

Edgar Filing: DELUXE CORP - Form 10-Q

DELUXE CORP
Form 10-Q
October 27, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-7945

DELUXE CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

3680 Victoria St. N., Shoreview, Minnesota

(Address of principal executive offices)

41-0216800

(I.R.S. Employer Identification No.)

55126-2966

(Zip Code)

(651) 483-7111

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at October 19, 2015 was 49,219,859.

1

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

DELUXE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share par value)

(Unaudited)

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$62,895 | \$61,541 |
| Trade accounts receivable (net of allowances for uncollectible accounts of \$4,690 and \$4,335, respectively) | 100,380 | 113,656 |
| Inventories and supplies | 42,195 | 39,411 |
| Deferred income taxes | 9,925 | 10,159 |
| Funds held for customers | 49,545 | 43,604 |
| Other current assets | 46,799 | 50,519 |
| Total current assets | 311,739 | 318,890 |
| Deferred income taxes | 1,246 | 1,411 |
| Long-term investments (including \$2,015 and \$2,384 of investments at fair value, respectively) | 43,774 | 46,451 |
| Property, plant and equipment (net of accumulated depreciation of \$345,050 and \$348,530, respectively) | 82,768 | 87,623 |
| Assets held for sale | 13,970 | 26,819 |
| Intangibles (net of accumulated amortization of \$395,360 and \$388,308, respectively) | 227,838 | 207,180 |
| Goodwill | 883,819 | 868,376 |
| Other non-current assets | 127,267 | 131,641 |
| Total assets | \$1,692,421 | \$1,688,391 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$77,209 | \$87,216 |
| Accrued liabilities | 212,949 | 219,121 |
| Short-term borrowings | 319,000 | 160,000 |
| Long-term debt due within one year | 1,049 | 911 |
| Total current liabilities | 610,207 | 467,248 |
| Long-term debt | 198,462 | 393,401 |
| Deferred income taxes | 94,634 | 95,838 |
| Other non-current liabilities | 69,045 | 84,407 |
| Commitments and contingencies (Notes 11 and 12) | | |
| Shareholders' equity: | | |
| Common shares \$1 par value (authorized: 500,000 shares; outstanding: 2015 – 49,219; 2014 – 49,742) | 49,219 | 49,742 |
| Additional paid-in capital | — | 4,758 |
| Retained earnings | 715,922 | 629,335 |
| Accumulated other comprehensive loss | (45,068 |) (36,338 |
| Total shareholders' equity | 720,073 | 647,497 |
| Total liabilities and shareholders' equity | \$1,692,421 | \$1,688,391 |

See Condensed Notes to Unaudited Consolidated Financial Statements

2

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

| | Quarter Ended | | Nine Months Ended | |
|---|---------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Product revenue | \$361,781 | \$350,607 | \$1,075,692 | \$1,040,734 |
| Service revenue | 78,035 | 62,597 | 233,616 | 184,835 |
| Total revenue | 439,816 | 413,204 | 1,309,308 | 1,225,569 |
| Cost of products | (132,594 |) (125,917 |) (384,590 |) (363,852 |
| Cost of services | (26,708 |) (24,233 |) (83,332 |) (77,117 |
| Total cost of revenue | (159,302 |) (150,150 |) (467,922 |) (440,969 |
| Gross profit | 280,514 | 263,054 | 841,386 | 784,600 |
| Selling, general and administrative expense | (189,641 |) (175,661 |) (575,110 |) (527,138 |
| Net restructuring charges | (1,505 |) (4,193 |) (2,738 |) (8,507 |
| Asset impairment charge | — | (6,468 |) — | (6,468 |
| Operating income | 89,368 | 76,732 | 263,538 | 242,487 |
| Loss on early debt extinguishment | — | — | (8,917 |) — |
| Interest expense | (4,387 |) (9,580 |) (15,322 |) (28,677 |
| Other income | 919 | 321 | 2,174 | 820 |
| Income before income taxes | 85,900 | 67,473 | 241,473 | 214,630 |
| Income tax provision | (28,983 |) (23,042 |) (82,553 |) (72,800 |
| Net income | \$56,917 | \$44,431 | \$158,920 | \$141,830 |
| Comprehensive income | \$52,680 | \$41,585 | \$150,190 | \$140,164 |
| Basic earnings per share | 1.14 | 0.89 | 3.18 | 2.83 |
| Diluted earnings per share | 1.13 | 0.88 | 3.16 | 2.80 |
| Cash dividends per share | 0.30 | 0.30 | 0.90 | 0.85 |

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)
(Unaudited)

| | Common shares | Common shares par value | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|------------------|-------------------------------|----------------------------------|----------------------|---|-------------|
| Balance, December 31, 2014 | 49,742 | \$49,742 | \$4,758 | \$629,335 | \$(36,338) |) \$647,497 |
| Net income | — | — | — | 158,920 | — | 158,920 |
| Cash dividends | — | — | — | (44,965) | — | (44,965) |
| Common shares issued | 281 | 281 | 6,609 | — | — | 6,890 |
| Tax impact of share-based awards | — | — | 1,619 | — | — | 1,619 |
| Common shares repurchased | (772) | (772) | (18,856) | (27,368) | — | (46,996) |
| Other common shares retired | (32) | (32) | (2,037) | — | — | (2,069) |
| Fair value of share-based compensation | — | — | 7,907 | — | — | 7,907 |
| Other comprehensive loss | — | — | — | — | (8,730) | (8,730) |
| Balance, September 30, 2015 | 49,219 | \$49,219 | \$— | \$715,922 | \$(45,068) |) \$720,073 |

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

| | Nine Months Ended September 30, | | |
|---|------------------------------------|------------|---|
| | 2015 | 2014 | |
| Cash flows from operating activities: | | | |
| Net income | \$158,920 | \$141,830 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 12,006 | 12,700 | |
| Amortization of intangibles | 42,425 | 35,845 | |
| Asset impairment charge | — | 6,468 | |
| Amortization of contract acquisition costs | 14,059 | 13,180 | |
| Deferred income taxes | (945) |) 116 | |
| Employee share-based compensation expense | 8,774 | 6,997 | |
| Loss on early debt extinguishment | 8,917 | — | |
| Other non-cash items, net | 1,197 | 7,708 | |
| Changes in assets and liabilities, net of effect of acquisitions: | | | |
| Trade accounts receivable | 13,970 | (5,547) |) |
| Inventories and supplies | (1,368) |) (2,016) |) |
| Other current assets | 2,377 | (4,730) |) |
| Non-current assets | (560) |) (1,860) |) |
| Accounts payable | (12,547) |) 1,598 |) |
| Contract acquisition payments | (9,843) |) (9,831) |) |
| Other accrued and non-current liabilities | (19,470) |) 901 |) |
| Net cash provided by operating activities | 217,912 | 203,359 | |
| Cash flows from investing activities: | | | |
| Purchases of capital assets | (29,549) |) (29,649) |) |
| Payments for acquisitions, net of cash acquired | (50,933) |) (12,144) |) |
| Proceeds from company-owned life insurance policies | 3,973 | 897 | |
| Other | 805 | 462 | |
| Net cash used by investing activities | (75,704) |) (40,434) |) |
| Cash flows from financing activities: | | | |
| Net proceeds (payments) from short-term borrowings | 159,000 | (125) |) |
| Payments on long-term debt, including costs of debt reacquisition | (207,791) |) (820) |) |
| Payments for debt issue costs | (136) |) (1,085) |) |
| Proceeds from issuing shares under employee plans | 5,492 | 8,814 | |
| Excess tax benefit from share-based employee awards | 1,816 | 2,581 | |
| Payments for common shares repurchased | (46,996) |) (60,119) |) |
| Cash dividends paid to shareholders | (44,965) |) (42,631) |) |
| Other | (242) |) — |) |
| Net cash used by financing activities | (133,822) |) (93,385) |) |
| Effect of exchange rate change on cash | (7,032) |) (2,628) |) |
| Net change in cash and cash equivalents | 1,354 | 66,912 | |
| Cash and cash equivalents, beginning of year | 61,541 | 121,089 | |
| Cash and cash equivalents, end of period | \$62,895 | \$188,001 | |

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and shares in thousands, except per share amounts)

Note 1: Consolidated financial statements

The consolidated balance sheet as of September 30, 2015, the consolidated statements of comprehensive income for the quarters and nine months ended September 30, 2015 and 2014, the consolidated statement of shareholders' equity for the nine months ended September 30, 2015, and the consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 are unaudited. The consolidated balance sheet as of December 31, 2014 was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP) in the United States of America. In the opinion of management, all adjustments necessary for a fair statement of the consolidated financial statements are included. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and notes are presented in accordance with instructions for Form 10-Q, and do not contain certain information included in our annual consolidated financial statements and notes. The consolidated financial statements and notes appearing in this report should be read in conjunction with the consolidated audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K").

Note 2: New accounting pronouncements

Recently adopted accounting pronouncement – In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard changes the criteria for determining which disposals should be presented as discontinued operations and modifies the related disclosure requirements. We adopted the new guidance on January 1, 2015, on a prospective basis. As such, this standard is applicable to any new disposals or new classifications of disposal groups as held for sale which occur on or after January 1, 2015. As of September 30, 2015, the adoption of this standard has had no impact on our consolidated financial statements.

Accounting pronouncements not yet adopted – In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The new standard provides revenue recognition guidance for any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other accounting standards. The new standard also expands the required financial statement disclosures regarding revenue recognition. The new guidance is effective for us on January 1, 2018. We are currently assessing the impact of this new standard on our consolidated financial statements, as well as the method of transition that we will use in adopting the new standard.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new standard requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The new guidance is effective for us on January 1, 2016. We currently have share-based payment awards that fall within the scope of this standard. Our current accounting treatment is in compliance with the new standard, so we expect no impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance

sheet as a direct reduction from the carrying amount of the debt liability. The new guidance is effective for us on January 1, 2016. As of September 30, 2015, we had debt issuance costs of \$2,364 related to long-term debt and \$60 related to a short-term bank loan, which will be reclassified from other non-current assets and other current assets, respectively, upon adoption of this standard. In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements – Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. This new standard adds SEC paragraphs pursuant to the SEC Staff announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Under this guidance, the SEC Staff would not object to presenting such costs as an asset and subsequently amortizing the deferred costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings under the arrangement. As of September 30, 2015, debt issuance costs of \$1,489

related to our line-of-credit arrangement were included within other current assets in our consolidated balance sheet and are being amortized ratably over the term of the arrangement. Upon the adoption of ASU No. 2015-03 on January 1, 2016, we will continue to include these costs within other current assets and we will continue to amortize them over the term of the arrangement.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If the arrangement does include a software license, the software license element of the arrangement should be accounted for in the same manner as the acquisition of other software licenses. The new guidance is effective for us on January 1, 2016, and we will apply the standard on a prospective basis to all arrangements entered into or materially modified on or after January 1, 2016. We do not expect the application of this standard to have a significant impact on our results of operations or financial position.

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). Under the new standard, investments measured at net asset value (NAV) as a practical expedient for fair value are excluded from the fair value hierarchy. As such, they are not assigned a fair value measurement level in financial statement disclosures of fair value. This new standard will impact the disclosures included in our Annual Report on Form 10-K regarding the plan assets of our postretirement benefit plan. The new guidance is effective for us on January 1, 2016 and we will apply the standard retrospectively to all periods presented.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The new standard requires that inventory within the scope of the guidance be measured at the lower of cost or net realizable value. Previously, inventory was measured at the lower of cost or market. The new guidance is effective for us on January 1, 2017 and will be applied prospectively. We do not expect the application of this standard to have a significant impact on our results of operations or financial position.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. When recording the purchase price allocation for a business combination in the financial statements, an acquirer may record preliminary amounts when measurements are incomplete as of the end of a reporting period. When the required information is received to finalize the purchase price allocation, the preliminary amounts are adjusted. These adjustments are referred to as measurement-period adjustments. The new guidance eliminates the requirement to restate prior period financial statements for measurement-period adjustments. Instead, it requires that the cumulative impact of a measurement-period adjustment be recognized in the reporting period in which the adjustment is identified. The new guidance is effective for us on January 1, 2016 and will be applied prospectively. We do not expect the application of this standard to have a significant impact on our results of operations or financial position.

Note 3: Supplemental balance sheet information

Inventories and supplies – Inventories and supplies were comprised of the following:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|--------------------------|-----------------------|----------------------|
| Raw materials | \$5,773 | \$5,899 |
| Semi-finished goods | 8,987 | 8,990 |
| Finished goods | 24,192 | 21,298 |
| Supplies | 3,243 | 3,224 |
| Inventories and supplies | \$42,195 | \$39,411 |

Available-for-sale securities – Available-for-sale securities included within funds held for customers and other current assets were comprised of the following:

| (in thousands) | September 30, 2015 | | | |
|---|--------------------|------------------------|-------------------------|------------|
| | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Canadian and provincial government securities | \$8,213 | \$— | \$(129) |) \$8,084 |
| Canadian guaranteed investment certificates | 7,511 | — | — | 7,511 |
| Available-for-sale securities (funds held for customers) ⁽¹⁾ | 15,724 | — | (129) |) 15,595 |
| Canadian money market fund (other current assets) | 1,675 | — | — | 1,675 |
| Available-for-sale securities | \$17,399 | \$— | \$(129) |) \$17,270 |

⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of September 30, 2015, also included cash of \$33,950.

| (in thousands) | December 31, 2014 | | | |
|---|-------------------|------------------------|-------------------------|------------|
| | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Canadian and provincial government securities | \$9,245 | \$— | \$(120) |) \$9,125 |
| Canadian guaranteed investment certificates | 8,605 | — | — | 8,605 |
| Available-for-sale securities (funds held for customers) ⁽¹⁾ | 17,850 | — | (120) |) 17,730 |
| Canadian money market fund (other current assets) | 1,895 | — | — | 1,895 |
| Available-for-sale securities | \$19,745 | \$— | \$(120) |) \$19,625 |

⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of December 31, 2014, also included cash of \$25,874.

Expected maturities of available-for-sale securities as of September 30, 2015 were as follows:

| (in thousands) | Fair value |
|-------------------------------|------------|
| Due in one year or less | \$10,657 |
| Due in two to five years | 4,139 |
| Due in six to ten years | 2,474 |
| Available-for-sale securities | \$17,270 |

Further information regarding the fair value of available-for-sale securities can be found in Note 8: Fair value measurements.

Assets held for sale – Assets held for sale as of December 31, 2014 included the operations of five small business distributors which we previously acquired. The distributors were included in the Small Business Services segment and the assets acquired consisted primarily of customer list intangible assets. During the nine months ended September 30, 2015, we sold the operations of four of these distributors in exchange for notes receivable, realizing an immaterial net pre-tax gain. The distributors that purchased these businesses from us remain part of our Safeguard® distributor network. We are actively marketing the remaining distributor and expect the selling price will exceed its carrying value. Net assets held for sale consisted of the following:

| (in thousands) | September 30, 2015 | December 31, 2014 | Balance sheet caption |
|----------------|--------------------|-------------------|-----------------------|
| Current assets | \$128 | \$687 | Other current assets |
| Intangibles | 13,533 | 25,926 | Assets held for sale |

Edgar Filing: DELUXE CORP - Form 10-Q

| | | | |
|---|---------|----------|---------------------------------|
| Other non-current assets | 437 | 893 | Assets held for sale |
| Accrued liabilities | (228 |) (1,058 |) Accrued liabilities |
| Non-current deferred income tax liabilities | (5,706 |) (8,774 |) Other non-current liabilities |
| Net assets held for sale | \$8,164 | \$17,674 | |

8

Intangibles – Intangibles were comprised of the following:

| (in thousands) | September 30, 2015 | | | December 31, 2014 | | |
|------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Indefinite-lived: | | | | | | |
| Trade name | \$ 19,100 | \$— | \$ 19,100 | \$ 19,100 | \$— | \$ 19,100 |
| Amortizable intangibles: | | | | | | |
| Internal-use software | 364,243 | (302,072) | 62,171 | 364,229 | (303,340) | 60,889 |
| Customer lists/relationships | 140,216 | (48,958) | 91,258 | 106,218 | (40,097) | 66,121 |
| Trade names | 63,981 | (35,184) | 28,797 | 69,281 | (37,623) | 31,658 |
| Software to be sold | 28,500 | (2,974) | 25,526 | 28,500 | (601) | 27,899 |
| Other | 7,158 | (6,172) | 986 | 8,160 | (6,647) | 1,513 |
| Amortizable intangibles | 604,098 | (395,360) | 208,738 | 576,388 | (388,308) | 188,080 |
| Intangibles | \$ 623,198 | \$(395,360) | \$ 227,838 | \$ 595,488 | \$(388,308) | \$ 207,180 |

Amortization of intangibles was \$14,686 for the quarter ended September 30, 2015 and \$11,730 for the quarter ended September 30, 2014. Amortization of intangibles was \$42,425 for the nine months ended September 30, 2015 and \$35,845 for the nine months ended September 30, 2014. Based on the intangibles in service as of September 30, 2015, estimated future amortization expense is as follows:

| (in thousands) | Estimated amortization expense |
|-------------------|--------------------------------|
| Remainder of 2015 | \$ 13,405 |
| 2016 | 46,165 |
| 2017 | 33,407 |
| 2018 | 22,225 |
| 2019 | 17,192 |

During the nine months ended September 30, 2015, we acquired internal-use software in the normal course of business. We also acquired internal-use software and other intangible assets in conjunction with acquisitions (Note 6). The following intangible assets were acquired during the nine months ended September 30, 2015:

| (in thousands) | Amount | Weighted-average amortization period (in years) |
|------------------------------|-----------|---|
| Internal-use software | \$ 24,984 | 4 |
| Customer lists/relationships | 38,005 | 7 |
| Trade name | 400 | 2 |
| Acquired intangibles | \$ 63,389 | 6 |

Goodwill – Changes in goodwill during the nine months ended September 30, 2015 were as follows:

| (in thousands) | Small Business Services | Financial Services | Direct Checks | Total |
|---|-------------------------------|-----------------------|------------------|-----------|
| Balance, December 31, 2014: | | | | |
| Goodwill, gross | \$654,007 | \$85,863 | \$148,506 | \$888,376 |
| Accumulated impairment charges | (20,000 |) — | — | (20,000 |
| Goodwill, net of accumulated impairment charges | 634,007 | 85,863 | 148,506 | 868,376 |
| Adjustment for acquisition of Wausau Financial Systems, Inc. (Note 6) | — | (714 |) — | (714 |
| Acquisition of Verify Valid (Note 6) | 5,650 | — | — | 5,650 |
| Acquisition of small business distributor (Note 6) | 9,276 | — | — | 9,276 |
| Acquisition of Tech Assets (Note 6) | 1,450 | — | — | 1,450 |
| Currency translation adjustment | (219 |) — | — | (219 |
| Balance, September 30, 2015: | | | | |
| Goodwill, gross | 670,164 | 85,149 | 148,506 | 903,819 |
| Accumulated impairment charges | (20,000 |) — | — | (20,000 |
| Goodwill, net of accumulated impairment charges | \$650,164 | \$85,149 | \$148,506 | \$883,819 |

Other non-current assets – Other non-current assets were comprised of the following:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Contract acquisition costs | \$61,412 | \$74,101 |
| Postretirement benefit plan asset | 27,607 | 24,243 |
| Loans and notes receivable from distributors | 23,736 | 14,583 |
| Deferred advertising costs | 6,858 | 8,922 |
| Other | 7,654 | 9,792 |
| Other non-current assets | \$127,267 | \$131,641 |

Changes in contract acquisition costs during the nine months ended September 30, 2015 and 2014 were as follows:

| (in thousands) | Nine Months Ended September 30, | |
|----------------------------|------------------------------------|-----------|
| | 2015 | 2014 |
| Balance, beginning of year | \$74,101 | \$35,421 |
| Additions ⁽¹⁾ | 4,828 | 55,659 |
| Amortization | (14,059 |) (13,180 |
| Other | (3,458 |) (330 |
| Balance, end of period | \$61,412 | \$77,570 |

⁽¹⁾ Contract acquisition costs are accrued upon contract execution. Cash payments made for contract acquisition costs were \$9,843 for the nine months ended September 30, 2015 and \$9,831 for the nine months ended September 30, 2014.

Accrued liabilities – Accrued liabilities were comprised of the following:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Funds held for customers | \$48,596 | \$42,944 |
| Deferred revenue | 35,888 | 48,514 |
| Performance-based compensation | 30,613 | 38,259 |
| Customer rebates | 19,179 | 20,550 |
| Contract acquisition costs due within one year | 8,411 | 9,815 |
| Restructuring due within one year (Note 9) | 2,429 | 4,276 |
| Other | 67,833 | 54,763 |
| Accrued liabilities | \$212,949 | \$219,121 |

Note 4: Earnings per share

The following table reflects the calculation of basic and diluted earnings per share. During each period, certain stock options, as noted below, were excluded from the calculation of diluted earnings per share because their effect would have been antidilutive.

| (dollars and shares in thousands, except per share amounts) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|--------------------------------|----------|------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Earnings per share – basic: | | | | |
| Net income | \$56,917 | \$44,431 | \$158,920 | \$141,830 |
| Income allocated to participating securities | (386) |) (256) |) (1,054) |) (743) |
| Income available to common shareholders | \$56,531 | \$44,175 | \$157,866 | \$141,087 |
| Weighted-average shares outstanding | 49,396 | 49,594 | 49,592 | 49,889 |
| Earnings per share – basic | \$1.14 | \$0.89 | \$3.18 | \$2.83 |
| Earnings per share – diluted: | | | | |
| Net income | \$56,917 | \$44,431 | \$158,920 | \$141,830 |
| Income allocated to participating securities | (384) |) (255) |) (1,049) |) (738) |
| Re-measurement of share-based awards classified as liabilities | (114) |) (66) |) (67) |) 43 |
| Income available to common shareholders | \$56,419 | \$44,110 | \$157,804 | \$141,135 |
| Weighted-average shares outstanding | 49,396 | 49,594 | 49,592 | 49,889 |
| Dilutive impact of potential common shares | 366 | 448 | 391 | 448 |
| Weighted-average shares and potential common shares outstanding | 49,762 | 50,042 | 49,983 | 50,337 |
| Earnings per share – diluted | \$1.13 | \$0.88 | \$3.16 | \$2.80 |
| Antidilutive options excluded from calculation | 255 | 276 | 255 | 276 |

Note 5: Other comprehensive income

Reclassification adjustments – Information regarding amounts reclassified from accumulated other comprehensive loss to net income was as follows:

| Accumulated other comprehensive loss components (in thousands) | Amounts reclassified from accumulated other comprehensive loss | | | | Affected line item in consolidated statements of comprehensive income |
|---|--|----------|---------------------------------|------------|---|
| | Quarter Ended September 30, | | Nine Months Ended September 30, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Amortization of loss on interest rate locks ⁽¹⁾ | \$— | \$(427) | \$— | \$(1,282) | Interest expense |
| Tax benefit | — | 167 | — | 501 | Income tax provision |
| Amortization of loss on interest rate locks, net of tax | — | (260) | — | (781) | Net income |
| Amortization of postretirement benefit plan items: | | | | | |
| Prior service credit | 355 | 355 | 1,066 | 1,066 | (2) |
| Net actuarial loss | (780) | (854) | (2,340) | (2,563) | (2) |
| Total amortization | (425) | (499) | (1,274) | (1,497) | (2) |
| Tax benefit | 113 | 139 | 339 | 418 | (2) |
| Amortization of postretirement benefit plan items, net of tax | (312) | (360) | (935) | (1,079) | (2) |
| Total reclassifications, net of tax | \$(312) | \$(620) | \$(935) | \$(1,860) | |

⁽¹⁾ Relates to interest rate locks which terminated in October 2014 in conjunction with the maturity of the related debt. See the caption "Note 6: Derivative financial instruments" in the Notes to Consolidated Financial Statements appearing in the 2014 Form 10-K.

⁽²⁾ Amortization of postretirement benefit plan items is included in the computation of net periodic benefit income. Additional details can be found in Note 10: Postretirement benefits.

Accumulated other comprehensive loss – Changes in the components of accumulated other comprehensive loss were as follows:

| (in thousands) | Postretirement benefit plans, net of tax | Net unrealized loss on marketable securities, net of tax ⁽¹⁾ | Currency translation adjustment | Accumulated other comprehensive loss |
|--|--|---|---------------------------------|--------------------------------------|
| Balance, December 31, 2014 | \$(32,405) | \$(125) | \$(3,808) | \$(36,338) |
| Other comprehensive loss before reclassifications | — | (14) | (9,651) | (9,665) |
| Amounts reclassified from accumulated other comprehensive loss | 935 | — | — | 935 |
| Net current-period other comprehensive income (loss) | 935 | (14) | (9,651) | (8,730) |
| Balance, September 30, 2015 | \$(31,470) | \$(139) | \$(13,459) | \$(45,068) |

⁽¹⁾ Other comprehensive loss before reclassifications is net of an income tax benefit of \$5.

Note 6: Acquisitions

We periodically complete business combinations that align with our business strategy. The assets and liabilities acquired were recorded at their estimated fair values and the results of operations of each acquired business were included in our consolidated statements of comprehensive income from their acquisition dates. Transaction costs related to the acquisitions were expensed as incurred and were not significant to the consolidated statements of comprehensive income for the quarter or nine months ended September 30, 2015. During the nine months ended September 30, 2015, we completed the following acquisitions:

In January 2015, we acquired selected assets of Range, Inc., a marketing services provider. The results of this business are included in our Small Business Services segment.

In February 2015, we acquired selected assets of Verify Valid LLC, a provider of electronic check payment services. The results of this business are included in our Small Business Services segment. The allocation of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in tax-deductible goodwill of \$5,650. This acquisition resulted in goodwill as the acquired technology enables us to diversify our payment product and service offerings and bring these offerings to our customer base.

In August 2015, we acquired selected assets of Tech Assets, Inc., a provider of shared hosting websites to small businesses using cPanel web hosting technology. The results of this business are included in our Small Business Services segment. We expect to finalize the allocation of the purchase price by the end of 2015 when our valuation of intangibles and their useful lives is completed. The preliminary allocation of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in tax-deductible goodwill of \$1,450. This acquisition resulted in goodwill as we expect to accelerate revenue growth by combining our capabilities with Tech Asset's tools and hosting technology.

In September 2015, we acquired selected assets of FMC Resource Management Corporation, a marketing services provider. The results of this business are included in our Small Business Services segment. We expect to finalize the allocation of the purchase price by the end of 2015 when our valuation of all of the acquired assets and liabilities is finalized.

During the nine months ended September 30, 2015, we acquired the operations of eight small business distributors. The results of six of these businesses are included within our Small Business Services segment. The results of the two remaining distributors are included in our Financial Services segment, as their customers consist primarily of financial institutions. The allocation of the purchase price to the acquired assets and liabilities is preliminary for certain of these distributors. It is expected to be finalized by the end of 2015 when our valuation of certain assets and liabilities is finalized, including, but not limited to, intangibles and deferred income taxes. The allocation of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in tax-deductible goodwill of \$9,276 related to one of the Small Business Services distributors. This is an increase of \$230 from the preliminary amount recorded as of June 30, 2015. This acquisition resulted in goodwill as we expect to accelerate revenue growth in business and marketing communications solutions by adding an established customer base which gives us a larger presence in the western United States.

As these acquisitions were immaterial to our operating results both individually and in the aggregate, pro forma results of operations are not provided. The following illustrates the preliminary allocation of the aggregate purchase price for the above acquisitions to the assets acquired and liabilities assumed, reduced for any cash or cash equivalents acquired with the acquisitions:

| (in thousands) | September 30, 2015 |
|---|-----------------------|
| Net tangible assets acquired and liabilities assumed | \$2,260 |
| Identifiable intangible assets: | |
| Customer lists | 38,005 |
| Internal-use software | 2,902 |
| Trade name | 400 |
| Total intangible assets | 41,307 |
| Goodwill | 16,376 |
| Total aggregate purchase price | 59,943 |
| Liabilities for holdback payments and contingent consideration ⁽¹⁾ | (7,304) |
| Non-cash consideration ⁽²⁾ | (5,843) |
| Net cash paid for 2015 acquisitions | 46,796 |
| Holdback payments for prior year acquisitions | 4,137 |
| Payments for acquisitions, net of cash acquired | \$50,933 |

⁽¹⁾ Consists of holdback payments due at a future date and liabilities for contingent consideration related primarily to the acquisitions of Verify Valid and a small business distributor. Further information regarding the contingent consideration liabilities can be found in Note 8.

⁽²⁾ Consists of pre-acquisition amounts owed to us by certain of the acquired businesses.

Further information regarding the calculation of the estimated fair values of the intangibles acquired and the liabilities for contingent consideration can be found in Note 8.

In October 2014, we acquired all of the outstanding capital stock of Wausau Financial Systems, Inc. (Wausau), a provider of software-based solutions for receivables management, lockbox processing, remote deposit capture and paperless branch solutions to financial institutions, utilities, government agencies and telecommunications companies. The results of this business are included in our Financial Services segment. During the nine months ended September 30, 2015, we finalized the valuation of the assets acquired and liabilities assumed. We decreased goodwill \$714 from the preliminary amount recorded as of December 31, 2014, with the offset to certain income and sales tax accounts. This acquisition resulted in goodwill as Wausau provides new access into the commercial and treasury side of financial institutions through a strong software-as-a-service (SaaS) technology offering.

Note 7: Derivative financial instruments

We have entered into interest rate swaps to hedge against changes in the fair value of our long-term debt. At the time we entered into these swaps, which we designated as fair value hedges, we were targeting a mix of fixed and variable rate debt, where we receive a fixed rate and pay a variable rate based on the London Interbank Offered Rate (LIBOR). The interest rate swaps related to our long-term debt due in 2020 have a notional amount of \$200,000 and meet the criteria for using the short-cut method for a fair value hedge based on the structure of the hedging relationship. As such, changes in the fair value of the derivatives and the related long-term debt are equal. The fair value of these interest rate swaps was included in other non-current liabilities in the consolidated balance sheets and was \$2,816 as of September 30, 2015 and \$8,067 as of December 31, 2014. As the short-cut method is being used to account for these hedges, the decrease in long-term debt due to fair value adjustments was also \$2,816 as of September 30, 2015 and \$8,067 as of December 31, 2014.

During the nine months ended September 30, 2014, we also held interest rate swaps related to our long-term debt which matured in October 2014. The short-cut method was not used for these interest rate swaps. As such, changes in the fair value of the interest rate swaps and the related long-term debt were not equal (i.e., hedge ineffectiveness) and were included in interest expense in the consolidated statement of comprehensive income. Information regarding hedge ineffectiveness during the quarter and nine months ended September 30, 2014 is presented in Note 8.

Note 8: Fair value measurements

Annual asset impairment analyses – We evaluate the carrying value of goodwill and our indefinite-lived trade name as of July 31 of each year and between annual evaluations if events occur or circumstances change that would indicate a possible impairment. Our policy on impairment of indefinite-lived intangibles and goodwill, which is included under the caption "Note 1: Significant accounting policies" in the Notes to Consolidated Financial Statements appearing in the 2014 Form 10-K, provides further information regarding our methodology for assessing impairment of these assets. In completing the 2015 annual goodwill impairment analysis, we elected to perform a qualitative assessment for all of our reporting units to which goodwill is assigned, with the exception of our Financial Services Commercial reporting unit which was acquired subsequent to our 2014 annual impairment analysis. Our qualitative analysis evaluated factors including, but not limited to, economic, market and industry conditions, cost factors and the overall financial performance of the reporting units. We also considered the quantitative analysis we completed as of July 31, 2014 in which the estimated fair values of our reporting units' net assets exceeded their carrying values by approximate amounts between \$74,000 and \$1,128,000, or by amounts between 47% and 482% above the carrying values of their net assets. In completing our 2015 qualitative analysis, we noted no changes in events or circumstances which would have required us to complete the two-step quantitative goodwill impairment analysis for any of the reporting units analyzed. In addition, the quantitative analysis completed for our Financial Services Commercial reporting unit indicated that its fair value exceeded its carrying value by approximately 13%. Total goodwill for this reporting unit was approximately \$45,000 as of September 30, 2015. In completing the 2015 annual impairment analysis of our indefinite-lived trade name, we elected to perform a quantitative assessment which indicated that the calculated fair value of the asset exceeded its carrying value of \$19,100 by approximately \$20,000 as of July 31, 2015. As such, we recorded no impairment charges as a result of our 2015 annual impairment analyses.

Non-recurring asset impairment analysis – During the third quarter of 2014, we performed an impairment analysis related to our Small Business Services search engine marketing and optimization business. Revenue and the related cash flows from this business had been lower than previously projected, and as a result of our annual planning process completed during the third quarter of 2014, we decided to reduce the revenue base of this business in order to improve its financial performance. As such, we revised our estimates of future revenues and cash flows to reflect these decisions during the third quarter of 2014. We calculated the estimated fair values of the assets as the net present value of estimated future cash flows (level 3 fair value measurement). Our analysis resulted in an impairment charge of \$6,468 during the quarter ended September 30, 2014, which reflects writing down the net book value of the related intangible assets to zero. Information regarding the composition of the asset impairment charge was as follows:

| (in thousands) | Asset impairment charge |
|-------------------------|-------------------------------|
| Internal-use software | \$4,036 |
| Customer relationships | 1,952 |
| Trade name | 480 |
| Total impairment charge | \$6,468 |

2015 acquisitions – For all acquisitions, we are required to measure the fair value of the net identifiable tangible and intangible assets and liabilities acquired, excluding goodwill and deferred income taxes. Information regarding the acquisitions completed during the nine months ended September 30, 2015 can be found in Note 6. The identifiable net assets acquired during the nine months ended September 30, 2015 were comprised primarily of customer lists associated with the acquisitions of small business distributors, as well as Range, Tech Assets and FMC. We also acquired internal-use software associated with the acquisitions of Verify Valid and a small business distributor. The aggregate fair value of the acquired customer lists was \$38,005 and was estimated by discounting the estimated cash flows expected to be generated by the assets. Assumptions used in the calculations included same-customer revenue growth rates and estimated customer retention rates based on the acquirees' historical information. The fair value of

the acquired internal-use software was \$2,902 and was estimated using the cost of reproduction method. The primary components of the software were identified and the estimated cost to reproduce the software was calculated based on data provided by acquirees. Information regarding the useful lives of the acquired intangibles can be found in Note 3.

Liabilities for contingent consideration related to the acquisitions completed during the nine months ended September 30, 2015, related primarily to the acquisitions of Verify Valid and a small business distributor. Under the Verify Valid purchase agreement, we are required to make annual contingent payments over a period of up to eight years, based on the revenue generated by the business. A specified payment percentage for each year is applied to the revenue generated by the

business in that year to determine the amount of the payment. There is no maximum amount of contingent payments specified in the agreement. Under the small business distributor purchase agreement, we are required to make annual contingent payments over a period of up to three years, based on the gross profit generated by the business. A specified payment percentage for each year is applied to the gross profit generated by the business in that year to determine the amount of the payment. The maximum contingent payment in any year of the agreement is \$925. The fair value of the liabilities for contingent payments recognized upon acquisition was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in the calculation included the discount rate, projected revenue or gross profit based on our most recent internal forecast, and factors indicating the probability of achieving the forecasted revenue or gross profit. The liabilities are re-measured each reporting period. Increases or decreases in projected revenue or gross profit and the related probabilities may result in a higher or lower fair value measurement. Changes in fair value resulting from changes in the timing, amount of, or likelihood of contingent payments are included in selling, general and administrative (SG&A) expense in the consolidated statements of comprehensive income. Changes in fair value resulting from accretion for the passage of time are included in interest expense in the consolidated statements of comprehensive income.

Recurring fair value measurements – Funds held for customers included available-for-sale marketable securities (Note 3). These securities consisted of a mutual fund investment which invests in Canadian and provincial government securities and investments in Canadian guaranteed investment certificates (GIC's) with maturities of one year or less. The mutual fund is not traded in an active market and its fair value is determined by obtaining quoted prices in active markets for the underlying securities held by the fund. The fair value of the GIC's approximated cost due to their relatively short duration. Unrealized gains and losses, net of tax, are included in accumulated other comprehensive loss in the consolidated balance sheets. The cost of securities sold is determined using the average cost method. Realized gains and losses are included in revenue in the consolidated statements of comprehensive income and were not significant for the quarters or nine months ended September 30, 2015 and 2014.

Other current assets included available-for-sale marketable securities (Note 3). These securities consisted of a Canadian money market fund which is not traded in an active market. As such, the fair value of this investment is determined by obtaining quoted prices in active markets for the underlying securities held by the fund. Because of the short-term nature of the underlying investments, the cost of these securities approximates their fair value. The cost of securities sold is determined using the average cost method. No gains or losses on sales of these marketable securities were realized during the quarters or nine months ended September 30, 2015 and 2014.

We have elected to account for a long-term investment in domestic mutual funds under the fair value option for financial assets and financial liabilities. The fair value option provides companies an irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The investment is included in long-term investments in the consolidated balance sheets. Long-term investments also include the cash surrender values of company-owned life insurance policies. Realized and unrealized gains and losses, as well as dividends earned by the mutual fund investment, are included in SG&A expense in the consolidated statements of comprehensive income. This investment corresponds to a liability under an officers' deferred compensation plan which is not available to new participants and is fully funded by the investment in mutual funds. The liability under the plan equals the fair value of the investment in mutual funds. Thus, as the value of the investment changes, the value of the liability changes accordingly. As changes in the liability are reflected within SG&A expense in the consolidated statements of comprehensive income, the fair value option of accounting for the investment in mutual funds allows us to net changes in the investment and the related liability in the statements of comprehensive income. The cost of securities sold is determined using the average cost method. During the nine months ended September 30, 2015 and 2014, net realized gains were not significant, and net unrealized losses were not significant during the nine months ended September 30, 2014. We recognized net unrealized losses of \$333 during the nine months ended September 30, 2015.

The fair value of interest rate swaps (Note 7) is determined at each reporting date by means of a pricing model utilizing readily observable market interest rates. The change in fair value is determined as the change in the present value of estimated future cash flows discounted using the LIBOR rate. The interest rate swaps related to our long-term debt due in 2020 meet the criteria for using the short-cut method for a fair value hedge based on the structure of the hedging relationship. As such, the changes in the fair value of the derivative and related long-term debt are equal. The short-cut method was not used for our other interest rate swaps which terminated with the maturity of the related long-term debt in October 2014.

Edgar Filing: DELUXE CORP - Form 10-Q

Changes in the fair value of the interest rate swaps, as well as changes in the fair value of the hedged debt, are included in interest expense in the consolidated statements of comprehensive income and were as follows:

| (in thousands) | Quarter Ended | | Nine Months Ended | |
|--|---------------|------------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Gain (loss) from derivatives | \$3,761 | \$ (1,292) |) \$5,251 | \$3,646 |
| (Loss) gain from change in fair value of hedged debt | (3,761 |) 1,334 | (5,251 |) (3,496 |
| Net decrease in interest expense | \$— | \$42 | \$— | \$150 |

Information regarding recurring fair value measurements completed during each period was as follows:

| (in thousands) | Fair value as of | Fair value measurements using | | |
|---|------------------|-------------------------------|-------------------|--------------|
| | | Quoted prices in | Significant other | Significant |
| | September 30, | active markets | observable | unobservable |
| | 2015 | for identical | inputs | inputs |
| | | assets | (Level 2) | (Level 3) |
| | | (Level 1) | | |
| Available-for-sale marketable securities (funds held for customers) | \$15,595 | \$— | \$15,595 | \$— |
| Available-for-sale marketable securities (other current assets) | 1,675 | — | 1,675 | — |
| Long-term investment in mutual funds | 2,015 | 2,015 | — | — |
| Derivative liabilities | (2,816 |) — | (2,816 |) — |
| Accrued contingent consideration | (6,025 |) — | — | (6,025 |

| (in thousands) | Fair value as of | Fair value measurements using | | |
|---|------------------|-------------------------------|-------------------|--------------|
| | | Quoted prices in | Significant other | Significant |
| | December 31, | active markets | observable | unobservable |
| | 2014 | for identical | inputs | inputs |
| | | assets | (Level 2) | (Level 3) |
| | | (Level 1) | | |
| Available-for-sale marketable securities (funds held for customers) | \$17,730 | \$— | \$17,730 | \$— |
| Available-for-sale marketable securities (other current assets) | 1,895 | — | 1,895 | — |
| Long-term investment in mutual funds | 2,384 | 2,384 | — | — |
| Derivative liabilities | (8,067 |) — | (8,067 |) — |

Our policy is to recognize transfers between fair value levels as of the end of the reporting period in which the transfer occurred. There were no transfers between fair value levels during the nine months ended September 30, 2015.

Accrued contingent consideration related primarily to the acquisitions of Verify Valid and a small business distributor, as discussed above under the caption 2015 acquisitions. Changes in accrued contingent consideration during the nine months ended September 30, 2015 were as follows:

| (in thousands) | Nine Months Ended |
|-----------------------------|--------------------|
| | September 30, 2015 |
| Balance, December 31, 2014 | \$150 |
| Acquisition date fair value | 5,575 |
| Accretion | 542 |
| Payments | (242 |
| Balance, September 30, 2015 | \$6,025 |

Fair value measurements of other financial instruments – The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value.

17

Cash, short-term borrowings, and cash included within funds held for customers – The carrying amounts reported in the consolidated balance sheets approximate fair value because of the short-term nature of these items.

Loans and notes receivable from distributors – We have receivables for loans made to certain of our Safeguard distributors. In addition, we have acquired the operations of several small business distributors which we then sold to our Safeguard distributors. In most cases, we entered into notes receivable upon the sale of the assets to the distributors. The fair value of these loans and notes receivable is calculated as the present value of expected future cash flows, discounted using an estimated interest rate based on published bond yields for companies of similar risk.

Long-term debt – The fair value of long-term debt is based on significant observable market inputs other than quoted prices in active markets. The fair value of long-term debt included in the table below does not reflect the impact of hedging activity. The carrying amount of long-term debt includes the change in fair value of hedged long-term debt.

The estimated fair values of these financial instruments were as follows:

| | September 30, 2015 | | Fair value measurements using | | |
|--|--------------------|------------|--|---|---|
| | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| (in thousands) | Carrying value | Fair value | | | |
| Cash | \$62,895 | \$62,895 | \$62,895 | \$— | \$— |
| Cash (funds held for customers) | 33,950 | 33,950 | 33,950 | — | — |
| Loans and notes receivable from distributors | 25,981 | 23,510 | — | — | 23,510 |
| Short-term borrowings | 319,000 | 319,000 | 319,000 | — | — |
| Long-term debt ⁽¹⁾ | 197,184 | 210,200 | — | 210,200 | — |

⁽¹⁾ Amounts exclude capital lease obligations.

| | December 31, 2014 | | Fair value measurements using | | |
|--|-------------------|------------|--|---|---|
| | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| (in thousands) | Carrying value | Fair value | | | |
| Cash | \$61,541 | \$61,541 | \$61,541 | \$— | \$— |
| Cash (funds held for customers) | 25,874 | 25,874 | 25,874 | — | — |
| Loans and notes receivable from distributors | 16,915 | 15,765 | — | — | 15,765 |
| Short-term borrowings | 160,000 | 160,000 | 160,000 | — | — |
| Long-term debt ⁽¹⁾ | 391,933 | 419,000 | — | 419,000 | — |

⁽¹⁾ Amounts exclude capital lease obligations.

Note 9: Restructuring charges

Net restructuring charges for each period consisted of the following components:

| (in thousands, except number of employees) | Quarter Ended | | Nine Months Ended | |
|--|---------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Severance accruals | \$1,443 | \$4,546 | \$3,493 | \$7,213 |
| Severance reversals | (282 |) (271 |) (976 |) (866 |
| Operating lease obligations | 88 | — | 88 | — |
| Net restructuring accruals | 1,249 | 4,275 | 2,605 | 6,347 |
| Other costs | 489 | 80 | 551 | 2,464 |
| Net restructuring charges | \$1,738 | \$4,355 | \$3,156 | \$8,811 |
| Number of employees included in severance accruals | 50 | 145 | 200 | 210 |

The net restructuring charges are reflected in the consolidated statements of comprehensive income as follows:

| (in thousands) | Quarter Ended | | Nine Months Ended | |
|---------------------------|---------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Total cost of revenue | \$233 | \$162 | \$418 | \$304 |
| Operating expenses | 1,505 | 4,193 | 2,738 | 8,507 |
| Net restructuring charges | \$1,738 | \$4,355 | \$3,156 | \$8,811 |

During the quarters and nine months ended September 30, 2015 and September 30, 2014, the net restructuring accruals included severance charges related to employee reductions across functional areas as we continue to reduce costs, primarily within our sales and marketing, information technology and fulfillment functions. These charges were reduced by the reversal of restructuring accruals recorded in previous periods, as fewer employees received severance benefits than originally estimated. Other restructuring costs, which were expensed as incurred, included items such as information technology costs, employee and equipment moves, training and travel related to our restructuring activities.

Restructuring accruals of \$2,429 as of September 30, 2015 and \$4,276 as of December 31, 2014 are reflected in the consolidated balance sheet in accrued liabilities. The majority of the employee reductions are expected to be completed in the fourth quarter of 2015, and we expect most of the related severance payments to be paid by mid-2016, utilizing cash from operations. As of September 30, 2015, approximately 65 employees had not yet started to receive severance benefits.

Accruals for our restructuring initiatives, summarized by year, were as follows:

| (in thousands) | 2012 | 2013 | 2014 | 2015 | Total |
|-----------------------------|-------------|-------------|-------------|-------------|-----------|
| | initiatives | initiatives | initiatives | initiatives | |
| Balance, December 31, 2014 | \$32 | \$128 | \$4,116 | \$— | \$4,276 |
| Restructuring charges | — | — | 87 | 3,494 | 3,581 |
| Restructuring reversals | — | (10 |) (691 |) (275 |) (976 |
| Payments | (32 |) (80 |) (3,243 |) (1,097 |) (4,452 |
| Balance, September 30, 2015 | \$— | \$38 | \$269 | \$2,122 | \$2,429 |
| Cumulative amounts: | | | | | |
| Restructuring charges | \$8,012 | \$7,629 | \$8,227 | \$3,494 | \$27,362 |
| Restructuring reversals | (1,363 |) (1,006 |) (1,333 |) (275 |) (3,977 |
| Payments | (6,649 |) (6,585 |) (6,625 |) (1,097 |) (20,956 |
| Balance, September 30, 2015 | \$— | \$38 | \$269 | \$2,122 | \$2,429 |

The components of our restructuring accruals, by segment, were as follows:

| (in thousands) | Employee severance benefits | | | | Operating lease obligations | | Total |
|-------------------------------------|-----------------------------|--------------------|---------------|-----------|-----------------------------|---------------|-----------|
| | Small Business Services | Financial Services | Direct Checks | Corporate | Small Business Services | Direct Checks | |
| Balance, December 31, 2014 | \$1,412 | \$1,848 | \$— | \$984 | \$32 | \$— | \$4,276 |
| Restructuring charges | 1,491 | 1,289 | — | 713 | 88 | — | 3,581 |
| Restructuring reversals | (602) | (161) | — | (213) | — | — | (976) |
| Inter-segment transfer | 28 | (14) | — | (14) | — | — | — |
| Payments | (1,543) | (2,047) | — | (830) | (32) | — | (4,452) |
| Balance, September 30, 2015 | \$786 | \$915 | \$— | \$640 | \$88 | \$— | \$2,429 |
| Cumulative amounts ⁽¹⁾ : | | | | | | | |
| Restructuring charges | \$9,934 | \$8,074 | \$585 | \$8,069 | \$530 | \$170 | \$27,362 |
| Restructuring reversals | (1,901) | (736) | (59) | (1,124) | (157) | — | (3,977) |
| Inter-segment transfer | 28 | (14) | (25) | 11 | — | — | — |
| Payments | (7,275) | (6,409) | (501) | (6,316) | (285) | (170) | (20,956) |
| Balance, September 30, 2015 | \$786 | \$915 | \$— | \$640 | \$88 | \$— | \$2,429 |

⁽¹⁾ Includes accruals related to our cost reduction initiatives for 2012 through 2015.

Note 10: Postretirement benefits

We have historically provided certain health care benefits for a large number of retired U.S. employees. In addition to our retiree health care plan, we also have a supplemental executive retirement plan in the United States. Further information regarding our postretirement benefit plans can be found under the caption “Note 12: Postretirement benefits” in the Notes to Consolidated Financial Statements appearing in the 2014 Form 10-K.

Postretirement benefit income for each period consisted of the following components:

| (in thousands) | Quarter Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Interest cost | \$859 | \$1,138 | \$2,578 | \$3,415 |
| Expected return on plan assets | (1,958) | (2,183) | (5,875) | (6,550) |
| Amortization of prior service credit | (355) | (355) | (1,066) | (1,066) |
| Amortization of net actuarial losses | 780 | 854 | 2,340 | 2,563 |
| Net periodic benefit income | \$(674) | \$(546) | \$(2,023) | \$(1,638) |

Note 11: Debt

Debt outstanding was comprised of the following:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| 7.0% senior notes due March 15, 2019 | \$— | \$200,000 |
| 6.0% senior notes due November 15, 2020 ⁽¹⁾ | 197,184 | 191,933 |
| Long-term portion of capital lease obligations | 1,278 | 1,468 |
| Long-term portion of debt | 198,462 | 393,401 |
| Amount drawn on credit facility | 269,000 | 160,000 |
| Short-term bank loan | 50,000 | — |
| Capital lease obligations due within one year | 1,049 | 911 |
| Total debt | \$518,511 | \$554,312 |

⁽¹⁾ Includes decrease due to cumulative change in fair value of hedged debt of \$2,816 as of September 30, 2015 and \$8,067 as of December 31, 2014.

Our senior notes due in 2020 include covenants that place certain restrictions on the issuance of additional debt and limitations on certain liens. If our ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense, as defined in such instruments, falls below two to one, there would be additional limitations on our ability to issue additional debt. The notes due in 2020 also include limitations on our ability to issue redeemable stock and preferred stock, make loans and investments, and consolidate, merge or sell all or substantially all of our assets. Absent certain defined events of default under our debt instruments, and as long as our ratio of EBITDA to interest expense is in excess of two to one, our debt covenants do not restrict our ability to pay cash dividends at our current rate. There are currently no limitations on the amount of dividends and share repurchases under the terms of our credit facility agreement or our short-term bank loan. However, if our leverage ratio, defined as total debt less unrestricted cash to EBITDA, should exceed 2.75 to one, there would be an annual limitation on the amount of dividends and share repurchases under the terms of these agreements.

Long-term debt – In November 2012, we issued \$200,000 of 6.0% senior notes maturing on November 15, 2020. The notes were issued via a private placement under Rule 144A of the Securities Act of 1933. These notes were subsequently registered with the Securities and Exchange Commission (SEC) via a registration statement which became effective on April 3, 2013. Interest payments are due each May and November. The notes are guaranteed by certain of our subsidiaries and place a limitation on restricted payments, including share repurchases and increases in dividend levels. The limitation on restricted payments does not apply if the notes are upgraded to an investment-grade credit rating. Financial information for the guarantor subsidiaries can be found in Note 15. At any time prior to November 15, 2015, we may on one or more occasions redeem up to 35% of the original principal amount of the notes with the proceeds of one or more equity offerings at a redemption price of 106% of the principal amount of the notes, together with accrued and unpaid interest. At any time prior to November 15, 2016, we may also redeem some or all of the notes at a price equal to 100% of the principal amount plus accrued and unpaid interest and a make-whole premium. At any time on or after November 15, 2016, we may redeem some or all of the notes at prices ranging from 100% to 103% of the principal amount. If at any time we sell certain of our assets or experience specific types of changes in control, we must offer to purchase all of the outstanding notes at 101% of the principal amount. We classify payments for early redemption premiums as financing activities in our consolidated statements of cash flows. Proceeds from the offering, net of offering costs, were \$196,340. These proceeds were used to retire our senior notes which were due in June 2015. The fair value of the notes issued in November 2012 was \$210,200 as of September 30, 2015, based on quoted prices that are directly observable. As discussed in Note 7, we have entered into interest rate swaps to hedge these notes.

In March 2011, we issued \$200,000 of 7.0% senior notes maturing on March 15, 2019. The notes were issued via a private placement under Rule 144A of the Securities Act of 1933. These notes were subsequently registered with the SEC via a registration statement which became effective on January 10, 2012. Proceeds from the offering, net of offering costs, were \$196,195. These proceeds were used to retire a portion of our senior, unsecured notes due in 2012. In March 2015, we retired all of these notes, realizing a loss on early debt extinguishment of \$8,917 during the nine months ended September 30, 2015. This retirement was funded utilizing our credit facility and a short-term bank loan.

We had capital lease obligations of \$2,327 as of September 30, 2015 and \$2,379 as of December 31, 2014 related to information technology hardware. The lease obligations will be paid through June 2019. The related assets are included in property, plant and equipment in the consolidated balance sheets. Depreciation of the leased assets is included in depreciation expense in the consolidated statements of cash flows.

Short-term borrowings – In March 2015, we entered into a \$75,000 short-term variable rate bank loan. Under the terms of the credit agreement, we were required to repay any principal amount outstanding greater than \$50,000 on September 5, 2015, and any remaining principal amount must be repaid by March 3, 2016. We may prepay the loan in whole or in part at our discretion. Interest payments are due at the end of each quarter. Proceeds from this loan, net of offering costs, were \$74,880 and were used, along with a draw on our credit facility, to retire all \$200,000 of our 7.0% senior notes which were scheduled to mature on March 15, 2019. As of September 30, 2015, \$50,000 was outstanding under this bank loan at an interest rate of 1.78%.

As of September 30, 2015, we had a \$350,000 credit facility, which is scheduled to expire in February 2019. Our quarterly commitment fee ranges from 0.20% to 0.40% based on our leverage ratio. Borrowings under the credit facility are collateralized by substantially all of our personal and intangible property. As of September 30, 2015, \$269,000 was drawn on our credit facility at a weighted-average interest rate of 1.66%. As of December 31, 2014, \$160,000 was drawn on our credit facility at a weighted-average interest rate of 1.63%.

The credit agreements governing our credit facility and our short-term bank loan contain customary covenants regarding limits on levels of subsidiary indebtedness and capital expenditures, liens, investments, acquisitions, certain mergers, certain asset sales outside the ordinary course of business, and change in control as defined in the agreement. The agreements also contain financial covenants regarding our leverage ratio and interest coverage, and our credit facility agreement also contains a financial covenant regarding liquidity.

Daily average amounts outstanding under our short-term borrowing arrangements were as follows:

| (in thousands) | Nine Months Ended September 30, | Year Ended December 31, 2014 | |
|----------------------------------|---------------------------------------|---------------------------------|--------|
| Short-term bank loan: | | | |
| Daily average amount outstanding | \$52,381 | \$— | |
| Weighted-average interest rate | 1.52 | % | — |
| Credit facility: | | | |
| Daily average amount outstanding | \$225,073 | \$43,675 | |
| Weighted-average interest rate | 1.65 | % | 1.63 % |

As of September 30, 2015, amounts were available for borrowing under our credit facility as follows:

| (in thousands) | Total available |
|--|--------------------|
| Credit facility commitment | \$350,000 |
| Amount drawn on credit facility | (269,000) |
| Outstanding letters of credit ⁽¹⁾ | (12,726) |
| Net available for borrowing as of September 30, 2015 | \$68,274 |

⁽¹⁾ We use standby letters of credit primarily to collateralize certain obligations related to our self-insured workers' compensation claims, as well as claims for environmental matters, as required by certain states. These letters of credit reduce the amount available for borrowing under our credit facility.

Note 12: Other commitments and contingencies

Indemnifications – In the normal course of business, we periodically enter into agreements that incorporate general indemnification language. These indemnifications encompass third-party claims arising from our products and services, including service failures, breach of security, intellectual property rights, governmental regulations and/or

employment-related matters. Performance under these indemnities would generally be triggered by our breach of the terms of the contract. In disposing of assets or businesses, we often provide representations, warranties and/or indemnities to cover various risks including, for example, unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that any possible

liability under these indemnities would have a material adverse effect on our financial position, annual results of operations or annual cash flows. We have recorded liabilities for known indemnifications related to environmental matters.

Environmental matters – We are currently involved in environmental compliance, investigation and remediation activities at some of our current and former sites, primarily printing facilities of our Financial Services and Small Business Services segments which have been sold. Remediation costs are accrued on an undiscounted basis when the obligations are either known or considered probable and can be reasonably estimated. Remediation or testing costs that result directly from the sale of an asset and which we would not have otherwise incurred are considered direct costs of the sale of the asset. As such, they are included in our measurement of the carrying value of the asset sold.

Accruals for environmental matters were \$7,185 as of September 30, 2015 and \$7,942 as of December 31, 2014, primarily related to facilities which have been sold. These accruals are included in accrued liabilities and other non-current liabilities in the consolidated balance sheets. Accrued costs consist of direct costs of the remediation activities, primarily fees which will be paid to outside engineering and consulting firms. Although recorded accruals include our best estimates, our total costs cannot be predicted with certainty due to various factors such as the extent of corrective action that may be required, evolving environmental laws and regulations and advances in environmental technology. Where the available information is sufficient to estimate the amount of the liability, that estimate is used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range is recorded. We do not believe that the range of possible outcomes could have a material effect on our financial condition, results of operations or liquidity. Expense reflected in the consolidated statements of comprehensive income for environmental matters was \$915 for the nine months ended September 30, 2015 and \$1,020 for the nine months ended September 30, 2014.

As of September 30, 2015, \$1,376 of the costs included in our environmental accruals were covered by an environmental insurance policy which we purchased during 2002. The insurance policy covers up to \$12,911 of remediation costs, of which \$11,535 had been paid through September 30, 2015. This insurance policy does not cover properties acquired subsequent to 2002. However, costs included in our environmental accruals for such properties were not material as of September 30, 2015. We do not anticipate significant net cash outlays for environmental matters in 2015. The insurance policy also covers up to \$10,000 of third-party claims through 2032 at certain owned, leased and divested sites. We consider the realization of recovery under the insurance policy to be probable based on the insurance contract in place with a reputable and financially-sound insurance company. As our environmental accruals include our best estimates of these costs, we have recorded receivables from the insurance company within other current assets and other non-current assets based on the amounts of our environmental accruals for insured sites.

We also have an additional environmental site liability insurance policy providing coverage on facilities which we acquired subsequent to 2002. This policy covers liability for claims of bodily injury or property damage arising from pollution events at the covered facilities. The policy also provides remediation coverage should we be required by a governing authority to perform remediation activities at the covered sites. The policy provides coverage of up to \$15,000 through April 2019. No accruals have been recorded in our consolidated financial statements for any of the events contemplated in this insurance policy.

Self-insurance – We are self-insured for certain costs, primarily workers' compensation claims and medical and dental benefits. The liabilities associated with these items represent our best estimate of the ultimate obligations for reported claims plus those incurred, but not reported. The related accruals are included in accrued liabilities and other non-current liabilities in the consolidated balance sheets.

The liability for workers' compensation, which totaled \$3,981 as of September 30, 2015 and \$4,040 as of December 31, 2014, is accounted for on a discounted basis. The difference between the discounted and undiscounted workers' compensation liability was not significant as of September 30, 2015 or December 31, 2014. We record

liabilities for medical and dental benefits for active employees and those employees on long-term disability. Our liability for active employees is not recorded on a discounted basis as we expect the benefits to be paid in a relatively short period of time. Our liability for those employees on long-term disability is accounted for on a discounted basis. Our total liability for these medical and dental benefits totaled \$2,390 as of September 30, 2015 and \$2,361 as of December 31, 2014. The difference between the discounted and undiscounted medical and dental liability was not significant as of September 30, 2015 or December 31, 2014.

Our self-insurance liabilities are estimated, in part, by considering historical claims experience, demographic factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future events and claims differ from these assumptions and historical trends.

Note 13: Shareholders' equity

We have an outstanding authorization from our board of directors to purchase up to 10,000 shares of our common stock. This authorization has no expiration date, and 1,190 shares remained available for purchase under this authorization as of September 30, 2015. During the quarter and nine months ended September 30, 2015, we repurchased 772 shares for \$46,996.

Note 14: Business segment information

We operate three reportable business segments: Small Business Services, Financial Services and Direct Checks. Our business segments are generally organized by type of customer served and reflect the way we manage the company. Small Business Services promotes and sells products and services to small businesses via direct response mail and internet advertising, referrals from financial institutions and telecommunications clients, Safeguard distributors, a network of local dealers, a direct sales force which focuses on major accounts, and an outbound telemarketing group. Financial Services' products and services are sold primarily through a direct sales force, which executes product and service supply contracts with our financial institution clients nationwide, including banks, credit unions and financial services companies. In the case of check supply contracts, once the financial institution relationship is established, consumers may submit their check orders through their financial institution or over the phone or internet. Direct Checks sells products and services directly to consumers using direct marketing, including print advertising and search engine marketing and optimization strategies. All three segments operate primarily in the United States. Small Business Services also has operations in Canada and portions of Europe.

In January 2015, we decided that two company-owned small business distributors would no longer be managed as part of our Small Business Services segment. Because their customers consist primarily of financial institutions, we determined that the businesses would be better positioned for long-term growth if they were managed as part of our Financial Services segment. As such, the results of operations of these businesses were included in the Financial Services segment beginning in 2015. Our business segment results for prior periods have been restated to reflect this change.

Our product and service offerings are comprised of the following:

Checks – We remain one of the largest providers of checks in the United States, both in terms of revenue and the number of checks produced. Checks account for the majority of the revenue in our Financial Services and Direct Checks segments and represented 40.7% of our Small Business Services segment's revenue in 2014.

Marketing solutions and other services – All three of our segments offer products and services that help small businesses and/or financial institutions promote their businesses and acquire customers, as well as provide various other service offerings. Our Small Business Services segment offers services designed to fulfill the sales and marketing needs of small businesses, including web design, hosting and other web services; search engine optimization; marketing services, including email, mobile, social media and other self-service marketing solutions; digital printing services; and logo design. In addition, Small Business Services offers products such as promotional products, postcards, brochures, retail packaging supplies, apparel, greeting cards and business cards, as well as service offerings, including fraud protection and security, and payroll services. Financial Services offers a suite of financial technology solutions that integrates receivables, accelerates deposits and payments, and eliminates paper; rewards and loyalty programs; fraud protection and security services; various customer acquisition programs; marketing communications services; financial institution profitability and risk management services; supply chain management expertise; and data and analytics marketing solutions. Our Direct Checks segment provides fraud protection and security services, as well as package insert programs under which companies' marketing materials are included in our check packages.

Forms – Our Small Business Services segment provides printed forms to small businesses, including deposit tickets, billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. This segment also offers computer forms compatible with accounting software packages commonly used by small businesses. Forms sold by our Financial Services and Direct Checks segments include deposit tickets and check registers.

Accessories and other products – Small Business Services provides products designed to supply small business owners with the customized documents necessary to efficiently manage their business including envelopes, office supplies, stamps and labels. Our Financial Services and Direct Checks segments offer checkbook covers and stamps.

The accounting policies of the segments are the same as those described in the Notes to Consolidated Financial Statements included in the 2014 Form 10-K. We allocate corporate costs for our shared services functions to our business segments, including costs of our executive management, human resources, supply chain, finance, information technology and

legal functions. Generally, where costs incurred are directly attributable to a business segment, primarily within the areas of information technology, supply chain and finance, those costs are charged directly to that segment. Because we use a shared services approach for many of our functions, certain costs are not directly attributable to a business segment. These costs are allocated to our business segments based on segment revenue, as revenue is a measure of the relative size and magnitude of each segment and indicates the level of corporate shared services consumed by each segment. Corporate assets are not allocated to the segments and consist of property, plant and equipment, internal-use software, inventories and supplies related to our corporate shared services functions of manufacturing, information technology and real estate, as well as long-term investments.

We are an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations and the sharing of assets. Therefore, we do not represent that these segments, if operated independently, would report the operating income and other financial information shown.

The following is our segment information as of and for the quarters ended September 30, 2015 and 2014:

| | | Reportable Business Segments | | | | |
|--|------|------------------------------|--------------------|---------------|-----------|--------------|
| | | Small Business Services | Financial Services | Direct Checks | Corporate | Consolidated |
| (in thousands) | | | | | | |
| Total revenue from external customers: | 2015 | \$288,966 | \$110,894 | \$39,956 | \$— | \$439,816 |
| | 2014 | 278,268 | 92,072 | 42,864 | — | 413,204 |
| Operating income: | 2015 | 51,873 | 23,364 | 14,131 | — | 89,368 |
| | 2014 | 42,948 | 19,133 | 14,651 | — | 76,732 |
| Depreciation and amortization expense: | 2015 | 11,825 | 5,979 | 949 | — | 18,753 |
| | 2014 | 11,125 | 3,126 | 1,676 | — | 15,927 |
| Asset impairment charge: | 2015 | — | — | — | — | — |
| | 2014 | 6,468 | — | — | — | 6,468 |
| Total assets: | 2015 | 990,282 | 270,421 | 161,636 | 270,082 | 1,692,421 |
| | 2014 | 941,927 | 157,921 | 164,083 | 407,533 | 1,671,464 |
| Capital asset purchases: | 2015 | — | — | — | 10,242 | 10,242 |
| | 2014 | — | — | — | 9,798 | 9,798 |

The following is our segment information as of and for the nine months ended September 30, 2015 and 2014:

| | | Reportable Business Segments | | | | |
|--|------|------------------------------|--------------------|---------------|-----------|--------------|
| | | Small Business Services | Financial Services | Direct Checks | Corporate | Consolidated |
| (in thousands) | | | | | | |
| Total revenue from external customers: | 2015 | \$848,216 | \$335,134 | \$125,958 | \$— | \$1,309,308 |
| | 2014 | 812,475 | 279,082 | 134,012 | — | 1,225,569 |
| Operating income: | 2015 | 149,545 | 69,280 | 44,713 | — | 263,538 |
| | 2014 | 135,133 | 63,233 | 44,121 | — | 242,487 |
| Depreciation and amortization expense: | 2015 | 33,265 | 17,760 | 3,406 | — | 54,431 |
| | 2014 | 33,924 | 9,519 | 5,102 | — | 48,545 |
| Asset impairment charge: | 2015 | — | — | — | — | — |
| | 2014 | 6,468 | — | — | — | 6,468 |
| Total assets: | 2015 | 990,282 | 270,421 | 161,636 | 270,082 | 1,692,421 |
| | 2014 | 941,927 | 157,921 | 164,083 | 407,533 | 1,671,464 |
| Capital asset purchases: | 2015 | — | — | — | 29,549 | 29,549 |
| | 2014 | — | — | — | 29,649 | 29,649 |

Note 15: Supplemental guarantor financial information

Our long-term notes due in 2020 (Note 11), as well as obligations under our credit facility, are jointly and severally guaranteed on a full and unconditional basis, subject to the release provisions described herein, by certain 100%-owned subsidiaries. The subsidiary guarantees with respect to our long-term notes are subject to release upon the occurrence of certain events: the sale of all or substantially all of a subsidiary's assets, when the requirements for defeasance of the guaranteed securities have been satisfied, when the subsidiary is declared an unrestricted subsidiary, or upon satisfaction and discharge of the indenture.

The following condensed supplemental consolidating financial information reflects the summarized financial information of Deluxe Corporation, the guarantors on a combined basis and the non-guarantor subsidiaries on a combined basis. Separate financial statements of the guarantors are not presented because the guarantors are jointly, severally, fully and unconditionally liable under the guarantees, subject to the release provisions described herein, and we believe that the condensed consolidating financial statements presented are sufficient to provide an understanding of the financial position, results of operations and cash flows of the guarantors.

We are an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations and the sharing of assets. Therefore, we do not represent that the financial information presented is indicative of the financial position, results of operations or cash flows which the entities would have reported if they had operated independently. The condensed consolidating financial statements should be read in conjunction with our consolidated financial statements.

Deluxe Corporation
Condensed Consolidating Balance Sheet
(Unaudited)

| (in thousands) | September 30, 2015 | | | Eliminations | Total |
|---|--------------------|------------------------|----------------------------|---------------|-------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$7,832 | \$1,341 | \$53,922 | \$(200) | \$62,895 |
| Trade accounts receivable, net | — | 91,018 | 9,362 | — | 100,380 |
| Inventories and supplies | — | 39,772 | 2,423 | — | 42,195 |
| Deferred income taxes | 9,191 | 641 | 93 | — | 9,925 |
| Funds held for customers | — | — | 49,545 | — | 49,545 |
| Other current assets | 6,692 | 37,244 | 2,863 | — | 46,799 |
| Total current assets | 23,715 | 170,016 | 118,208 | (200) | 311,739 |
| Deferred income taxes | 2,578 | — | 1,246 | (2,578) | 1,246 |
| Long-term investments | 36,411 | 7,363 | — | — | 43,774 |
| Property, plant and equipment, net | 4,370 | 73,359 | 5,039 | — | 82,768 |
| Assets held for sale | — | — | 13,970 | — | 13,970 |
| Intangibles, net | 1,969 | 222,663 | 3,206 | — | 227,838 |
| Goodwill | — | 882,320 | 1,499 | — | 883,819 |
| Investments in consolidated subsidiaries | 1,191,248 | 81,014 | — | (1,272,262) | — |
| Intercompany receivable | 27,136 | — | — | (27,136) | — |
| Other non-current assets | 7,944 | 119,160 | 163 | — | 127,267 |
| Total assets | \$1,295,371 | \$1,555,895 | \$143,331 | \$(1,302,176) | \$1,692,421 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$13,552 | \$60,967 | \$2,890 | \$(200) | \$77,209 |
| Accrued liabilities | 25,630 | 134,673 | 52,646 | — | 212,949 |
| Short-term borrowings | 319,000 | — | — | — | 319,000 |
| Long-term debt due within one year | 1,031 | — | 18 | — | 1,049 |
| Total current liabilities | 359,213 | 195,640 | 55,554 | (200) | 610,207 |
| Long-term debt | 198,430 | — | 32 | — | 198,462 |
| Deferred income taxes | — | 97,212 | — | (2,578) | 94,634 |
| Intercompany payable | — | 26,111 | 1,025 | (27,136) | — |
| Other non-current liabilities | 17,655 | 45,684 | 5,706 | — | 69,045 |
| Total shareholders' equity | 720,073 | 1,191,248 | 81,014 | (1,272,262) | 720,073 |
| Total liabilities and shareholders' equity | \$1,295,371 | \$1,555,895 | \$143,331 | \$(1,302,176) | \$1,692,421 |

Deluxe Corporation
Condensed Consolidating Balance Sheet
(Unaudited)

| (in thousands) | December 31, 2014 | | | | Total |
|---|--------------------|------------------------|----------------------------|---------------|-------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$8,335 | \$4,342 | \$52,193 | \$(3,329) | \$61,541 |
| Trade accounts receivable, net | — | 100,197 | 13,459 | — | 113,656 |
| Inventories and supplies | — | 34,097 | 5,314 | — | 39,411 |
| Deferred income taxes | 8,929 | 1,182 | 48 | — | 10,159 |
| Funds held for customers | — | — | 43,604 | — | 43,604 |
| Other current assets | 8,538 | 38,912 | 3,069 | — | 50,519 |
| Total current assets | 25,802 | 178,730 | 117,687 | (3,329) | 318,890 |
| Deferred income taxes | 660 | — | 1,411 | (660) | 1,411 |
| Long-term investments | 38,623 | 7,828 | — | — | 46,451 |
| Property, plant and equipment, net | 4,868 | 76,306 | 6,449 | — | 87,623 |
| Assets held for sale | — | 3,102 | 23,717 | — | 26,819 |
| Intangibles, net | 987 | 203,967 | 2,226 | — | 207,180 |
| Goodwill | — | 866,659 | 1,717 | — | 868,376 |
| Investments in consolidated subsidiaries | 1,268,918 | 90,960 | — | (1,359,878) | — |
| Intercompany receivable | — | 82,758 | 536 | (83,294) | — |
| Other non-current assets | 9,675 | 121,549 | 417 | — | 131,641 |
| Total assets | \$1,349,533 | \$1,631,859 | \$154,160 | \$(1,447,161) | \$1,688,391 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$13,792 | \$73,380 | \$3,373 | \$(3,329) | \$87,216 |
| Accrued liabilities | 26,278 | 141,816 | 51,027 | — | 219,121 |
| Short-term borrowings | 160,000 | — | — | — | 160,000 |
| Long-term debt due within one year | 903 | — | 8 | — | 911 |
| Total current liabilities | 200,973 | 215,196 | 54,408 | (3,329) | 467,248 |
| Long-term debt | 393,387 | — | 14 | — | 393,401 |
| Deferred income taxes | — | 96,498 | — | (660) | 95,838 |
| Intercompany payable | 83,294 | — | — | (83,294) | — |
| Other non-current liabilities | 24,382 | 51,247 | 8,778 | — | 84,407 |
| Total shareholders' equity | 647,497 | 1,268,918 | 90,960 | (1,359,878) | 647,497 |
| Total liabilities and shareholders' equity | \$1,349,533 | \$1,631,859 | \$154,160 | \$(1,447,161) | \$1,688,391 |

Deluxe Corporation
Condensed Consolidating Statement of Comprehensive Income
(Unaudited)

| (in thousands) | Quarter Ended September 30, 2015 | | | | |
|---|----------------------------------|------------------------|----------------------------|--------------|-----------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Product revenue | \$— | \$345,820 | \$15,961 | \$— | \$361,781 |
| Service revenue | 28,005 | 72,419 | 6,709 | (29,098) | 78,035 |
| Total revenue | 28,005 | 418,239 | 22,670 | (29,098) | 439,816 |
| Cost of products | — | (124,910) | (7,684) | — | (132,594) |
| Cost of services | (29,218) | (24,016) | (2,272) | 28,798 | (26,708) |
| Total cost of revenue | (29,218) | (148,926) | (9,956) | 28,798 | (159,302) |
| Gross profit | (1,213) | 269,313 | 12,714 | (300) | 280,514 |
| Operating expenses | — | (182,823) | (8,623) | 300 | (191,146) |
| Operating (loss) income | (1,213) | 86,490 | 4,091 | — | 89,368 |
| Interest expense | (4,126) | (4,126) | — | 3,865 | (4,387) |
| Other income | 3,737 | 746 | 301 | (3,865) | 919 |
| (Loss) income before income taxes | (1,602) | 83,110 | 4,392 | — | 85,900 |
| Income tax benefit (provision) | 3,382 | (31,341) | (1,024) | — | (28,983) |
| Income before equity in earnings of consolidated subsidiaries | 1,780 | 51,769 | 3,368 | — | 56,917 |
| Equity in earnings of consolidated subsidiaries | 55,137 | 3,368 | — | (58,505) | — |
| Net income | \$56,917 | \$55,137 | \$3,368 | \$(58,505) | \$56,917 |
| Comprehensive income | \$52,680 | \$50,857 | \$(1,181) | \$(49,676) | \$52,680 |

Deluxe Corporation
Condensed Consolidating Statement of Comprehensive Income
(Unaudited)

| (in thousands) | Quarter Ended September 30, 2014 | | | | |
|--|----------------------------------|------------------------|----------------------------|--------------|-----------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Product revenue | \$— | \$326,483 | \$24,124 | \$— | \$350,607 |
| Service revenue | 21,597 | 56,883 | 6,929 | (22,812) | 62,597 |
| Total revenue | 21,597 | 383,366 | 31,053 | (22,812) | 413,204 |
| Cost of products | — | (113,576) | (12,341) | — | (125,917) |
| Cost of services | (22,115) | (22,878) | (1,762) | 22,522 | (24,233) |
| Total cost of revenue | (22,115) | (136,454) | (14,103) | 22,522 | (150,150) |
| Gross profit | (518) | 246,912 | 16,950 | (290) | 263,054 |
| Operating expenses | — | (168,313) | (11,831) | 290 | (179,854) |
| Asset impairment charge | — | (6,468) | — | — | (6,468) |
| Operating (loss) income | (518) | 72,131 | 5,119 | — | 76,732 |
| Interest expense | (9,560) | (4,161) | — | 4,141 | (9,580) |
| Other income | 3,826 | 399 | 237 | (4,141) | 321 |
| (Loss) income before income taxes | (6,252) | 68,369 | 5,356 | — | 67,473 |
| Income tax benefit (provision) | 3,930 | (25,524) | (1,448) | — | (23,042) |
| (Loss) income before equity in earnings of consolidated subsidiaries | (2,322) | 42,845 | 3,908 | — | 44,431 |
| Equity in earnings of consolidated subsidiaries | 46,753 | 3,908 | — | (50,661) | — |
| Net income | \$44,431 | \$46,753 | \$3,908 | \$(50,661) | \$44,431 |
| Comprehensive income | \$41,585 | \$43,609 | \$442 | \$(44,051) | \$41,585 |

Deluxe Corporation
Condensed Consolidating Statement of Comprehensive Income
(Unaudited)

| (in thousands) | Nine Months Ended September 30, 2015 | | | | |
|--|--------------------------------------|------------------------|----------------------------|--------------|--------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Product revenue | \$— | \$1,018,518 | \$57,174 | \$— | \$1,075,692 |
| Service revenue | 83,116 | 217,412 | 19,638 | (86,550) |) 233,616 |
| Total revenue | 83,116 | 1,235,930 | 76,812 | (86,550) |) 1,309,308 |
| Cost of products | — | (355,690) |) (28,900) |) — | (384,590) |
| Cost of services | (89,348) |) (78,770) |) (6,192) |) 90,978 | (83,332) |
| Total cost of revenue | (89,348) |) (434,460) |) (35,092) |) 90,978 | (467,922) |
| Gross profit | (6,232) |) 801,470 | 41,720 | 4,428 | 841,386 |
| Operating expenses | — | (544,450) |) (28,970) |) (4,428) |) (577,848) |
| Operating (loss) income | (6,232) |) 257,020 | 12,750 | — | 263,538 |
| Loss on early debt extinguishment | (8,917) |) — | — | — | (8,917) |
| Interest expense | (14,727) |) (10,121) |) (1) |) 9,527 | (15,322) |
| Other income | 9,680 | 1,355 | 666 | (9,527) |) 2,174 |
| (Loss) income before income taxes | (20,196) |) 248,254 | 13,415 | — | 241,473 |
| Income tax benefit (provision) | 10,671 | (89,743) |) (3,481) |) — | (82,553) |
| (Loss) income before equity in earnings of consolidated subsidiaries | (9,525) |) 158,511 | 9,934 | — | 158,920 |
| Equity in earnings of consolidated subsidiaries | 168,445 | 9,934 | — | (178,379) |) — |
| Net income | \$ 158,920 | \$ 168,445 | \$ 9,934 | \$ (178,379) |) \$ 158,920 |
| Comprehensive income | \$ 150,190 | \$ 159,587 | \$ 269 | \$ (159,856) |) \$ 150,190 |

Deluxe Corporation
Condensed Consolidating Statement of Comprehensive Income
(Unaudited)

| (in thousands) | Nine Months Ended September 30, 2014 | | | | |
|--|--------------------------------------|------------------------|----------------------------|--------------|-------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Product revenue | \$— | \$970,175 | \$70,559 | \$— | \$1,040,734 |
| Service revenue | 64,727 | 168,630 | 22,008 | (70,530) | 184,835 |
| Total revenue | 64,727 | 1,138,805 | 92,567 | (70,530) | 1,225,569 |
| Cost of products | — | (328,277) | (35,575) | — | (363,852) |
| Cost of services | (65,910) | (72,083) | (6,908) | 67,784 | (77,117) |
| Total cost of revenue | (65,910) | (400,360) | (42,483) | 67,784 | (440,969) |
| Gross profit | (1,183) | 738,445 | 50,084 | (2,746) | 784,600 |
| Operating expenses | — | (502,294) | (36,097) | 2,746 | (535,645) |
| Asset impairment charge | — | (6,468) | — | — | (6,468) |
| Operating (loss) income | (1,183) | 229,683 | 13,987 | — | 242,487 |
| Interest expense | (28,536) | (10,632) | — | 10,491 | (28,677) |
| Other income | 9,525 | 1,331 | 455 | (10,491) | 820 |
| (Loss) income before income taxes | (20,194) | 220,382 | 14,442 | — | 214,630 |
| Income tax benefit (provision) | 9,883 | (78,691) | (3,992) | — | (72,800) |
| (Loss) income before equity in earnings of consolidated subsidiaries | (10,311) | 141,691 | 10,450 | — | 141,830 |
| Equity in earnings of consolidated subsidiaries | 152,141 | 10,450 | — | (162,591) | — |
| Net income | \$141,830 | \$152,141 | \$10,450 | \$(162,591) | \$141,830 |
| Comprehensive income | \$140,164 | \$149,581 | \$6,924 | \$(156,505) | \$140,164 |

Edgar Filing: DELUXE CORP - Form 10-Q

Deluxe Corporation
Condensed Consolidating Statement of Cash Flows
(Unaudited)

| (in thousands) | Nine Months Ended September 30, 2015 | | | | Total |
|---|--------------------------------------|------------------------|----------------------------|--------------|------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| Net cash (used) provided by operating activities | \$(2,056) | \$205,987 | \$10,852 | \$3,129 | \$217,912 |
| Cash flows from investing activities: | | | | | |
| Purchases of capital assets | (1,317) | (26,094) | (2,138) | — | (29,549) |
| Payments for acquisitions, net of cash acquired | (26) | (50,907) | — | — | (50,933) |
| Proceeds from company-owned life insurance policies | 3,973 | — | — | — | 3,973 |
| Other | (387) | 1,182 | 10 | — | 805 |
| Net cash provided (used) by investing activities | 2,243 | (75,819) | (2,128) | — | (75,704) |
| Cash flows from financing activities: | | | | | |
| Net proceeds from short-term borrowings | 159,000 | — | — | — | 159,000 |
| Payments on long-term debt, including costs of debt reacquisition | (207,779) | — | (12) | — | (207,791) |
| Payments for debt issue costs | (136) | — | — | — | (136) |
| Proceeds from issuing shares under employee plans | 5,492 | — | — | — | 5,492 |
| Excess tax benefit from share-based employee awards | 1,816 | — | — | — | 1,816 |
| Payments for common shares repurchased | (46,996) | — | — | — | (46,996) |
| Cash dividends paid to shareholders | (44,965) | — | — | — | (44,965) |
| Advances from (to) consolidated subsidiaries | 132,878 | (133,077) | 199 | — | — |
| Other | — | (92) | (150) | — | (242) |
| Net cash (used) provided by financing activities | (690) | (133,169) | 37 | — | (133,822) |
| Effect of exchange rate change on cash | — | — | (7,032) | — | (7,032) |
| Net change in cash and cash equivalents | (503) | (3,001) | 1,729 | 3,129 | 1,354 |
| Cash and cash equivalents, beginning of year | 8,335 | 4,342 | 52,193 | (3,329) | 61,541 |
| Cash and cash equivalents, end of period | \$7,832 | \$1,341 | \$53,922 | \$(200) | \$62,895 |

Deluxe Corporation
Condensed Consolidating Statement of Cash Flows
(Unaudited)

| (in thousands) | Nine Months Ended September 30, 2014 | | | | |
|---|--------------------------------------|------------------------|----------------------------|--------------|------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Net cash (used) provided by operating activities | \$ (227) | \$ 191,159 | \$ 9,563 | \$ 2,864 | \$ 203,359 |
| Cash flows from investing activities: | | | | | |
| Purchases of capital assets | (560) | (27,910) | (1,179) | — | (29,649) |
| Payments for acquisitions, net of cash acquired | — | (12,144) | — | — | (12,144) |
| Proceeds from company-owned life insurance policies | 897 | — | — | — | 897 |
| Other | (319) | 770 | 11 | — | 462 |
| Net cash provided (used) by investing activities | 18 | (39,284) | (1,168) | — | (40,434) |
| Cash flows from financing activities: | | | | | |
| Net payments on short-term borrowings | — | (125) | — | — | (125) |
| Payments on long-term debt, including costs of debt reacquisition | (645) | (170) | (5) | — | (820) |
| Payments for debt issue costs | (1,085) | — | — | — | (1,085) |
| Proceeds from issuing shares under employee plans | 8,814 | — | — | — | 8,814 |
| Excess tax benefit from share-based employee awards | 2,581 | — | — | — | 2,581 |
| Payments for common shares repurchased | (60,119) | — | — | — | (60,119) |
| Cash dividends paid to shareholders | (42,631) | — | — | — | (42,631) |
| Advances from (to) consolidated subsidiaries | 155,249 | (155,478) | 229 | — | — |
| Net cash provided (used) by financing activities | 62,164 | (155,773) | 224 | — | (93,385) |
| Effect of exchange rate change on cash | — | — | (2,628) | — | (2,628) |
| Net change in cash and cash equivalents | 61,955 | (3,898) | 5,991 | 2,864 | 66,912 |
| Cash and cash equivalents, beginning of year | 71,972 | 6,991 | 45,229 | (3,103) | 121,089 |
| Cash and cash equivalents, end of period | \$ 133,927 | \$ 3,093 | \$ 51,220 | \$ (239) | \$ 188,001 |

Note 16: Subsequent event

On October 16, 2015, we acquired 100% of Datamyx LLC for aggregate cash payments of approximately \$160,000, subject to customary post-closing adjustments. Datamyx is a provider of risk-based, data-driven marketing solutions which we believe will further enhance our Financial Services product set by providing valuable marketing tools and other analytical services our customers use to help them grow their businesses. In conjunction with this acquisition, we exercised our right to increase the size of our existing credit facility to \$525,000. As of the date of the acquisition, \$428,000 was drawn on our expanded credit facility. The allocation of the purchase price to the assets acquired and liabilities assumed has not yet been determined.

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

EXECUTIVE OVERVIEW

We employ a multi-channel strategy to provide a suite of life-cycle driven solutions to our customers. We use printed and electronic marketing, a direct sales force, financial institution and telecommunication client referrals, purchased search results from online search engines, and independent distributors and dealers to promote and sell a wide range of customized products and services. Our Small Business Services segment provides products and services to nearly 4.6 million small business customers and our Direct Checks segment provides products and services to more than six million consumers. Through our Financial Services segment, we provide products and services to approximately 5,600 financial institution clients. We operate primarily in the United States. Small Business Services also has operations in Canada and portions of Europe. Our product and service offerings are comprised of the following:

Checks – We remain one of the largest providers of checks in the United States, both in terms of revenue and the number of checks produced. Checks account for the majority of the revenue in our Financial Services and Direct Checks segments and represented 40.7% of our Small Business Services segment's revenue in 2014.

Marketing solutions and other services – All three of our segments offer products and services that help small businesses and/or financial institutions promote their businesses and acquire customers, as well as provide various other service offerings. Our Small Business Services segment offers services designed to fulfill the sales and marketing needs of small businesses, including web design, hosting and other web services; search engine optimization; marketing services, including email, mobile, social media and other self-service marketing solutions; digital printing services; and logo design. In addition, Small Business Services offers products such as promotional products, postcards, brochures, retail packaging supplies, apparel, greeting cards and business cards, as well as service offerings, including fraud protection and security, and payroll services. Financial Services offers a suite of financial technology solutions that integrates receivables, accelerates deposits and payments, and eliminates paper; rewards and loyalty programs; fraud protection and security services; various customer acquisition programs; marketing communications services; financial institution profitability and risk management services; supply chain management expertise; and data and analytics marketing solutions. Our Direct Checks segment provides fraud protection and security services, as well as package insert programs under which companies' marketing materials are included in our check packages.

Forms – Our Small Business Services segment is a leading provider of printed forms to small businesses, including deposit tickets, billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. This segment also offers computer forms compatible with accounting software packages commonly used by small businesses. Forms sold by our Financial Services and Direct Checks segments include deposit tickets and check registers.

Accessories and other products – Small Business Services offers products designed to provide small business owners with the customized documents necessary to efficiently manage their business including envelopes, office supplies,

stamps and labels. Our Financial Services and Direct Checks segments offer checkbook covers and stamps.

Throughout the past several years, we have focused on opportunities to increase revenue and operating income, while maintaining strong operating margins. These opportunities have included new product and service offerings, brand awareness and positioning initiatives, investing in technology for our service offerings, enhancing our internet capabilities, improving customer segmentation, adding new small business customers, and reducing costs. In addition, we invested in various acquisitions that extend the range of products and services we offer to our customers, including marketing solutions and other services offerings. During the remainder of 2015, we will continue our focus in these areas, with an emphasis on profitable revenue growth, increasing revenue from our marketing solutions and other services offerings for small businesses and

financial institutions, and assessing small to medium-sized acquisitions that complement our large customer bases, with a focus on marketing solutions and other services.

Earnings for the first nine months of 2015, as compared to the first nine months of 2014, benefited from price increases in all three segments and continuing initiatives to reduce our cost structure, primarily within our sales, marketing and fulfillment organizations. These increases in earnings were partially offset by volume reductions for both personal and business checks due primarily to the continuing decline in check usage, as well as increased investments in revenue growth opportunities.

Our Strategies

Details concerning our strategies were provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"). We made no significant changes to our strategies during the first nine months of 2015.

Consistent with our strategies, during the first nine months of 2015, we acquired the operations of eight small business distributors, as well as selected assets of Range, Inc., a marketing services provider; Verify Valid LLC, a provider of electronic check payment services; Tech Assets, Inc., a provider of shared hosting websites to small businesses; and FMC Resource Management Corporation, a marketing services provider. The acquisitions were completed for aggregate cash payments of \$46.8 million, net of cash acquired, plus non-cash consideration. The results of operations of all of these businesses, with the exception of two small business distributors, are included in our Small Business Services segment from their acquisition dates. The results of operations of two of the acquired distributors are included in our Financial Services segment from their acquisition dates, as their customers consist primarily of financial institutions. Further information regarding these acquisitions can be found under the caption "Note 6: Acquisitions" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

On October 16, 2015, we acquired Datamyx LLC for aggregate cash payments of approximately \$160 million, subject to customary post-closing adjustments. Datamyx is a provider of risk-based, data-driven marketing solutions which we believe will further enhance our Financial Services product set by providing valuable marketing tools and other analytical services our customers need to help them grow their businesses. In conjunction with this acquisition, we exercised our right to increase the size of our existing credit facility to \$525 million. As of the date of the acquisition, \$428 million was drawn on our expanded credit facility. During the remainder of the fourth quarter of 2015, Datamyx is expected to contribute approximately \$7 million in revenue and is expected to be approximately \$0.06 dilutive to earnings per share, including approximately \$0.02 per share for transaction costs.

Cost Reduction Initiatives

As discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2014 Form 10-K, we anticipated that we would realize net cost reductions of approximately \$50 million in 2015, as compared to our 2014 results of operations. We are currently on track to realize these cost reductions, primarily from our sales, marketing and fulfillment organizations. Approximately 60% of these savings are expected to impact selling, general and administrative (SG&A) expense, with the remaining 40% affecting total cost of revenue.

Outlook for 2015

We anticipate that consolidated revenue will be between \$1.765 billion and \$1.775 billion for 2015, compared to \$1.674 billion for 2014. In Small Business Services, we expect revenue to increase between 4% and 5% compared to 2014 revenue of \$1.11 billion. Volume declines in core business products, lower search engine marketing/optimization revenue resulting from our decision in 2014 to reduce the revenue base of this business line,

and unfavorable foreign currency exchange rates are expected to be more than offset by benefits from our e-commerce investments, price increases and growth in our distributor, dealer and major accounts channels and in our marketing solutions and other services offerings. In Financial Services, we expect revenue to increase between 15% and 16% compared to 2014 revenue of \$391.1 million. We expect continued growth in marketing solutions and other services, including incremental revenue from the Wausau Financial Systems, Inc. acquisition in October 2014, the Datamyx acquisition in October 2015, and growth in our Deluxe Rewards service offerings, as well as higher revenue per order and a full year of revenue from a new large financial institution client acquired in the fourth quarter of 2014. We expect these revenue increases to be partially offset by year-over-year secular check order declines of slightly over 6%, as well as the impact of contract renewal allowances. In Direct Checks, we expect revenue to decline approximately 6% compared to 2014 revenue of \$176.4 million, driven primarily by secular check order volume

declines resulting from reduced check usage, as well as the elimination of marketing expenditures that no longer meet our return criteria.

We expect that 2015 diluted earnings per share will be between \$4.31 and \$4.37, including total charges of \$0.20 per share for the loss on early debt extinguishment in the first quarter of 2015, restructuring costs and transaction costs related to acquisitions, compared to \$3.96 for 2014, which included total charges of \$0.24 per share related to restructuring costs, asset impairment charges and transaction costs related to acquisitions. We expect that the benefits of additional cost reduction activities and lower interest expense will be partially offset by a continued sluggish economy, increases in medical expenses, material costs and delivery rates, as well as continued investments in revenue growth opportunities, including brand awareness, marketing solutions and other services offers, and enhanced e-commerce capabilities. We estimate that our annual effective tax rate for 2015 will be approximately 34.0%, compared to 32.8% for 2014. A number of discrete credits to income tax expense in 2014 collectively reduced our 2014 tax rate by 0.9 points.

We anticipate that net cash provided by operating activities will be between \$300 million and \$305 million in 2015, compared to \$280 million in 2014, driven by stronger operating performance and lower interest payments, partially offset by higher income tax, transaction-related and performance-based compensation payments. We anticipate contract acquisition payments of approximately \$15 million in 2015, and we estimate that capital spending will be approximately \$40 million in 2015, as we continue to invest in key revenue growth initiatives and order fulfillment and information technology infrastructure.

We believe that cash generated by operating activities, along with availability under our credit facility, will be sufficient to support our operations for the next 12 months, including dividend payments, capital expenditures, required interest and debt principal payments, and periodic share repurchases to offset the dilutive impact of shares issued under our employee stock incentive plan, as well as possible small-to-medium-sized acquisitions. We expect to maintain a disciplined approach to capital deployment that focuses on our need to continue investing in initiatives to drive revenue growth, including small-to-medium-sized acquisitions and continued expansion of our distributor channel. In April 2014, our board of directors increased our quarterly dividend amount from \$0.25 per share to \$0.30 per share. Dividends are approved by the board of directors on a quarterly basis, and thus are subject to change. In October 2015, we exercised our right to increase the size of our existing credit facility to \$525 million in conjunction with the acquisition of Datamyx LLC on October 16, 2015. As of the date of the acquisition, \$428 million was drawn on our expanded credit facility. In March 2015, we redeemed all \$200.0 million of our 7.0% senior notes due in March 2019, utilizing our credit facility and a \$75.0 million short-term bank loan. We may also, from time to time, consider retiring additional outstanding debt through open market purchases, privately negotiated transactions or other means. Any such purchases or exchanges would depend upon prevailing market conditions, our liquidity requirements and other potential uses of cash, including acquisitions and share repurchases.

BUSINESS CHALLENGES/MARKET RISKS

Details concerning business challenges/market risks were provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2014 Form 10-K. There were no significant changes in these items during the first nine months of 2015.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Revenue

| Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------|------|--------|---------------------------------|------|--------|
| 2015 | 2014 | Change | 2015 | 2014 | Change |

(in thousands, except per order amounts)

| | | | | | | | | |
|-----------------------|-----------|-----------|------|----|-------------|-------------|-----|---|
| Total revenue | \$439,816 | \$413,204 | 6.4 | % | \$1,309,308 | \$1,225,569 | 6.8 | % |
| Orders ⁽¹⁾ | 13,198 | 13,445 | (1.8 | %) | 40,110 | 39,021 | 2.8 | % |
| Revenue per order | \$33.32 | \$30.73 | 8.4 | % | \$32.64 | \$31.41 | 3.9 | % |

⁽¹⁾ Orders is our company-wide measure of volume and includes both products and services.

The increase in total revenue for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was primarily due to growth in marketing solutions and other services revenue of \$30 million for the third quarter of 2015 and \$89 million for the first nine months of 2015. These amounts include incremental revenue from businesses acquired

during 2015 and 2014 of \$23 million for the third quarter of 2015 and \$67 million for the first nine months of 2015, as well as growth in our distributor channel. In addition, revenue for both periods benefited from price increases in all three segments, and our Small Business Services distributor channel also contributed revenue growth in other product categories of approximately \$4 million for the third quarter of 2015 and \$9 million for the first nine months of 2015. These revenue increases were partially offset by lower order volume for both personal and business checks, as well as contract renewal allowances within Financial Services.

Service revenue represented 17.8% of total revenue for the first nine months of 2015 and 15.1% for the first nine months of 2014. As such, the majority of our revenue is generated by product sales. We do not manage our business based on product versus service revenue. Instead, we analyze our revenue based on the following categories:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | | |
|--|--------------------------------|---------|------------------------------------|---------|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Checks, including contract settlements | 49.1 | % 52.7 | % 50.4 | % 53.7 | % |
| Marketing solutions and other services | 30.1 | % 24.8 | % 29.0 | % 23.7 | % |
| Forms | 12.1 | % 13.0 | % 12.1 | % 12.9 | % |
| Accessories and other products | 8.7 | % 9.5 | % 8.5 | % 9.7 | % |
| Total revenue | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |

The number of orders decreased for the third quarter of 2015, as compared to the third quarter of 2014, due primarily to the continuing decline in check and forms usage, partially offset by growth in marketing solutions and other services, including the impact of acquisitions in 2015 and 2014, and growth in the Small Business Services distributor channel. For the nine month period, the number of orders increased as compared to 2014 as growth in marketing solutions and other services, including the impact of acquisitions in 2015 and 2014, and growth in the Small Business Services distributor channel, more than offset the impact of the continuing decline in check and forms usage.

Revenue per order increased for the third quarter and first nine months of 2015, as compared to the same periods in 2014, primarily due to the benefit of price increases in all three segments and favorable product and service mix, partially offset by the impact of Financial Services contract renewal allowances.

Consolidated Cost of Revenue

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|--|-----------------------------|------------|--------------|---------------------------------|------------|--------------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| Total cost of revenue | \$ 159,302 | \$ 150,150 | 6.1 | % \$ 467,922 | \$ 440,969 | 6.1 | % |
| Total cost of revenue as a percentage of total revenue | 36.2 | % 36.3 | % (0.1) pts. | 35.7 | % 36.0 | % (0.3) pts. | |

Cost of revenue consists primarily of raw materials used to manufacture our products, shipping and handling costs, third-party costs for outsourced products and services, payroll and related expenses, information technology costs, depreciation and amortization of assets used in the production process and in support of digital service offerings, and related overhead.

The increase in total cost of revenue for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was primarily attributable to the growth in revenue. This included businesses we acquired in 2015 and 2014, which incurred incremental costs of approximately \$8 million for the third quarter of 2015 and \$24 million for the first nine months of 2015, as well as growth in our Small Business Services distributor channel, which generated an increase in outsourced product costs of approximately \$11 million for the third quarter of 2015 and \$18 million for the first nine months of 2015. Additionally, delivery rates and material costs increased in 2015. Partially offsetting these increases in total cost of revenue were manufacturing efficiencies and other benefits resulting from our continued cost reduction initiatives of approximately \$4 million for the third quarter of 2015 and \$13 million for the

first nine months of 2015.

38

Consolidated Selling, General & Administrative Expense

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|---|-----------------------------|------------|------------|---------------------------------|------------|------------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| SG&A expense | \$ 189,641 | \$ 175,661 | 8.0 | % \$ 575,110 | \$ 527,138 | 9.1 | % |
| SG&A expense as a percentage of total revenue | 43.1 | % 42.5 | % 0.6 pts. | 43.9 | % 43.0 | % 0.9 pts. | |

The increase in SG&A expense for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was driven primarily by incremental operating expenses of the businesses we acquired in 2015 and 2014 of approximately \$13 million for the third quarter of 2015 and \$43 million for the first nine months of 2015, as well as investments in revenue growth opportunities, including growth in our Small Business Services distributor channel and brand awareness initiatives. In addition, Small Business Services commission expense increased \$1 million for the third quarter of 2015 and \$5 million for the first nine months of 2015, due primarily to increased commission rates. These increases were partially offset by various expense reduction initiatives of approximately \$6 million for the third quarter of 2015 and \$23 million for the first nine months of 2015 within sales, marketing and our shared services organizations, including improved labor efficiency and reduced expenses for information technology infrastructure.

Net Restructuring Charges

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|---------------------------|-----------------------------|----------|-----------|---------------------------------|----------|-----------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| Net restructuring charges | \$ 1,505 | \$ 4,193 | \$(2,688) |) \$ 2,738 | \$ 8,507 | \$(5,769) |) |

We recorded restructuring charges and reversals related to the cost reduction initiatives discussed under Executive Overview. Restructuring charges and reversals relate to direct costs of our restructuring activities such as employee severance benefits, information technology costs, employee and equipment moves, training and travel. In addition to the restructuring charges shown here, total cost of revenue in our consolidated statements of comprehensive income included net restructuring charges of \$0.2 million for the third quarter of 2015, \$0.2 million for the third quarter of 2014, \$0.4 million for the first nine months of 2015, and \$0.3 million for the first nine months of 2014. Further information can be found under Restructuring Costs.

Asset Impairment Charge

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|-------------------------|-----------------------------|----------|-----------|---------------------------------|----------|-----------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| Asset impairment charge | \$— | \$ 6,468 | \$(6,468) |) \$— | \$ 6,468 | \$(6,468) |) |

During the third quarter of 2014, we performed an impairment analysis related to our Small Business Services search engine marketing and optimization business. Revenue and the related cash flows from this business had been lower than previously projected, and as a result of our annual planning process completed during the third quarter of 2014, we decided to reduce the revenue base of this business in order to improve its financial performance. As such, we revised our estimates of future revenues and cash flows to reflect these decisions during the third quarter of 2014. We calculated the estimated fair values of the assets as the net present value of estimated future cash flows. Our analysis resulted in a non-cash, pre-tax impairment charge of \$6.5 million during the third quarter of 2014, which reflects writing down the net book value of the related intangible assets to zero.

Loss on Early Debt Extinguishment

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------------|-----------------------------|------|--------|---------------------------------|------|---------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Loss on early debt extinguishment | \$— | \$— | \$— | \$8,917 | \$— | \$8,917 |

During the first quarter of 2015, we retired all \$200.0 million of our 7.0% senior notes due in March 2019, realizing a pre-tax loss of \$8.9 million, consisting of a contractual call premium and the write-off of related debt issuance costs. We funded the retirement utilizing our credit facility and a short-term bank loan. We may also, from time to time, consider retiring additional outstanding debt through open market purchases, privately negotiated transactions or other means. Any such purchases or exchanges would depend upon prevailing market conditions, our liquidity requirements and other potential uses of cash, including acquisitions and share repurchases.

Interest Expense

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------------|-----------------------------|---------|------------|---------------------------------|----------|------------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Interest expense | \$4,387 | \$9,580 | (54.2 %) | \$15,322 | \$28,677 | (46.6 %) |
| Weighted-average debt outstanding | 516,582 | 655,777 | (21.2 %) | 533,940 | 655,773 | (18.6 %) |
| Weighted-average interest rate | 2.9 % | 5.3 % | (2.4) pts. | 3.4 % | 5.3 % | (1.9) pts. |

The decrease in interest expense for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was driven by changes in our debt structure. In October 2014, long-term notes of \$253.5 million matured. These notes had a weighted-average interest rate of 4.3% during the first nine months of 2014, including the impact of hedging activities. We utilized cash on hand and an initial borrowing of \$135.0 million under our credit facility to meet this debt obligation. In addition, in March 2015, we retired \$200.0 million of long-term debt with an interest rate of 7.0%. We utilized our credit facility and a short-term bank loan to fund this redemption. Amounts outstanding under our short-term borrowings carried a weighted-average interest rate of 1.6% during the first nine months of 2015.

Income Tax Provision

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------|-----------------------------|----------|------------|---------------------------------|----------|----------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Income tax provision | \$28,983 | \$23,042 | 25.8 % | \$82,553 | \$72,800 | 13.4 % |
| Effective tax rate | 33.7 % | 34.1 % | (0.4) pts. | 34.2 % | 33.9 % | 0.3 pts. |

The decrease in our effective tax rate for the third quarter of 2015, as compared to the third quarter of 2014, was primarily due to higher non-taxable proceeds from company-owned life insurance policies in the third quarter of 2015.

The increase in our effective tax rate for the first nine months of 2015, as compared to the first nine months of 2014, was primarily due to a number of minor discrete credits to income tax expense in the first nine months of 2014, which collectively decreased our 2014 effective tax rate 0.2 points. In addition, our 2015 tax rate included a number of minor discrete charges to income tax expense which collectively increased our 2015 effective tax rate 0.2 points. We expect that our annual effective tax rate for 2015 will be approximately 34%, which assumes that federal legislation will be enacted before the end of 2015 allowing us to claim the research and development credit on our 2015 federal income tax return.

RESTRUCTURING COSTS

We have recorded expenses related to our restructuring activities, including accruals consisting primarily of employee severance benefits, as well as costs which are expensed as incurred, including information technology costs, employee and equipment moves, training and travel. Our restructuring activities are driven by our cost reduction initiatives and include employee reductions in various functional areas, as well as the closing of facilities, including one call center in 2015 and one printing facility in 2014. Restructuring costs have been reduced by the reversal of severance accruals when fewer employees receive severance benefits than originally estimated.

Net restructuring charges for each period were as follows:

| (in thousands, except number of employees) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------|------------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Severance accruals | \$1,443 | \$4,546 | \$3,493 | \$7,213 |
| Severance reversals | (282 |) (271 |) (976 |) (866 |
| Operating lease obligations | 88 | — | 88 | — |
| Net restructuring accruals | 1,249 | 4,275 | 2,605 | 6,347 |
| Other costs | 489 | 80 | 551 | 2,464 |
| Net restructuring charges | \$1,738 | \$4,355 | \$3,156 | \$8,811 |
| Number of employees included in severance accruals | 50 | 145 | 200 | 210 |

The employee reductions included in our restructuring accruals are expected to be completed by the fourth quarter of 2015, and we expect most of the related severance payments to be paid by mid-2016, utilizing cash from operations.

As a result of our employee reductions and facility closings, we expect to realize cost savings of approximately \$2 million in total cost of revenue and \$16 million in SG&A expense in 2015, in comparison to our 2014 results of operations. These savings represent a portion of the estimated \$50 million of total net cost reductions we expect to realize in 2015. Expense reductions consist primarily of labor and facility costs.

Further information regarding our restructuring charges can be found under the caption “Note 9: Restructuring charges” of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

SEGMENT RESULTS

Additional financial information regarding our business segments appears under the caption “Note 14: Business segment information” of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. In January 2015, we decided that two company-owned small business distributors would no longer be managed as part of our Small Business Services segment. Because their customers consist primarily of financial institutions, we determined that the businesses would be better positioned for long-term growth if they were managed as part of our Financial Services segment. As such, the results of operations of these businesses were included in the Financial Services segment beginning in 2015. Our business segment results for prior periods have been restated to reflect this change.

Small Business Services

This segment's products and services are promoted through direct response mail and internet advertising, referrals from financial institutions and telecommunications clients, Safeguard® distributors, a network of local dealers, a direct sales force which focuses on major accounts, and an outbound telemarketing group. Results for this segment were as follows:

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|------------------|-----------------------------|-----------|------------|---------------------------------|-----------|------------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| Total revenue | \$288,966 | \$278,268 | 3.8 | % \$848,216 | \$812,475 | 4.4 | % |
| Operating income | 51,873 | 42,948 | 20.8 | % 149,545 | 135,133 | 10.7 | % |
| Operating margin | 18.0 | % 15.4 | % 2.6 pts. | 17.6 | % 16.6 | % 1.0 pts. | |

The increase in total revenue for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was due primarily to growth in marketing solutions and other services revenue of \$10 million for the third quarter of 2015 and \$27 million for the first nine months of 2015. These amounts include incremental revenue of \$4 million for the third quarter of 2015 and \$12 million for the first nine months of 2015 from the acquisitions of Range, Tech Assets and FMC in 2015 and Gift Box Corporation of America in May 2014, as well as growth in our distributor channel. Further information regarding our 2015 acquisitions can be found under the caption "Note 6: Acquisitions" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. These increases in marketing solutions and other services revenue were partially offset by lower search engine marketing/optimization revenue resulting from our decision in the third

quarter of 2014 to reduce the revenue base of this business. In addition, revenue for both periods benefited from price increases and our distributor channel also contributed revenue growth in other product categories of approximately \$4 million for the third quarter of 2015 and \$9 million for the first nine months of 2015. These increases in revenue were partially offset by a decrease in volume for certain core business products sold through our direct sales channel, including checks, accessories and forms, as well as an unfavorable currency exchange rate impact of \$3 million for the third quarter of 2015 and \$8 million for the first nine months of 2015.

The increase in operating income and operating margin for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was primarily due to price increases and benefits of our cost reduction initiatives. Additionally, 2014 results included an asset impairment charge of \$6.5 million, which reduced operating margin for the third quarter of 2014 by 2.3 points, and restructuring costs were \$1.0 million lower for the third quarter of 2015 and \$3.3 million lower for the first nine months of 2015, as compared to 2014. Further information regarding the asset impairment charge can be found under Consolidated Results of Operations and further information regarding the restructuring costs can be found under Restructuring Costs. Partially offsetting these increases in operating income and operating margin were increased investments in revenue growth opportunities, including those to grow our distributor channel and planned brand awareness initiatives. In addition, commission expense increased \$1 million for the third quarter of 2015 and \$5 million for the first nine months of 2015 due primarily to increased commission rates, and delivery rates and material costs also increased in 2015.

Financial Services

Financial Services' products and services are sold primarily through a direct sales force, which executes product and service supply contracts with our financial institution clients nationwide, including banks, credit unions and financial services companies. In the case of check supply contracts, once the financial institution relationship is established, consumers may submit their check orders through their financial institution or over the phone or internet. Results for this segment were as follows:

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | | |
|------------------|-----------------------------|-----------|------------|---------------------------------|------------|--------------|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | |
| Total revenue | \$ 110,894 | \$ 92,072 | 20.4 | % \$ 335,134 | \$ 279,082 | 20.1 | % |
| Operating income | 23,364 | 19,133 | 22.1 | % 69,280 | 63,233 | 9.6 | % |
| Operating margin | 21.1 | % 20.8 | % 0.3 pts. | 20.7 | % 22.7 | % (2.0) pts. | |

The increase in revenue for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was due to growth in marketing solutions and other services of \$20 million for the third quarter of 2015 and \$62 million for the first nine months of 2015. These amounts include incremental revenue from the Wausau Financial Systems, Inc. (Wausau) acquisition in October 2014 of \$19 million for the third quarter of 2015 and \$55 million for the first nine months of 2015, as well as increased revenue from our Deluxe Rewards service offerings. Additionally, revenue in both periods benefited from price increases. Partially offsetting these revenue increases was lower check order volume due to the continued decline in check usage, as well as the impact of contract renewal allowances.

The increase in operating income for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was primarily due to price increases, the benefit of our continuing cost reduction initiatives and positive operating income generated by the Wausau acquisition. In addition, restructuring costs decreased \$1.6 million for the third quarter of 2015 and \$2.1 million for the first nine months of 2015. Further information regarding the restructuring costs can be found under Restructuring Costs. Partially offsetting these increases in operating income was the impact of lower check order volume, contract renewal allowances and increased delivery and material costs in 2015.

The increase in operating margin for the third quarter of 2015, as compared to the third quarter of 2014, was primarily driven by price increases, the benefit of our continuing cost reduction initiatives and the decrease in restructuring

costs. These increases in operating margin were partially offset by the operating results of Wausau, as well as contract renewal allowances and increased delivery and material costs in 2015. The operating results of Wausau, including acquisition-related amortization, reduced Financial Services' operating margin 2.2 points for the third quarter of 2015.

The decrease in operating margin for the first nine months of 2015, as compared to the first nine months of 2014, was primarily driven by the operating results of Wausau, as well as contract renewal allowances and increased delivery and material costs in 2015. The operating results of Wausau, including acquisition-related amortization, reduced Financial Services' operating margin 3.8 points for the first nine months of 2015. These decreases in operating margin were partially offset by price increases, the benefit of our continuing cost reduction initiatives and the decrease in restructuring costs.

Direct Checks

Direct Checks sells products and services directly to consumers using direct marketing, including print advertising and search engine marketing and optimization strategies. Direct Checks sells under various brand names, including Checks Unlimited®, Designer® Checks, Checks.com, Check Gallery®, The Styles Check Company®, and Artistic Checks®, among others. Results for this segment were as follows:

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|------------------|-----------------------------|----------|----------|---------------------------------|-----------|----------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Total revenue | \$39,956 | \$42,864 | (6.8 %) | \$125,958 | \$134,012 | (6.0 %) |
| Operating income | 14,131 | 14,651 | (3.5 %) | 44,713 | 44,121 | 1.3 % |
| Operating margin | 35.4 % | 34.2 % | 1.2 pts. | 35.5 % | 32.9 % | 2.6 pts. |

The decrease in revenue for the third quarter and first nine months of 2015, as compared to the same periods in 2014, was due to a reduction in orders stemming from the continued decline in check usage, as well as eliminating marketing expenditures that no longer meet our return criteria. Partially offsetting the volume decline was higher revenue per order, driven by better email marketing conversion rates and an improved call center incentive plan, as well as price increases.

The decrease in operating income for the third quarter of 2015, as compared to the third quarter of 2014, was due primarily to lower order volume and increased delivery rates and material costs in 2015. These decreases in operating income were partially offset by benefits from our cost reduction initiatives and higher revenue per order.

The increase in operating income and operating margin for the first nine months of 2015, as compared to the first nine months of 2014, was due primarily to benefits from our cost reduction initiatives, higher revenue per order and a decrease of \$0.3 million in restructuring costs. Further information regarding the restructuring costs can be found under Restructuring Costs. These increases in operating income and operating margin were partially offset by lower order volume and increased delivery rates and material costs in 2015.

CASH FLOWS AND LIQUIDITY

As of September 30, 2015, we held cash and cash equivalents of \$62.9 million. The following table shows our cash flow activity for the nine months ended September 30, 2015 and 2014, and should be read in conjunction with the consolidated statements of cash flows appearing in Item 1 of this report.

| (in thousands) | Nine Months Ended September 30, | | |
|---|---------------------------------|-----------|-------------|
| | 2015 | 2014 | Change |
| Net cash provided by operating activities | \$217,912 | \$203,359 | \$14,553 |
| Net cash used by investing activities | (75,704) | (40,434) | (35,270) |
| Net cash used by financing activities | (133,822) | (93,385) | (40,437) |
| Effect of exchange rate change on cash | (7,032) | (2,628) | (4,404) |
| Net change in cash and cash equivalents | \$1,354 | \$66,912 | \$(65,558) |

The \$14.6 million increase in net cash provided by operating activities for the first nine months of 2015, as compared to the first nine months of 2014, was primarily due to stronger operating performance and a \$10.2 million decrease in interest payments due primarily to the maturity of long-term notes in October 2014 and the retirement of long-term notes in March 2015. These increases in net cash provided by operating activities were partially offset by accelerated payments of accounts payable as we modified vendor terms and took advantage of early payment discounts, a \$7.7 million increase in income tax payments and a \$6.0 million increase in performance-based compensation payments related to our 2014 performance.

Included in net cash provided by operating activities were the following operating cash outflows:

| (in thousands) | Nine Months Ended September 30, | | |
|---|---------------------------------|----------|-----------|
| | 2015 | 2014 | Change |
| Income tax payments | \$83,546 | \$75,874 | \$7,672 |
| Performance-based compensation payments | 31,046 | 25,050 | 5,996 |
| Funding of medical benefits | 18,289 | 14,000 | 4,289 |
| Interest payments | 16,497 | 26,711 | (10,214) |
| Contract acquisition payments | 9,843 | 9,831 | 12 |
| Severance payments | 4,420 | 6,507 | (2,087) |

Net cash used by investing activities for the first nine months of 2015 was \$35.3 million higher than the first nine months of 2014, driven primarily by an increase in payments for acquisitions of \$38.8 million. In 2015, we acquired eight small business distributors and certain assets of Range, Inc., Verify Valid LLC, Tech Assets, Inc. and FMC Resource Management Corporation, and we made additional holdback payments for previous acquisitions, for aggregate payments of \$50.9 million, net of cash acquired. In 2014, we acquired small business distributors, NetClime, Inc. and selected assets of Gift Box Corporation of America for an aggregate of \$12.1 million, net of cash acquired. Partially offsetting this increase in cash used by investing activities was an increase of \$3.1 million in proceeds from company-owned life insurance policies in 2015.

Net cash used by financing activities for the first nine months of 2015 was \$40.4 million higher than the first nine months of 2014 due primarily to an increase of \$207.0 million in payments on long-term debt due to the redemption of \$200.0 million of our long-term notes due in 2019. In addition, proceeds from issuing shares under employee plans decreased \$3.3 million, as fewer stock options were exercised in 2015, and dividend payments increased \$2.3 million as we increased our per share dividend amount in the second quarter of 2014. Partially offsetting these increases in cash used by financing activities were net proceeds from short-term borrowings of \$159.0 million during 2015, which were used primarily for the redemption of a portion of our long-term debt, as well as a decrease of \$13.1 million in payments to repurchase common shares, as we repurchased fewer shares in 2015.

Significant cash inflows, excluding those related to operating activities, for each period were as follows:

| (in thousands) | Nine Months Ended September 30, | | |
|---|---------------------------------|-------|-----------|
| | 2015 | 2014 | Change |
| Net proceeds from short-term borrowings | \$159,000 | \$— | \$159,000 |
| Proceeds from issuing shares under employee plans | 5,492 | 8,814 | (3,322) |

Significant cash outflows, excluding those related to operating activities, for each period were as follows:

| (in thousands) | Nine Months Ended September 30, | | |
|---|---------------------------------|--------|-----------|
| | 2015 | 2014 | Change |
| Payments on long-term debt, including costs of debt reacquisition | \$207,791 | \$820 | \$206,971 |
| Payments for acquisitions, net of cash acquired | 50,933 | 12,144 | 38,789 |
| Payments for common shares repurchased | 46,996 | 60,119 | (13,123) |
| Cash dividends paid to shareholders | 44,965 | 42,631 | 2,334 |
| Purchases of capital assets | 29,549 | 29,649 | (100) |

We anticipate that net cash provided by operating activities will be between \$300 million and \$305 million in 2015, compared to \$280 million in 2014, driven by stronger operating performance and lower interest payments, partially offset by higher income tax, transaction-related and performance-based compensation payments. We anticipate that net cash provided by operating activities in 2015 will be utilized for periodic share repurchases, dividend payments, capital expenditures of approximately \$40 million and small-to-medium-sized acquisitions. We intend to focus our capital spending on key revenue growth initiatives and investments in order fulfillment and information technology infrastructure.

As of September 30, 2015, \$68.3 million was available for borrowing under our credit facility. In March 2015, we redeemed all \$200.0 million of our 7.0% senior notes due in March 2019, utilizing our credit facility and a short-term bank loan. We may also, from time to time, consider retiring outstanding debt through open market repurchases, privately negotiated

transactions or other means. Any such purchases or exchanges would depend upon prevailing market conditions, our liquidity requirements and other potential uses of cash, including acquisitions and share repurchases.

As of September 30, 2015, our subsidiaries located in Canada held cash and marketable securities of \$53.9 million. Deferred income taxes have not been recognized on unremitted earnings of our foreign subsidiaries, as these amounts are intended to be reinvested indefinitely in the operations of those subsidiaries. If we were to repatriate all of the Canadian cash and marketable securities into the U.S. at one time, we would incur a U.S. tax liability of approximately \$7 million, based on current federal tax law.

We believe that cash generated by operating activities, along with availability under our credit facility, will be sufficient to support our operations for the next 12 months, including dividend payments, capital expenditures and required interest and principal payments, as well as periodic share repurchases and small-to-medium-sized acquisitions.

CAPITAL RESOURCES

Our total debt was \$518.5 million as of September 30, 2015, a decrease of \$35.8 million from December 31, 2014. We have entered into interest rate swaps to hedge against changes in the fair value of our long-term debt. As of September 30, 2015, interest rate swaps with a notional amount of \$200.0 million were designated as fair value hedges. The carrying amount of long-term debt as of September 30, 2015 included a \$2.8 million decrease related to adjusting the hedged debt for changes in its fair value. As of December 31, 2014, this fair value adjustment was a decrease of \$8.1 million. Further information concerning the interest rate swaps and our outstanding debt can be found under the captions “Note 7: Derivative financial instruments” and “Note 11: Debt” of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. Information regarding our debt service obligations can be found under Off-Balance Sheet Arrangements, Guarantees and Contractual Obligations in the 2014 Form 10-K.

Our capital structure for each period was as follows:

| (in thousands) | September 30, 2015 | | December 31, 2014 | | Change |
|------------------------|--------------------|--------------------------------|-------------------|--------------------------------|---------------|
| | Amount | Weighted-average interest rate | Amount | Weighted-average interest rate | |
| Fixed interest rate | \$2,327 | 2.0 | % \$202,379 | 6.9 | % \$(200,052) |
| Floating interest rate | 516,184 | 2.9 | % 351,933 | 3.5 | % 164,251 |
| Total debt | 518,511 | 2.9 | % 554,312 | 4.7 | % (35,801) |
| Shareholders' equity | 720,073 | | 647,497 | | 72,576 |
| Total capital | \$1,238,584 | | \$1,201,809 | | \$36,775 |

We have an outstanding authorization from our board of directors to purchase up to 10 million shares of our common stock. This authorization has no expiration date, and 1.2 million shares remained available for purchase under this authorization as of September 30, 2015. During the first nine months of 2015, we repurchased 0.8 million shares for \$47.0 million, with all of the repurchases occurring in the third quarter of 2015. Information regarding changes in shareholders' equity can be found in the consolidated statement of shareholders' equity appearing in Item 1 of this report.

In March 2015, we redeemed all \$200.0 million of our 7.0% senior notes due in March 2019, utilizing our credit facility and a \$75.0 million short-term bank loan. As of September 30, 2015, \$50.0 million was outstanding under the bank loan at an interest rate of 1.8%. We may, from time to time, consider retiring outstanding debt through open market purchases, privately negotiated transactions or other means. Any such repurchases or exchanges would depend

on prevailing market conditions, our liquidity requirements and other potential uses of cash, including acquisitions or share repurchases.

As of September 30, 2015, we had a \$350.0 million credit facility, which is scheduled to expire in February 2019. Our quarterly commitment fee ranges from 0.20% to 0.40% based on our leverage ratio. Borrowings under the credit facility are collateralized by substantially all of our personal and intangible property. The credit agreements governing the credit facility and our short-term bank loan contain customary covenants regarding limits on levels of subsidiary indebtedness and capital expenditures, liens, investments, acquisitions, certain mergers, certain asset sales outside the ordinary course of business, and change in control as defined in the agreement. The agreements also contain financial covenants regarding our leverage ratio and interest coverage, and our credit facility agreement also contains a financial covenant regarding liquidity. We were in

compliance with all debt covenants as of September 30, 2015, and we expect to remain in compliance with all debt covenants throughout the next 12 months.

As of September 30, 2015, \$269.0 million was drawn on our credit facility at a weighted-average interest rate of 1.7%. As of December 31, 2014, \$160.0 million was drawn on our credit facility at a weighted-average interest rate of 1.6%. As of September 30, 2015, amounts were available for borrowing under our credit facility as follows:

| (in thousands) | Total available |
|--|--------------------|
| Credit facility commitment | \$350,000 |
| Amount drawn on credit facility | (269,000) |
| Outstanding letters of credit ⁽¹⁾ | (12,726) |
| Net available for borrowing as of September 30, 2015 | \$68,274 |

⁽¹⁾ We use standby letters of credit primarily to collateralize certain obligations related to our self-insured workers' compensation claims, as well as claims for environmental matters, as required by certain states. These letters of credit reduce the amount available for borrowing under our credit facility.

In October 2015, we exercised our right to increase the size of our existing credit facility to \$525 million in conjunction with the acquisition of Datamyx LLC on October 16, 2015. As of the date of the acquisition, \$428 million was drawn on our expanded credit facility. Further information regarding this acquisition can be found under Executive Overview.

OTHER FINANCIAL POSITION INFORMATION

Contract acquisition costs – Other non-current assets include contract acquisition costs of our Financial Services segment. These costs, which are essentially pre-paid product discounts, are recorded as non-current assets upon contract execution and are amortized, generally on the straight-line basis, as reductions of revenue over the related contract term. Changes in contract acquisition costs during the nine months ended September 30, 2015 and 2014 can be found under the caption "Note 3: Supplemental balance sheet information" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. Cash payments for contract acquisition costs were \$9.8 million for the first nine months of 2015 and the first nine months of 2014. We anticipate cash payments of approximately \$15 million for the year ending December 31, 2015.

The number of checks being written has been declining, which has contributed to increased competitive pressure when attempting to retain or acquire clients. Both the number of financial institution clients requesting contract acquisition payments and the amount of the payments has fluctuated significantly from year to year. Although we anticipate that we will selectively continue to make contract acquisition payments, we cannot quantify future amounts with certainty. The amount paid depends on numerous factors, such as the number and timing of contract executions and renewals, competitors' actions, overall product discount levels and the structure of up-front product discount payments versus providing higher discount levels throughout the term of the contract.

Liabilities for contract acquisition payments are recorded upon contract execution. These obligations are monitored for each contract and are adjusted as payments are made. Contract acquisition payments due within the next year are included in accrued liabilities in our consolidated balance sheets. These accruals were \$8.4 million as of September 30, 2015 and \$9.8 million as of December 31, 2014. Accruals for contract acquisition payments included in other non-current liabilities in our consolidated balance sheets were \$30.7 million as of September 30, 2015 and \$36.8 million as of December 31, 2014.

OFF-BALANCE SHEET ARRANGEMENTS, GUARANTEES AND CONTRACTUAL OBLIGATIONS

It is not our general business practice to enter into off-balance sheet arrangements or to guarantee the performance of third parties. In the normal course of business we periodically enter into agreements that incorporate general indemnification language. These indemnifications encompass third-party claims arising from our products and services, including service failures, breach of security, intellectual property rights, governmental regulations and/or employment-related matters. Performance under these indemnities would generally be triggered by our breach of terms of the contract. In disposing of assets or businesses, we often provide representations, warranties and/or indemnities to cover various risks, including, for example, unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees

related to periods prior to disposition. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that any possible liability under these indemnities would have a material adverse effect on our financial position, annual results of operations or annual cash flows. We have recorded liabilities for known indemnifications related to environmental matters. Further information can be found under the caption "Note 12: Other commitments and contingencies" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in the Item 1 of this report.

We are not engaged in any transactions, arrangements or other relationships with unconsolidated entities or other third parties that are reasonably likely to have a material effect on our liquidity or on our access to, or requirements for, capital resources. In addition, we have not established any special purpose entities.

A table of our contractual obligations was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2014 Form 10-K. As discussed in the 2014 Form 10-K, in March 2015, we redeemed \$200.0 million of long-term notes due in 2019.

RELATED PARTY TRANSACTIONS

We did not enter into any material related party transactions during the first nine months of 2015 or during 2014.

CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2014 Form 10-K. There were no changes in these policies during the first nine months of 2015.

During the third quarter of 2015, we completed the annual impairment analysis of goodwill and our indefinite-lived trade name. In completing the 2015 annual goodwill impairment analysis, we elected to perform a qualitative assessment for all of our reporting units to which goodwill is assigned, with the exception of our Financial Services Commercial reporting unit, which was acquired subsequent to our 2014 annual impairment analysis. Our qualitative analysis evaluated factors including, but not limited to, economic, market and industry conditions, cost factors and the overall financial performance of the reporting units. We also considered the quantitative analysis we completed as of July 31, 2014 in which the estimated fair values of our reporting units' net assets exceeded their carrying values by approximate amounts between \$74.0 million and \$1.13 billion, or by amounts between 47% and 482% above the carrying values of their net assets. In completing our 2015 qualitative analysis, we noted no changes in events or circumstances which would have required us to complete the two-step quantitative goodwill impairment analysis for any of the reporting units analyzed. In addition, the quantitative analysis completed for our Financial Services Commercial reporting unit indicated that its fair value exceeded its carrying value by approximately 13%. This relatively small margin is primarily due to the reporting unit being recently acquired. As the excess of the fair value over the carrying value for this reporting unit was not significant, this impairment assessment is sensitive to changes in the forecasted revenues, profits and cash flows of the reporting unit. Changes in the reporting unit's results, forecast assumptions and estimates could materially affect the estimation of the fair value of this reporting unit. This could reduce the excess of the fair value over the carrying value of the reporting unit, which could then result in a goodwill impairment charge. Total goodwill for this reporting unit was approximately \$45 million as of September 30, 2015.

In completing the annual impairment analysis of our indefinite-lived trade name, we elected to perform a quantitative assessment. This assessment indicated that the estimated fair value of the asset exceeded its carrying value of \$19.1 million by approximately \$20.0 million. In this analysis, we assumed a discount rate of 13.0% and a royalty rate of 1.5%. A one-half percentage point increase in the discount rate would reduce the indicated fair value of the asset by

approximately \$2.0 million and a one-half percentage point decrease in the royalty rate would reduce the indicated fair value of the asset by approximately \$13.0 million.

NEW ACCOUNTING PRONOUNCEMENTS

Information regarding accounting pronouncements not yet adopted can be found under the caption “Note 2: New accounting pronouncements” of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information. We are filing this cautionary statement in connection with the Reform Act. When we use the words or phrases “should result,” “believe,” “intend,” “plan,” “are expected to,” “targeted,” “will continue,” “will approximate,” “is anticipated,” “estimate,” “project,” “outlook” or similar expressions in our Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, in our press releases and in oral statements made by our representatives, they indicate forward-looking statements within the meaning of the Reform Act.

We want to caution you that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause them to be incorrect. Known material risks are discussed in Item 1A of the 2014 Form 10-K and are incorporated into this Item 2 of this report on Form 10-Q as if fully stated herein. Although we have attempted to compile a comprehensive list of these important factors, we want to caution you that other factors may prove to be important in affecting future operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or combination of factors may have on our business.

You are further cautioned not to place undue reliance on those forward-looking statements because they speak only of our views as of the date the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to changes in interest rates primarily as a result of the borrowing activities used to support our capital structure, maintain liquidity and fund business operations. We do not enter into financial instruments for speculative or trading purposes. The nature and amount of debt outstanding can be expected to vary as a result of future business requirements, market conditions and other factors. As of September 30, 2015, our total debt was comprised of the following:

| (in thousands) | Carrying amount | Fair value ⁽¹⁾ | Weighted-average interest rate | |
|---|-----------------|---------------------------|--------------------------------|---|
| Amount drawn on credit facility | \$269,000 | \$269,000 | 1.7 | % |
| Long-term notes maturing November 2020, including decrease of \$2,816 related to cumulative change in fair value of hedged debt | 197,184 | 210,200 | 5.0 | % |
| Short-term bank loan | 50,000 | 50,000 | 1.8 | % |
| Capital lease obligations | 2,327 | 2,327 | 2.0 | % |
| Total debt | \$518,511 | \$531,527 | 2.9 | % |

⁽¹⁾ For our long-term notes, fair value is based on observable market inputs other than quoted prices in active markets. Capital lease obligations are presented at their carrying amount. For short-term borrowings, fair value equals carrying value due to their short-term duration.

In March 2015, we redeemed all \$200.0 million of our 7.0% senior notes due in March 2019, utilizing our credit facility and a short-term bank loan. We may, from time to time, retire outstanding debt through open market purchases, privately negotiated transactions or other means. Any such repurchases or exchanges would depend on prevailing market conditions, our liquidity requirements and other potential uses of cash, including acquisitions or share repurchases.

We entered into interest rate swaps to hedge against changes in the fair value of our long-term debt. As of September 30, 2015, interest rate swaps with a notional amount of \$200.0 million were designated as fair value hedges. The carrying amount of long-term debt as of September 30, 2015 included a \$2.8 million decrease related to adjusting the hedged debt for changes in its fair value. The interest rate swaps outstanding as of September 30, 2015 related to our long-term debt due in 2020 and meet the criteria for using the short-cut method of accounting for a fair value hedge based on the structure of the hedging relationship. As such, changes in the fair value of the derivative and the related long-term debt are equal.

Based on the daily average amount of outstanding variable rate debt in our portfolio, a one percentage point change in our weighted-average interest rates would have resulted in a \$3.6 million change in interest expense for the first nine months of 2015.

We are exposed to changes in foreign currency exchange rates. Investments in, loans and advances to foreign subsidiaries and branches, as well as the operations of these businesses, are denominated in foreign currencies, primarily the Canadian dollar. The effect of exchange rate changes is expected to have a minimal impact on our earnings and cash flows, as our foreign operations represent a relatively small portion of our business. We have not entered into hedges against changes in foreign currency exchange rates.

See Business Challenges/Market Risks in Item 2 of this report for further discussion of market risks.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures — As of the end of the period covered by this report (the “Evaluation Date”), we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “1934 Act”). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Internal Control Over Financial Reporting — There were no changes in our internal control over financial reporting identified in connection with our evaluation during the quarter ended September 30, 2015, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We record provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. We believe the recorded reserves in our consolidated financial statements are adequate in light of the probable and estimable outcomes. Recorded liabilities were not material to our financial position, results of operations or liquidity, and we do not believe that any of the currently identified claims or litigation, either individually or in the aggregate, will materially affect our financial position, results of operations or liquidity upon resolution.

Item 1A. Risk Factors.

Our risk factors are outlined in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”). There have been no significant changes to these risk factors since we filed the 2014 Form 10-K.

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

The following table shows purchases of our own equity securities, based on trade date, which were completed during the third quarter of 2015:

| Period | Total number of shares (or units) purchased | Average price paid per share (or unit) | Total number of shares (or units) purchased as part of publicly announced plans or programs | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
|---|---|--|---|---|
| July 1, 2015 – July 31, 2015 | 232,400 | \$62.70 | 232,400 | 1,729,707 |
| August 1, 2015 – August 31, 2015 | 418,700 | 60.63 | 418,700 | 1,311,007 |
| September 1, 2015 – September 30, 2015 | 121,200 | 58.08 | 121,200 | 1,189,807 |
| Total | 772,300 | 60.85 | 772,300 | 1,189,807 |

In August 2003, our board of directors approved an authorization to purchase up to 10 million shares of our common stock. This authorization has no expiration date and 1.2 million shares remained available for purchase under this authorization as of September 30, 2015.

While not considered repurchases of shares, we do at times withhold shares that would otherwise be issued under equity-based awards to cover the withholding taxes due as a result of the exercising or vesting of such awards. During the quarter ended September 30, 2015, we withheld 5,691 shares in conjunction with the vesting and exercise of equity-based awards.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Description | Method of Filing |
|----------------|---|------------------|
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010) | * |
| 3.2 | | * |

Edgar Filing: DELUXE CORP - Form 10-Q

Bylaws (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the Commission on October 23, 2008)

4.1 Amended and Restated Rights Agreement, dated as of December 20, 2006, by and between us and Wells Fargo Bank, National Association, as Rights Agent, which includes as Exhibit A thereto, the Form of Rights Certificate (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Commission on December 21, 2006) *

50

Edgar Filing: DELUXE CORP - Form 10-Q

| Exhibit Number | Description | Method of Filing |
|----------------|---|------------------|
| 4.2 | Indenture, dated as of April 30, 2003, by and between us and Wells Fargo Bank Minnesota, N.A., as trustee (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 (Registration No. 333-104858) filed with the Commission on April 30, 2003) | * |
| 4.3 | Indenture, dated as of March 15, 2011, by and among us, the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (including form of 7.00% Senior Notes due 2019) (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Commission on March 15, 2011) | * |
| 4.4 | Supplemental Indenture, dated as of July 30, 2012, among us, OrangeSoda, Inc., the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.11 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012) | * |
| 4.5 | Second Supplemental Indenture, dated as of June 28, 2013, among us, VerticalResponse, Inc., the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.13 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) | * |
| 4.6 | Third Supplemental Indenture, dated as of September 25, 2013, among us, ChecksByDeluxe.com, LLC, Direct Checks Unlimited, LLC, Direct Checks Unlimited Sales, Inc., Safeguard Acquisitions, Inc., Safeguard Franchise Systems, Inc., the guarantors listed on the signature pages thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.16 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2013) | * |
| 4.7 | Fourth Supplemental Indenture, dated as of December 17, 2014, among us, Safeguard Franchise Sales, Inc., Wausau Financial Systems, Inc., the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.9 to the Annual Report on Form 10-K for the year ended December 31, 2014) | * |
| 4.8 | Fifth Supplemental Indenture, dated as of March 4, 2015, among us, AccuSource Solutions Corporation, SyncSuite, LLC, the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.8 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015) | * |
| 4.9 | Indenture, dated as of November 27, 2012, by and among us, the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (including form of 6.000% Senior Notes due 2020) (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Commission on November 27, 2012) | * |
| 4.10 | Supplemental Indenture, dated as of June 28, 2013, among us, VerticalResponse, Inc., the guarantors listed on the signature pages thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.14 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) | * |
| 4.11 | Second Supplemental Indenture, dated as of September 25, 2013, among us, ChecksByDeluxe.com, LLC, Direct Checks Unlimited, LLC, Direct Checks Unlimited Sales, Inc., Safeguard Acquisitions, Inc., Safeguard Franchise Systems, Inc., the guarantors listed on the signature pages thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.15 to the Quarterly Report on Form | * |

10-Q for the quarter ended September 30, 2013)

4.12 Third Supplemental Indenture, dated as of December 17, 2014, among us, Safeguard Franchise Sales, Inc., Wausau Financial Systems, Inc., the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by * reference to Exhibit 4.13 to the Annual Report on Form 10-K for the year ended December 31, 2014)

51

Edgar Filing: DELUXE CORP - Form 10-Q

| Exhibit Number | Description | Method of Filing |
|----------------|---|--------------------|
| 4.13 | Fourth Supplemental Indenture, dated as of March 4, 2015, among us, AccuSource Solutions Corporation, SyncSuite, LLC, the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.13 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015) | * |
| 4.14 | Fifth Supplemental Indenture, dated as of June 15, 2015, among us, Image Distribution Services, the guarantors listed on the signature pages thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.14 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) | * |
| 12.1 | Statement re: Computation of Ratios | Filed herewith |
| 31.1 | CEO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | CFO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | CEO and CFO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Comprehensive Income for the quarters and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (v) Condensed Notes to Unaudited Consolidated Financial Statements | Filed herewith |

* Incorporated by reference

SIGNATURES

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

DELUXE CORPORATION
(Registrant)

Date: October 27, 2015

/s/ Lee Schram
Lee Schram
Chief Executive Officer
(Principal Executive Officer)

Date: October 27, 2015

/s/ Terry D. Peterson
Terry D. Peterson
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

INDEX TO EXHIBITS

| Exhibit No. | Description |
|-------------|---|
| 12.1 | Statement re: Computation of Ratios |
| 31.1 | CEO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | CFO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | CEO and CFO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Comprehensive Income for the quarters and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (v) Condensed Notes to Unaudited Consolidated Financial Statements |
| 54 | |