized;		
3,600,000 shares of Series A Preferred Stock outstanding, 450,195 as of July 20, 2010	90,000	11,255
3,000,000 shares of Series B Preferred Stock outstanding, 475,987 as of July 20, 2010	75,000	11,900
4,140,000 shares of Series C Preferred Stock outstanding, 460,611 as of July 20, 2010	103,500	11,515
3,680,000 shares of Series D Preferred Stock outstanding, 510,592 as of July 20, 2010	92,000	12,765
7,584,000 shares of Series E Preferred Stock outstanding, 624,487 as of July 20, 2010	189,600	15,612
400,000 shares of Series F Preferred Stock outstanding, net of discount, 400,000	380,730	
424,174 shares of Series G Preferred Stock outstanding, net of discount, 424,174		347,386
Common stock, \$1.00 par value; 750,000,000 shares authorized, 102,440,522 shares issued and 92,542,722 shares outstanding, actual; \$0.10 par value, 2,000,000 shares authorized, 329,455,732 shares issued and 319,557,932 shares outstanding, pro forma; \$0.10 par value, 2,000,000,000 shares authorized, shares issued and shares outstanding, pro forma and pro forma as adjusted	102,440	32,946
Treasury stock (at cost)	(9,898)	(990)
Additional paid-in capital	134,270	289,617
Legal surplus	299,006	299,006
Retained earnings	(81,670)	335,880
Accumulated other comprehensive income-unrealized gain on securities available for sale net of tax	63,311	63,311
Total stockholders' equity	1,438,289	1,430,203
Total Capitalization	\$ 1,663,289	\$ 1,655,203

The table above does not include:

the issuance of any shares to BNS pursuant to its anti-dilution right under the Stockholder Agreement;

2,073,200 shares of common stock issuable upon the exercise of options outstanding as of October 28, 2010 at a weighted average exercise price of \$13.24 per share;

5,842,259 shares of common stock issuable upon the exercise of warrants outstanding as of October 28, 2010 at an exercise price of \$0.7252 per share, subject to adjustment;

3,767,784 additional shares of common stock available for future issuance as of October 28, 2010 under the First BanCorp 2008 Omnibus Incentive Plan; and

up to additional post-reverse stock split shares of common stock (equal to 15% of the total number of shares we are offering) that we may sell to the underwriter upon the exercise of its over allotment option to purchase additional shares of common stock.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

Our Restated Articles of Incorporation (Articles of Incorporation) authorize the issuance of up to 2,000,000,000 shares of common stock, par value \$0.10 per share, and up to 50,000,000 shares of preferred stock, par value \$1.00 per share. The amount of authorized shares of common stock will not change as a result of the reverse stock split. The following summary outlines the rights of holders of the shares of Preferred Stock, the holder of Series G Preferred Stock and the holders of our common stock. This summary is qualified in its entirety by reference to our Articles of Incorporation, including the Certificates of Designation, and our by-laws (the Bylaws), each of which is an exhibit to the registration statement of which this prospectus is a part. We urge you to read these documents for a more complete understanding of stockholder rights. On July 20, 2010, we issued shares of a new series of Series G Preferred Stock to the U.S. Treasury in exchange for the Series F Preferred Stock that it owned and accrued and unpaid dividends on such stock. The Series G Preferred Stock has similar terms to the Series F Preferred Stock but is convertible as described below under Conversion Rights.

Governing Documents

Preferred Stock

Holders of shares of Preferred Stock and Series G Preferred Stock have the rights set forth in our Articles of Incorporation, including the applicable Certificate of Designation, the Bylaws and Puerto Rico law.

Common Stock

Holders of shares of our common stock have the rights set forth in our Articles of Incorporation, the Bylaws and Puerto Rico law.

Dividends and Distributions

Preferred Stock

The shares of Preferred Stock, as well as Series G Preferred Stock, rank senior to the common stock and any other stock that is expressly junior to Preferred Stock and Series G Preferred Stock as to payment of dividends. Dividends on shares of Preferred Stock are payable monthly and are not mandatory or cumulative. Series G Preferred Stock pay cumulative compounding dividends quarterly in arrears of 5% per year until the fifth anniversary of the issuance of Series F Preferred Stock, and 9% thereafter. Holders of shares of preferred stock are entitled to receive dividends, when, as, and if declared by our board of directors, out of funds legally available for dividends. On July 30, 2009, we announced the suspension of dividends on each series of our Preferred Stock and our previously outstanding Series F Preferred Stock (which was exchanged for the Series G Preferred Stock) effective with the dividend for August 2009. Furthermore, under the terms of the Written Agreement with the Federal Reserve, we are required to obtain prior approval from the Federal Reserve to declare or pay dividends on our capital stock and to receive dividends from FirstBank.

Common Stock

Subject to the preferential rights of any other class or series of capital stock, including preferred stock, holders of our common stock are entitled to receive, pro rata, dividends when and as declared by our board of directors out of funds legally available for the payment of dividends.

In general, so long as any shares of preferred stock remain outstanding and until we meet various federal regulatory considerations, we cannot declare, set apart or pay any dividends on shares of our common stock unless all accrued and unpaid dividends on our Preferred Stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date have been paid or are paid contemporaneously and the full monthly dividend on our Preferred Stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment.

Table of Contents

In addition, in general, and subject to certain limitations in the applicable certificate of designation, so long as any shares of Series G Preferred Stock remain outstanding, we cannot declare, set apart or pay any dividends on shares of our common stock unless all accrued and unpaid dividends for all past dividend periods, including the latest completed dividend period, on all outstanding shares of Series G Preferred Stock have been declared and paid in full. Furthermore, under the terms of the Written Agreement with the Federal Reserve, we are required to obtain prior approval from the Federal Reserve to declare or pay dividends on our capital stock and to receive dividends from FirstBank.

Ranking

Preferred Stock

Each series of Preferred Stock, as well as Series G Preferred Stock, currently ranks senior to the common stock with respect to dividend rights and rights upon liquidation, dissolution or winding-up of First BanCorp. Each series of Preferred Stock, as well as Series G Preferred Stock, is equal in right of payment with the other outstanding series of shares of Preferred Stock, including Series G Preferred Stock. The liquidation preference of the shares of Preferred Stock is \$25 per share, plus accrued and unpaid dividends thereon for the current monthly dividend period to the date of distribution. The liquidation preference of shares of Series G Preferred Stock is \$1,000 per share, plus the amount of any accrued and unpaid dividends, whether or not declared, to the date of payment.

Common Stock

The common stock ranks junior with respect to dividend rights and rights upon liquidation, dissolution or winding-up of First BanCorp to all other securities and indebtedness of First BanCorp.

Conversion Rights

None of the shares of Preferred Stock or common stock are convertible into other securities. The Series G Preferred Stock is convertible by us if within nine months from the date of the Exchange Agreement, (a) at least \$385 million of the liquidation preference of our Preferred Stock are tendered in the Exchange Offer (which we achieved upon settlement of the Exchange Offer), (b) we raise \$500 million of additional capital, subject to terms, other than the price per share, reasonably acceptable to the U.S. Treasury in its sole discretion, (c) we obtain the approval of the holders of our common stock of an amendment to our Restated Articles of Incorporation to increase the number of authorized shares of common stock from 750,000,000 to at least 1,200,000,000 and to reduce the par value of a share of common stock from \$1.00 to \$0.10 (which we obtained on August 24, 2010 at a special meeting of stockholders), (d) we have requested and received from the appropriate banking regulators all requisite approvals of the conversion (no approvals are required of the conversion), (e) we have made any applicable anti-dilution adjustments and (f) neither we nor any of our subsidiaries has dissolved or became subject to insolvency or similar proceedings, or has become subject to other materially adverse regulatory or other actions. The U.S. Treasury, and any subsequent holder of the Series G Preferred Stock, will have the right to convert the Series G Preferred Stock at any time. Unless earlier converted by the holder or us, the Series G Preferred Stock will automatically convert into shares of common stock on July 7, 2017 of the issuance of the Series G Preferred Stock at the then current market price of the common stock. The conversion of the Series G Preferred Stock would significantly increase our tangible common equity ratio.

Voting Rights

Preferred Stock

Whenever dividends remain unpaid on the shares of preferred stock or any other class or series of preferred stock that ranks on parity with shares of preferred stock as to payment of dividends and having equivalent voting rights (Parity Stock) for at least 18 monthly dividend periods (whether or not consecutive), the number of directors constituting our board of directors will be increased by two members and the holders

Table of Contents

of the shares of preferred stock together with holders of Parity Stock, voting separately as a single class, will have the right to elect the two additional members of our board of directors. As of _____, 2010, we have not paid dividends on the Preferred Stock for 13 months. When First BanCorp has paid full dividends on any class or series of non-cumulative Parity Stock for at least 12 consecutive monthly dividend periods following such non-payment, and has paid cumulative dividends in full on any class or series of cumulative Parity Stock, the voting rights will cease and the authorized number of directors will be reduced by two.

Holders of shares of Preferred Stock currently have the right to vote as a separate class with all other series of Parity Stock adversely affected by and entitled to vote thereon (except Series G Preferred Stock, which votes as a separate class), with respect to:

any amendment, alteration or repeal of the provisions of the Articles of Incorporation, including the relevant Certificates of Designation, or Bylaws that would alter or change the voting powers, preferences or special rights of such series of shares of Preferred Stock so as to affect them adversely; or

any amendment or alteration of the Articles of Incorporation to authorize or increase the authorized amount of any shares of, or any securities convertible into shares of, any of First BanCorp. s capital stock ranking senior to such series of shares of Preferred Stock.

Approval of two-thirds of such shares is required.

So long as any shares of Series G Preferred Stock are outstanding, in addition to the voting rights set forth above, the vote or consent of the holders of at least of two-thirds of the shares of Series G Preferred Stock at the time outstanding, voting separately as a single class, shall be necessary for effecting or validating any consummation of a binding share exchange or reclassification involving Series G Preferred Stock or of a merger or consolidation of First BanCorp with another entity, unless the shares of Series G Preferred Stock remain outstanding following any such transaction or, if First BanCorp is not the surviving entity, are converted into or exchanged for preference securities and such remaining outstanding shares of Series G Preferred Stock or preference securities have rights, references, privileges and voting powers that are not materially less favorable than the rights, preferences, privileges or voting powers of Series G Preferred Stock, taken as a whole.

Common Stock

Holders of shares of our common stock are entitled to one vote per share on all matters voted on by our stockholders. There are no cumulative voting rights for the election of directors. The U.S. Treasury has agreed to vote, or cause to be voted, any shares of common stock that it acquires pursuant to the terms of the Series G Preferred Stock or the amended and restated warrant, except with respect to certain matters, in the same proportion as the votes on all other outstanding shares of common stock. The U.S. Treasury will retain discretionary authority to vote on the election and removal of directors, the approval of any business combination or sale of substantially all of the assets or property of First BanCorp, the approval of any dissolution of First BanCorp, the approval of any issuance of any securities of First BanCorp on which holders of common stock are entitled to vote and on any other matters reasonably incidental to those matters, as determined by the U.S. Treasury.

Table of Contents**Redemption*****Preferred Stock******Optional Redemption by First BanCorp***

We may redeem all or a portion of each series of shares of Preferred Stock, at our option at the redemption prices set forth below, on any dividend payment date for which dividends have been declared in full.

CUSIP	Title of securities represented by shares of preferred stock	Redemption price per share
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	\$ 25.00
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	25.00
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	25.00
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	25.00
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	25.00

Series G Preferred Stock may not be redeemed prior to January 16, 2012 unless we have received aggregate gross proceeds from one or more Qualified Equity Offerings (as defined below) of at least \$100 million. In such a case, we may redeem Series G Preferred Stock, subject to the approval of the Board of Governors of the Federal Reserve System, in whole or in part, up to a maximum amount equal to the aggregate net cash proceeds received by us from such qualified equity offerings. A Qualified Equity Offering is a sale and issuance for cash by us, to persons other than us or our subsidiaries after January 16, 2009, of shares of perpetual preferred stock, common stock or a combination thereof, that in each case qualify as Tier 1 capital of First BanCorp at the time of issuance under the applicable risk-based capital guidelines. Qualified Equity Offerings do not include issuances made in connection with agreements or arrangements entered into, or pursuant to financing plans that were publicly announced, on or prior to October 13, 2008. After January 16, 2012, Series G Preferred Stock may be redeemed, in whole or in part, at any time and from time to time, subject to the approval of the Board of Governors of the Federal Reserve System. In any redemption of Series G Preferred Stock, the redemption price is an amount equal to the per-share liquidation amount plus accrued and unpaid dividends to but excluding the date of redemption.

Redemption at Option of Holder

The shares of Preferred Stock and Series G Preferred Stock are not redeemable at the option of the holders.

Common Stock

We have no obligation or right to redeem our common stock.

Listing***Preferred Stock***

Our shares of Series G Preferred Stock are not listed on a national securities exchange and we expect to submit a request to the NYSE to delist our shares of Preferred Stock.

Common Stock

The common stock is listed for trading on the NYSE.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be the Bank of New York Mellon.

Table of Contents

UNDERWRITING

We are offering the shares of our common stock described in this prospectus in an underwritten offering in which Sandler O'Neill & Partners, L.P. is acting as sole bookrunning manager and representative of the underwriters. We will enter into an underwriting agreement with the underwriters named below, with respect to the common stock being offered. Subject to the terms and conditions contained in the underwriting agreement, each underwriter has severally agreed to purchase the respective number of shares of our common stock set forth opposite its name below:

Name	Number of post-reverse stock split shares
Sandler O'Neill & Partners, L.P.	
UBS Securities LLC	
Total	

The underwriting agreement provides that the underwriters' obligation to purchase shares of our common stock depends on the satisfaction of the conditions contained in the underwriting agreement, including:

- the representations and warranties made by us are true and agreements have been performed;
- there is no material adverse change in the financial markets or in our business; and
- we deliver customary closing documents.

Subject to these conditions, the underwriters are committed to purchase and pay for all shares of our common stock offered by this prospectus, if any such shares are purchased. However, the underwriters are not obligated to take or pay for the shares of our common stock covered by the underwriters' over-allotment option described below, unless and until that option is exercised.

Over-Allotment Option

We have granted the underwriters an option, exercisable no later than 30 days after the date of the underwriting agreement, to purchase up to an aggregate of _____ additional post-reverse stock split shares of common stock (equal to 15% of the total number of shares we are offering) at the public offering price, less the underwriting discount set forth on the cover page of this prospectus. We will be obligated to sell these shares of common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with the sale of our common stock offered by this prospectus.

Commissions and Expenses

The underwriters propose to offer our common stock directly to the public at the offering price set forth on the cover page of this prospectus and to dealers at the public offering price less a concession not in excess of \$ _____ per post-reverse stock split share. The underwriters may allow, and the dealers may re-allow, a concession not in excess of

\$ per post-reverse stock split share on sales to other brokers and dealers. After the public offering of our common stock, the underwriters may change the offering price, concessions and other selling terms.

Table of Contents

The following table shows the per share and total underwriting discount and commissions that we will pay to the underwriters and the proceeds we will receive before expenses. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional post-reverse stock split shares of our common stock.

	Per post- reverse stock split share	Total without over- allotment exercise	Total with over- allotment exercise
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds to us (before expenses)	\$	\$	\$

In addition to the underwriting discount, we will reimburse the underwriters for their reasonable out-of-pocket expenses incurred in connection with their engagement as underwriters, regardless of whether this offering is consummated, including, without limitation, legal fees and expenses, marketing, syndication and travel expenses. We estimate that the total expenses of this offering, exclusive of the underwriting discounts and commissions, will be approximately \$, and are payable by us.

Sales of shares made outside of the U.S. may be made by affiliates of the underwriters.

Indemnity

We have agreed to indemnify the underwriters, and persons who control the underwriters, against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of these liabilities.

Lock-up Agreement

We and each of our directors and executive officers, have agreed, for a period of 90 days after the date of this prospectus, not to sell, offer, agree to sell, contract to sell, hypothecate, pledge, grant any option to sell, make any short sale or otherwise dispose of or hedge, directly or indirectly, any common shares or securities convertible into, exchangeable or exercisable for any common shares or warrants or other rights to purchase our common shares or other similar securities without, in each case, the prior written consent of Sandler O'Neill & Partners, L.P. These restrictions are expressly agreed to preclude us, and our executive officers and directors, from engaging in any hedging or other transactions or arrangement that is designed to, or which reasonably could be expected to, lead to or result in a sale, disposition or transfer, in whole or in part, of any of the economic consequences of ownership of our common shares, whether the transaction would be settled by delivery of common shares or other securities, in cash or otherwise. The 90-day restricted period described above will be automatically extended if (1) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (2) before the expiration of the 90-day restricted period, we announce we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the 90-day restricted period, in which case the restricted period will continue to apply until the expiration of the 17-day period beginning on the date on which the earnings release is issued or the material news or material event related to

us occurs.

Listing on the New York Stock Exchange

Our common stock is listed on the NYSE under the trading symbol `FBP`.

Stabilization

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

Table of Contents

Stabilizing transactions permit bids to purchase shares of common stock so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

Over-allotment transactions involve sales by the underwriters of shares of common stock in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position that may be either a covered short position or a naked short position. In a covered short position, the number of shares of common stock over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the over-allotment option. If the underwriters sell more shares than could be covered by exercise of the over-allotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by that syndicate member is purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Our Relationship with the Underwriters

Certain of the underwriters or some of their respective affiliates have performed and expect to continue to perform financial advisory and investment banking services for us in the ordinary course of their respective businesses, and may have received, and may continue to receive, compensation for such services.

UBS Securities LLC acted as dealer manager for the Exchange Offer, which was completed on August 30, 2010. See Recent Developments.

Notices to Investors

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area, or EEA, which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from, and including, the date on which the Prospectus

Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer to the public of our shares of common stock which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State, except that, with effect from, and including, the Relevant Implementation Date, an offer to the public in that Relevant Member State of our shares of

Table of Contents

common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorized or regulated to operate in the financial markets, or, if not so authorized or regulated, whose corporate purpose is solely to invest in our shares of common stock;
- (b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last (or, in Sweden, the last two) financial year(s); (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last (or, in Sweden, the last two) annual or consolidated accounts; or
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive provided that no such offer of our shares of common stock shall result in a requirement for the publication by us or any underwriter or agent of a prospectus pursuant to Article 3 of the Prospectus Directive.

As used above, the expression "offered to the public" in relation to any of our shares of common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe for our shares of common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out in this prospectus.

Notice to Prospective Investors in the United Kingdom

This prospectus is only being distributed to and is only directed at: (1) persons who are outside the United Kingdom; (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (3) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons falling within (1)-(3) together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

Notice to Prospective Investors in Switzerland

The Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations ("CO") and our shares of common stock will not be listed on the SIX Swiss Exchange. Therefore, this prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, our shares of common stock may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to our shares of common stock with a view to distribution.

Notice to Prospective Investors in Australia

This prospectus is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their

professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001

Table of Contents

(Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to our shares of common stock.

Our shares of common stock are not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to our shares of common stock has been, or will be, prepared.

This prospectus does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our shares of common stock, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus is not a wholesale client, no offer of, or invitation to apply for, our shares of common stock shall be deemed to be made to such recipient and no applications for our shares of common stock will be accepted from such recipient. Any offer to a recipient in Australia, and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our shares of common stock you undertake to us that, for a period of 12 months from the date of issue of our shares of common stock, you will not transfer any interest in our shares of common stock to any person in Australia other than to a wholesale client.

Notice to Prospective Investors in Hong Kong

Our shares of common stock may not be offered or sold in Hong Kong, by means of this prospectus or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our shares of common stock may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to our shares of common stock which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

Our shares of common stock have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and our shares of common stock will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in the Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our shares of common stock is made pursuant to exemptions provided in sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (SFA). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our shares of common stock may not be circulated or distributed, nor may our

Table of Contents

shares of common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our shares of common stock are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired our shares of common stock under Section 275 of the SFA, except:

- (1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is given for the transfer; or
- (3) where the transfer is by operation of law.

In addition, investors in Singapore should note that our shares of common stock acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of our shares of common stock.

Table of Contents

LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus will be passed upon for us by Lawrence Odell, Esq., Executive Vice President and General Counsel. As of the date of this prospectus, Lawrence Odell, Esq., beneficially owns, directly or indirectly, 225,000 shares of our common stock, as determined in accordance with Rule 13d-3 of the Exchange Act. Davis Polk & Wardwell LLP, New York, New York, is acting as counsel for the underwriters in connection with this offering.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2009 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Table of Contents

Shares

Common Stock

PROSPECTUS

Sole Book-Running Manager

Lead Manager

UBS Investment Bank

The date of this prospectus is , 2010

Until , 2010, 25 days after the date of this prospectus, all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Table of Contents**PART II INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, in connection with the sale of the common stock being registered, all of which will be paid by us. All amounts shown are estimates except for the Securities Exchange Commission, or SEC, registration fee, the Financial Industry Regulatory Authority (FINRA), filing fee and the listing fee for the NYSE.

	Amount paid or to be paid
SEC registration fee	\$ 40,997.50
FINRA filing fee	\$ 58,000.00
NYSE listing fee	\$ 0.00
Blue sky qualification fees and expenses	*
Printing expenses	\$ 75,000.00
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees and expenses	*
Federal and state taxes	*
Miscellaneous expenses	*
Total Expenses	\$ *

* To be filed by amendment

Item 14. Indemnification of Directors and Officers.

(a) Article NINTH of First BanCorp's Articles of Incorporation provides for indemnification of directors and officers and reads as follows:

(1) First BanCorp shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of First BanCorp) by reason of the fact that he is or was a director, officer, employee or agent of First BanCorp, or is or was serving at the written request of First BanCorp as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if it is formally determined by the Board of Directors, or other committee or entity empowered to make such determination, that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of First BanCorp, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of First BanCorp and, with respect to any criminal action or proceeding,

had reasonable cause to believe that his conduct was unlawful.

(2) First BanCorp shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of First BanCorp to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of First BanCorp, or is or was serving at the written request of First BanCorp as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense of settlement of such

II-1

Table of Contents

action or suit if it is formally determined by the Board of Directors, or other committee or entity empowered to make such determination, that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of First BanCorp, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to First BanCorp unless and only to the extent that the court in which such action was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(3) To the extent that a director, officer, employee or agent of First BanCorp has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in a paragraph 1 or 2 of this Article NINTH, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

(4) Any indemnification under paragraph 1 or 2 of this Article NINTH (unless ordered by a court) shall be made by First BanCorp only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth therein. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders.

(5) Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by First BanCorp in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by First BanCorp as authorized in this Article NINTH.

(6) The indemnification provided by this Article NINTH shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(7) By action of its Board of Directors, notwithstanding any interest of the directors in the action, First BanCorp may purchase and maintain insurance, in such amounts as the Board of Directors deems appropriate, on behalf of any person who is or was a director, officer, employee or agent of First BanCorp, or is or was serving at the written request of First BanCorp as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such.

(8) Notwithstanding anything contained herein to the contrary, no indemnification may be made by First BanCorp to any person if it relates to the imposition of a fine for an infraction or violation of any provision of the law.

(b) Article 1.02(b)(6) of the Puerto Rico General Corporation Law of 1995, as amended (the "PR-GCL"), provides that a corporation may include in its certificate of incorporation a provision eliminating or limiting the personal liability of members of its board of directors or governing body for breach of a director's fiduciary duty of care. However, no such provision may eliminate or limit the liability of a director for breaching his duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, paying an unlawful dividend or approving an unlawful stock repurchase or obtaining an improper personal benefit.

Table of Contents

(c) Article 4.08 of the PR-GCL authorizes a Puerto Rico corporation to indemnify its officers and directors against liabilities arising out of pending or threatened actions, suits or proceedings to which such officers and directors are or may be made parties by reason of being officers or directors. Such rights of indemnification are not exclusive of any other rights to which such officers or directors may be entitled under any by-law, agreement, vote of stockholders or otherwise.

(d) Article 2.02(n) of the PR-GCL states that every corporation created under the provisions of the PR-GCL shall have the power to reimburse to all directors and officers or former directors and officers the expenses which necessarily or in fact were incurred with respect to the defense in any action, suit or proceeding in which such persons, or any of them, are included as a party or parties for having been directors or officers of one or another corporation, pursuant to the provisions of Article 4.08 of the PR-GCL described above.

(e) First BanCorp maintains directors and officers liability insurance on behalf of its directors and officers.

Item 15. Recent Sales of Unregistered Securities.

The following sets forth information regarding unregistered securities that were sold by the Registrant within the past three years:

On July 20, 2010, the Registrant exchanged its Fixed Rate Cumulative Perpetual Preferred Stock, Series F, \$1,000 liquidation preference per share (Series F Preferred Stock), which has a liquidation preference of \$400 million, and accrued and unpaid dividends on the Series F Preferred Stock, for shares of a new series of Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the Series G Preferred Stock), that has similar terms (including the same liquidation preference), but which we could convert under certain conditions and the holder could convert based on an initial conversion rate of 896.3045 pre-reverse stock split shares of common stock for each share of Series G Preferred Stock (calculated by dividing \$650, or a discount of 35% from the \$1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of \$0.7252 per pre-reverse stock split share, which is subject to adjustment).

In addition, the Registrant issued an amended and restated warrant (the Amended and Restated Warrant), having a 10-year term and exercisable at an initial exercise price of \$0.7252 per share, at the same time as it issued the Series G Preferred Stock in exchange for the Series F Preferred Stock to replace the warrant issued to the U.S. Treasury on January 16, 2009 (the Warrant) in connection with the issuance of the Series F Preferred Stock to the U.S. Treasury. Like the Warrant, the Amended and Restated Warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including for the reverse stock split and if we issue shares of common stock for consideration per pre-reverse stock split share that is lower than the initial pre-reverse stock split conversion price of the Series G Preferred Stock, or \$0.7252.

On January 16, 2009, the Registrant entered into a Letter Agreement with the U.S. Treasury pursuant to which the U.S. Treasury invested \$400,000,000 in Series F Preferred Stock of the Registrant under the U.S. Treasury's Troubled Asset Relief Program Capital Purchase Program. Under the Letter Agreement, which incorporates the Securities Purchase Agreement Standard Terms, the Registrant issued and sold to the U.S. Treasury (1) 400,000 shares of Series F Preferred Stock, and (2) the Warrant to purchase 5,842,259 pre-reverse stock split shares of First BanCorp's common stock at an initial exercise price of \$10.27 per pre-reverse stock split share.

On August 24, 2007, the Registrant entered into a Stockholder Agreement relating to its sale of 9,250,450 pre-reverse stock split shares of common stock to The Bank of Nova Scotia (BNS) at a price of \$10.25 per pre-reverse stock split share (aggregate value of \$94,817,112.50) pursuant to the terms of an Investment Agreement, dated February 15,

2007.

II-3

Table of Contents

Each of the Series G Preferred Stock, the Amended and Restated Warrant, and the 9,250,450 pre-reverse stock split shares of the Registrant's common stock sold to BNS in 2007 were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving any public offering. The recipients of securities in each such transaction represented its intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. Each transaction was made without general solicitation or advertising. However, none of the shares of Series G Preferred Stock or the Warrant and Amended and Restated Warrant, or the shares underlying such warrant are subject to any contractual restriction on transfer.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

The exhibits to the registration statement are listed in the Exhibit Index attached hereto and incorporated by reference herein.

(b) Financial Statements Schedules.

The financial statement schedules have been provided in the consolidated financial statements or notes thereto, which are incorporated herein by reference to the Registrant's Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2010.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and

the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-4

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Santurce, Puerto Rico, on October 29, 2010.

FIRST BANCORP.

By: /s/ Aurelio Alemán

Aurelio Alemán
President and Chief Executive Officer

II-5

Table of Contents

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Aurelio Alemán Aurelio Alemán	President, Chief Executive Officer and Director (Principal Executive Officer)	October 29, 2010
/s/ Orlando Berges Orlando Berges	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	October 29, 2010
*	Director	October 29, 2010
Jorge L. Díaz		
*	Director	October 29, 2010
José L. Ferrer-Canals		
*	Director	October 29, 2010
Frank Kolodziej		
*	Director	October 29, 2010
José Menéndez-Cortada		
	Director	
Héctor M. Nevares		
*	Director	October 29, 2010
José F. Rodríguez		
*	Director	October 29, 2010
Fernando Rodríguez-Amaro		
/s/ Pedro Romero Pedro Romero	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	October 29, 2010
*	Director	October 29, 2010

Sharee Ann Umpierre-Catinchi

* Lawrence Odell, by signing his name hereto, does hereby sign this document on behalf of each of the above-named directors of the registrant pursuant to powers of attorney duly executed by such persons.

By: /s/ Lawrence Odell
Lawrence Odell
Attorney-in-fact

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Description
1.1	Form of Underwriting Agreement.*
3.1	Restated Articles of Incorporation, incorporated by reference from Exhibit 3.1 of the Form S-1/A filed by First BanCorp on August 24, 2010.
3.2	By-Laws, incorporated by reference from Exhibit 3.2 of the Form 10-K for the year ended December 31, 2008 filed by First BanCorp on March 2, 2009.
3.3	Certificate of Designation creating the 7.125% non-cumulative perpetual monthly income preferred stock, Series A, incorporated by reference from Exhibit 4(B) to the Form S-3 filed by First BanCorp on March 30, 1999.
3.4	Certificate of Designation creating the 8.35% non-cumulative perpetual monthly income preferred stock, Series B, incorporated by reference from Exhibit 4(B) to Form S-3 filed by First BanCorp on September 8, 2000.
3.5	Certificate of Designation creating the 7.40% non-cumulative perpetual monthly income preferred stock, Series C, incorporated by reference from Exhibit 4(B) to the Form S-3 filed by First BanCorp on May 18, 2001.
3.6	Certificate of Designation creating the 7.25% non-cumulative perpetual monthly income preferred stock, Series D, incorporated by reference from Exhibit 4(B) to the Form S-3/A filed by First BanCorp on January 16, 2002.
3.7	Certificate of Designation creating the 7.00% non-cumulative perpetual monthly income preferred stock, Series E, incorporated by reference from Exhibit 4.2 to the Form 8-K filed by First BanCorp on September 5, 2003.
3.8	Certificate of Designation creating the fixed-rate cumulative perpetual preferred stock, Series G, incorporated by reference from Exhibit 10.3 to the Form 8-K filed by First BanCorp on July 7, 2010.
4.1	Form of Common Stock Certificate, incorporated by reference from Exhibit 4 of the Registration Statement on Form S-4/A filed by First BanCorp on April 24, 1998.
4.2	Form of Stock Certificate for 7.125% non-cumulative perpetual monthly income preferred stock, Series A, incorporated by reference from Exhibit 4(A) to the Form S-3 filed by First BanCorp on March 30, 1999.
4.3	Form of Stock Certificate for 8.35% non-cumulative perpetual monthly income preferred stock, Series B, incorporated by reference from Exhibit 4(A) to the Form S-3 filed by First BanCorp on September 8, 2000.
4.4	Form of Stock Certificate for 7.40% non-cumulative perpetual monthly income preferred stock, Series C, incorporated by reference from Exhibit 4(A) to the Form S-3 filed by First BanCorp on May 18, 2001.
4.5	Form of Stock Certificate for 7.25% non-cumulative perpetual monthly income preferred stock, Series D, incorporated by reference from Exhibit 4(A) to the Form S-3/A filed by First BanCorp on January 16, 2002.
4.6	Form of Stock Certificate for 7.00% non-cumulative perpetual monthly income preferred stock, Series E, incorporated by reference from Exhibit 4.1 to the Form 8-K filed by First BanCorp on September 5, 2003.
4.7	Form of Stock Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series F, incorporated by reference from Exhibit 4.6 to the Form 10-K for the year ended December 31, 2008 filed by First BanCorp on March 2, 2009.
4.8	Amended and Restated Warrant, Annex A to the Exchange Agreement by and between First BanCorp and the United States Treasury dated as of July 7, 2010, incorporated by reference from Exhibit 10.2 of the Form 8-K filed on July 7, 2010.
5.1	Opinion of Lawrence Odell, Esq., Executive Vice President and General Counsel of First BanCorp, regarding the validity of the Common Stock being registered.*

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- 10.1 FirstBank's 1997 Stock Option Plan, incorporated by reference from the Form 10-K for the year ended December 31, 1998 filed by First BanCorp on March 26, 1999.
 - 10.2 First BanCorp's 2008 Omnibus Incentive Plan, incorporated by reference from Exhibit 10.1 to the Form 10-Q for the quarter ended March 31, 2008 filed by First BanCorp on May 12, 2008.
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Table of Contents

Exhibit No.	Description
10.3	Investment Agreement between The Bank of Nova Scotia and First BanCorp dated February 15, 2007, including the Form of Stockholder Agreement, incorporated by reference from Exhibit 10.01 to the Form 8-K filed by First BanCorp on February 22, 2007.
10.4	Employment Agreement Aurelio Alemán, incorporated by reference from the Form 10-K for the year ended December 31, 1998 filed by First BanCorp on March 26, 1999.
10.5	Amendment No. 1 to Employment Agreement Aurelio Alemán, incorporated by reference from the Form 10-Q for the quarter ended March 31, 2009 filed by First BanCorp on May 11, 2009.
10.6	Amendment No. 2 to Employment Agreement Aurelio Alemán, incorporated by reference from Exhibit 10.6 of the Form 10-K for the year ended December 31, 2009 filed by First BanCorp on March 2, 2010.
10.7	Employment Agreement Randolpho Rivera, incorporated by reference from the Form 10-K for the year ended December 31, 1998 filed by First BanCorp on March 26, 1999.
10.8	Amendment No. 1 to Employment Agreement Randolpho Rivera, incorporated by reference from the Form 10-Q for the quarter ended March 31, 2009 filed by First BanCorp on May 11, 2009.
10.9	Amendment No. 2 to Employment Agreement Randolpho Rivera, incorporated by reference from Exhibit 10.9 of the Form 10-K for the year ended December 31, 2009 filed by First BanCorp on March 2, 2010.
10.10	Employment Agreement Lawrence Odell, incorporated by reference from the Form 10-K for the year ended December 31, 2005 filed by First BanCorp on February 9, 2007.
10.11	Amendment No. 1 to Employment Agreement Lawrence Odell, incorporated by reference from the Form 10-K for the year ended December 31, 2005 filed by First BanCorp on February 9, 2007.
10.12	Amendment No. 2 to Employment Agreement Lawrence Odell, incorporated by reference from the Form 10-Q for the quarter ended March 31, 2009 filed by First BanCorp on May 11, 2009.
10.13	Amendment No. 3 to Employment Agreement Lawrence Odell, incorporated by reference from Exhibit 10.13 of the Form 10-K for the year ended December 31, 2009 filed by First BanCorp on March 2, 2010.
10.14	Employment Agreement Orlando Berges, incorporated by reference from the Form 10-Q for the quarter ended June 30, 2009 filed by First BanCorp on August 11, 2009.
10.15	Service Agreement Martinez Odell & Calabria, incorporated by reference from the Form 10-K for the year ended December 31, 2005 filed by First BanCorp on February 9, 2007.
10.16	Amendment No. 1 to Service Agreement Martinez Odell & Calabria, incorporated by reference from the Form 10-K for the year ended December 31, 2005 filed by First BanCorp on February 9, 2007.
10.17	Amendment No. 2 to Service Agreement Martinez Odell & Calabria, incorporated by reference from Exhibit 10.17 of the Form 10-K for the year ended December 31, 2009 filed by First BanCorp on March 2, 2010.
10.18	Consent Order, dated June 2, 2010, incorporated by reference from Exhibit 10.1 of the Form 8-K filed on June 4, 2010.
10.19	Written Agreement, dated June 3, 2010, incorporated by reference from Exhibit 10.2 of the Form 8-K filed on June 4, 2010.
10.20	Exchange Agreement by and between First BanCorp and the United States Treasury dated as of July 7, 2010, incorporated by reference from Exhibit 10.1 of the Form 8-K filed on July 7, 2010.
10.21	Form of Restricted Stock Award Agreement incorporated by reference from Exhibit 10.23 to the Form S-1/A filed by First BanCorp on July 16, 2010.
10.22	Form of Stock Option Agreement for Officers and Other Employees incorporated by reference from Exhibit 10.24 to the Form S-1/A filed by First BanCorp on July 16, 2010.

- 21.1 Subsidiaries of First BanCorp.
- 23.1 Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
- 23.2 Consent of Lawrence Odell, Esq. (included in Exhibit 5.1 above).*
- 25.1 Powers of Attorney (included on signature pages to the initial filing).

* To be filed by amendment.

Previously filed as an exhibit to this Registration Statement.

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(66,279
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(80,106
)

Rig Services

Revenues for our Rig Services segment increased \$43.9 million, or 23.8%, to \$227.9 million for the nine months ended September 30, 2018, compared to \$184.0 million for the nine months ended September 30, 2017. The increase for this segment is primarily due to an increase in completion and production spending from our customers as they react to improving commodity prices.

Operating expenses for our Rig Services segment were \$212.4 million for the nine months ended September 30, 2018, which represented an increase of \$25.6 million, or 13.7%, compared to \$186.8 million for the same period in 2017. This increase is primarily a result of an increase in employee compensation costs, fuel expense and repair and maintenance expense due to an increase in activity levels.

Fishing and Rental Services

Revenues for our Fishing and Rental Services segment increased \$2.0 million, or 4.4%, to \$47.8 million for the nine months ended September 30, 2018, compared to \$45.8 million for the nine months ended September 30, 2017. The increase for this segment is primarily due to an increase in completion and production spending from our customers as they react to improving commodity prices partially offset by the sale of our frac stack equipment and well testing services business which was sold in the second quarter of 2017.

Operating expenses for our Fishing and Rental Services segment were \$55.3 million for the nine months ended September 30, 2018, which represented an increase of \$20.7 million, or 60.0% compared to \$34.6 million for the same period in 2017. The increase for this segment is primarily due to the decrease in gain on sale of assets related to the sale of our frac stack equipment and well testing services business in the second quarter of 2017.

Coiled Tubing Services

Revenues for our Coiled Tubing Services segment increased \$33.5 million, or 124.1%, to \$60.5 million for the nine months ended September 30, 2018, compared to \$27.0 million for the nine months ended September 30, 2017. The increase for this segment is primarily due an increase in completion spending from our customers as they react to improving commodity prices.

Table of Contents

Operating expenses for our Coiled Tubing Services segment were \$53.0 million for the nine months ended September 30, 2018, which represented an increase of \$25.9 million, or 95.5%, compared to \$27.1 million for the same period in 2017. This increase is primarily a result of an increase in employee compensation costs, fuel expense and repair and maintenance expense due to an increase in activity levels.

Fluid Management Services

Revenues for our Fluid Management Services segment increased \$10.7 million, or 18.7%, to \$68.2 million for the nine months ended September 30, 2018, compared to \$57.5 million for the nine months ended September 30, 2017. The increase for this segment is primarily due an increase in spending from our customers as they react to improving commodity prices.

Operating expenses for our Fluid Management Services segment were \$75.7 million for the nine months ended September 30, 2018, which represented an increase of \$0.8 million, or 1.1%, compared to \$74.9 million for the same period in 2017. This increase is primarily a result of an increase in employee compensation costs, fuel expense and repair and maintenance expense due to an increase in activity levels partially offset by a decrease in legal settlement expenses.

International

We sold the remaining businesses of our former International segment, our Canadian subsidiary and our Russian subsidiary, in the second and third quarters of 2017, respectively. Accordingly, for 2018, we no longer have an International segment.

Revenues for our former International segment for the nine months ended September 30, 2017 were \$5.6 million. Operating expenses for our former International segment for the nine months ended September 30, 2017 were \$10.4 million. These expenses were related to employee compensation costs and equipment expense and a \$0.2 million impairment to reduce the carrying value of the assets and related liabilities of our Russian business unit to fair market value.

Functional Support

Operating expenses for Functional Support, which represent expenses associated with managing our U.S. and International reporting segments, decreased \$14.4 million, or 21.8%, to \$51.8 million (12.8% of consolidated revenues) for the nine months ended September 30, 2018 compared to \$66.3 million (20.7% of consolidated revenues) for the same period in 2017. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and a decrease in legal settlement expenses.

LIQUIDITY AND CAPITAL RESOURCES**Current Financial Condition and Liquidity**

As of September 30, 2018, we had total liquidity of \$72.8 million which consists of \$43.3 million cash and cash equivalents and \$29.5 million of borrowing capacity available under our ABL Facility. This compares to total liquidity of \$97.8 million which consisted of \$73.1 million cash and cash equivalents and \$24.7 million of borrowing capacity available under our ABL Facility as of December 31, 2017. Our working capital was \$65.1 million as of September 30, 2018, compared to \$83.0 million as of December 31, 2017. Our working capital decreased from the prior year end primarily as a result of a decrease in cash, cash equivalents, restricted cash, prepaid assets and inventories and an increase in accounts payable, partially offset by an increase in accounts receivable and a decrease in accrued payroll and insurance. As of September 30, 2018, we had no borrowings outstanding and \$35.6 million in committed letters of credit outstanding under our ABL Facility.

The following table summarizes our cash flows for the nine months ended September 30, 2018 and 2017 (in thousands):

	Nine Months Ended	
	September 30,	
	2018	2017
Net cash used in operating activities	\$(15,062)	\$(48,633)
Cash paid for capital expenditures	(28,521)	(9,610)
Proceeds received from sale of fixed assets	11,955	31,844

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Repayments of long-term debt	(1,875)	(1,875)
Payment of deferred financing costs	—	(350)
Other financing activities, net	(268)	(85)
Effect of exchange rates on cash	—	(146)
Net decrease in cash, cash equivalents and restricted cash	\$(33,771)	\$(28,855)

30

Table of Contents

Cash used in operating activities was \$15.1 million for the nine months ended September 30, 2018 compared to cash used in operating activities of \$48.6 million for the nine months ended September 30, 2017. Cash used in operating activities for the nine months ended September 30, 2018 was primarily related to an increase in accounts receivable and net loss adjusted for noncash items, partially offset by a decrease in prepaid assets, inventories and other non-current assets. Cash used in operating activities for the nine months ended September 30, 2017 was primarily related to net loss adjusted for noncash items and a decrease in accrued liabilities, partially offset by a decrease in prepaid assets, inventories and other non-current assets.

Cash used in investing activities was \$16.6 million for the nine months ended September 30, 2018 compared to cash provided by investing activities of \$22.2 million for the nine months ended September 30, 2017. Cash outflows during these periods consisted primarily of capital expenditures. Our capital expenditures are primarily related to the addition of new equipment and the ongoing maintenance of our equipment. Cash inflows during these periods consisted primarily of proceeds from sales of fixed assets.

Cash used in financing activities was \$2.1 million for the nine months ended September 30, 2018 compared to cash used in financing activities of \$2.3 million for the nine months ended September 30, 2017. Financing cash outflows for the nine months ended September 30, 2018 and September 30, 2017 primarily relate to the repayment of long-term debt.

Sources of Liquidity and Capital Resources

We believe that our internally generated cash flows from operations, current reserves of cash and availability under our ABL Facility are sufficient to finance our cash requirements for current and future operations, budgeted capital expenditures, debt service and other obligations for the next twelve months.

At September 30, 2018, our annual debt maturities for our 2021 Term Loan Facility were as follows (in thousands):

Year	Principal Payments
2018	\$625
2019	2,500
2020	2,500
2021	240,000

Total principal payments \$245,625

ABL Facility

On December 15, 2016, the Company and Key Energy Services, LLC, as borrowers (the “ABL Borrowers”), entered into the ABL Facility with the financial institutions party thereto from time to time as lenders (the “ABL Lenders”), Bank of America, N.A., as administrative agent for the lenders (the “Administrative Agent”) and Bank of America, N.A. and Wells Fargo Bank, National Association, as co-collateral agents for the lenders. The ABL Facility provides for aggregate initial commitments from the ABL Lenders of \$80 million, which, on February 3, 2017 was increased to \$100 million, and matures on June 15, 2021.

The ABL Facility provides the ABL Borrowers with the ability to borrow up to an aggregate principal amount equal to the lesser of (i) the aggregate revolving commitments then in effect and (ii) the sum of (a) 85% of the value of eligible accounts receivable plus (b) 80% of the value of eligible unbilled accounts receivable, subject to a limit equal to the greater of (x) \$35 million and (y) 25% of the commitments. The amount that may be borrowed under the ABL Facility is subject to increase or reduction based on certain segregated cash or reserves provided for by the ABL Facility. In addition, the percentages of accounts receivable and unbilled accounts receivable included in the calculation described above is subject to reduction to the extent of certain bad debt write-downs and other dilutive items provided in the ABL Facility.

Borrowings under the ABL Facility bear interest, at the ABL Borrowers’ option, at a per annum rate equal to (i) LIBOR for 30, 60, 90, 180, or, with the consent of the ABL Lenders, 360 days, plus an applicable margin that varies from 2.50% to 4.50% depending on the Borrowers’ fixed charge coverage ratio at such time or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the federal funds rate, plus 0.50% or (z) 30-day LIBOR, plus 1.0% plus (b) an applicable margin that varies from 1.50% to 3.50% depending of the Borrowers’ fixed

charge coverage ratio at such time. In addition, the ABL Facility provides for unused line fees of 1.00% to 1.25% per year, depending on utilization, letter of credit fees and certain other factors.

The ABL Facility may in the future be guaranteed by certain of the Company's existing and future subsidiaries (the "ABL Guarantors," and together with the ABL Borrowers, the "ABL Loan Parties"). To secure their obligations under the ABL Facility, each of the ABL Loan Parties has granted or will grant, as applicable, to the Administrative Agent a first-priority security interest for the benefit of the ABL Lenders in its present and future accounts receivable, inventory and related assets and proceeds of the foregoing (the "ABL Priority Collateral"). In addition, the obligations of the ABL Loan Parties under the ABL Facility are secured by second-priority liens on the Term Priority Collateral (as described below under "Term Loan Facility").

Table of Contents

The revolving loans under the ABL Facility may be voluntarily prepaid, in whole or in part, without premium or penalty, subject to breakage or similar costs.

The ABL Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the ABL Loan Parties to take certain actions including, among other things and subject to certain significant exceptions, the incurrence of debt, the granting of liens, the making of investments, entering into transactions with affiliates, the payment of dividends and the sale of assets. The ABL Facility also contains a requirement that the ABL Borrowers comply, during certain periods with a fixed charge coverage ratio of 1.00 to 1.00.

As of September 30, 2018, we have no borrowings outstanding under the ABL Facility and \$35.6 million of letters of credit outstanding with borrowing capacity of \$29.5 million available subject to covenant constraints under our ABL Facility.

Term Loan Facility

On December 15, 2016, the Company entered into the Term Loan Facility among the Company, as borrower, certain subsidiaries of the Company named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the “Term Loan Lenders”) and Cortland Capital Market Services LLC and Cortland Products Corp., as agent for the Lenders. The Term Loan Facility had an initial outstanding principal amount of \$250 million. The Term Loan Facility will mature on December 15, 2021, although such maturity date may, at the Company’s request, be extended by one or more of the Term Loan Lenders pursuant to the terms of the Term Loan Facility. Borrowings under the Term Loan Facility bear interest, at the Company’s option, at a per annum rate equal to (i) LIBOR for one, two, three, six, or, with the consent of the Term Loan Lenders, 12 months, plus 10.25% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% and (z) 30-day LIBOR, plus 1.0% plus (b) 9.25%.

The Term Loan Facility is guaranteed by certain of the Company’s existing and future subsidiaries (the “Term Loan Guarantors,” and together with the Company, the “Term Loan Parties”). To secure their obligations under the Term Loan Facility, each of the Term Loan Parties has granted or will grant, as applicable, to the Agent a first-priority security interest for the benefit of the Term Loan Lenders in substantially all of each Term Loan Party’s assets other than certain excluded assets and the ABL Priority Collateral (the “Term Priority Collateral”). In addition, the obligations of the Term Loan Parties under the Term Loan Facility are secured by second-priority liens on the ABL Priority Collateral (as described above under “ABL Facility”).

The loans under the Term Loan Facility may be prepaid at the Company’s option, subject to the payment of a prepayment premium in certain circumstances as provided in the Term Loan Facility. A prepayment prior to the first anniversary of the loan would have been required to have been made with a make-whole amount with the calculation of the make-whole amount as specified in the Term Loan Facility. If a prepayment is made after the first anniversary of the loan but prior to the second anniversary, such prepayment must be made at 106% of the principle amount, if a prepayment is made after the second anniversary but prior to the third anniversary, such prepayment must be made at 103% of the principle amount. After the third anniversary, if a prepayment is made, no prepayment premium is due. The Company is required to make principal payments in the amount of \$625,000 per quarter. In addition, pursuant to the Term Loan Facility, the Company must prepay or offer to prepay, as applicable, term loans with the net cash proceeds of certain debt incurrences and asset sales, excess cash flow, and upon certain change of control transactions, subject in each case to certain exceptions.

The Term Loan Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the Term Loan Parties to take certain actions including, among other things and subject to certain significant exceptions, the incurrence of debt, the granting of liens, the making of investments, entering into transactions with affiliates, the payment of dividends and the sale of assets. The Term Loan Facility also contains financial covenants requiring that the Company maintain an asset coverage ratio of at least 1.35 to 1.0 and that Liquidity (as defined in the Term Loan Facility) must not be less than \$37.5 million (of which at least \$20.0 million must be in cash or cash equivalents held in deposit accounts) as of the last day of any fiscal quarter, subject to certain exceptions and cure rights.

Debt Compliance

At September 30, 2018, we were in compliance with all the financial covenants under our ABL Facility and the Term Loan Facility. Based on management's current projections, we expect to be in compliance with all the covenants under our ABL Facility and Term Loan Facility for the next twelve months. A breach of any of these covenants, ratios or tests could result in a default under our indebtedness.

Capital Expenditures

During the nine months ended September 30, 2018, our capital expenditures totaled \$28.5 million, primarily related to the addition of new equipment needed to take advantage of the increases in activity. Our capital expenditure plan for 2018 contemplates spending between \$35 million and \$40 million, subject to market conditions. This is primarily related to the addition of new equipment needed to take advantage of the increases in activity and the ongoing maintenance of our equipment. Our capital expenditure program for 2018 is subject to market conditions, including activity levels, commodity prices, industry capacity and

Table of Contents

specific customer needs as well as cash flows, including cash generated from asset sales. Our focus for 2018 has been the maximization of our current equipment fleet, but we may choose to increase our capital expenditures in the remainder of 2018 to expand our presence in a market. We currently anticipate funding our 2018 capital expenditures through a combination of cash on hand, operating cash flow, proceeds from sales of assets and borrowings under our ABL Facility. Should our operating cash flows or activity levels prove to be insufficient to fund our currently planned capital spending levels, management expects that it will adjust our capital spending plans accordingly. We may also incur capital expenditures for strategic investments and acquisitions.

Off-Balance Sheet Arrangements

At September 30, 2018 we did not, and we currently do not, have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in our 2017 Form 10-K. More detailed information concerning market risk can be found in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in our 2017 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, management performed, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on this evaluation, management concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of 2018 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various suits and claims that have arisen in the ordinary course of business. We do not believe that the disposition of any of our ordinary course litigation will result in a material adverse effect on our consolidated financial position, results of operations or cash flows. For additional information on legal proceedings, see “Note 10. Commitments and Contingencies” in “Item 1. Financial Statements” of Part I of this report, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

As of the date of this filing, there have been no material changes in the risk factors previously disclosed in Part I, “Item 1A. Risk Factors” of our 2017 Form 10-K and Part II, “Item 1A. Risk Factors” of our Quarterly Report on Form 10-Q for the three months ended March 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

During the three months ended September 30, 2018, we repurchased the shares shown in the table below to satisfy tax withholding obligations upon the vesting of restricted stock awarded to certain of our employees:

Period	Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾
July 1, Period to July 31, Period	—	\$ —
August 1, Period to August 31, Period	—	—
September 1, Period to September 30, Period	20,610	13.17
Total	20,610	\$ 13.17

(1) The price paid per share with respect to the tax withholding repurchases was determined using the closing prices on the applicable vesting date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index, which follows the signature pages to this report and is incorporated by reference herein, sets forth a list of exhibits to this report.

EXHIBIT INDEX

Exhibit No. Description

- 10.1 Employment Agreement, dated as of August 17, 2018, between the Company and Robert Saltiel (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 20, 2018, File No. 001-08038).
- 10.2 Form of Time-Vested Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on August 20, 2018, File No. 001-08038).
- 31.1* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32** Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* Interactive Data File.

* Filed herewith

**Furnished herewith

35

Table of Contents

SIGNATURE

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

Date: November 7, 2018 /s/ J.
By: MARSHALL
DODSON
J. Marshall
Dodson
Senior Vice
President and
Chief
Financial
Officer
(As duly
authorized
officer and
Principal
Financial
Officer)