

DELUXE CORP
Form 10-Q
October 28, 2016
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, 2016

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

3680 Victoria St. N., Shoreview, Minnesota

(Address of principal executive offices)

41-0216800

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, 2016 was 48,596,289.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

DELUXE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share par value)

(Unaudited)

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 80,065 | \$ 62,427 |
| Trade accounts receivable (net of allowances for uncollectible accounts of \$3,161 and \$4,816, respectively) | 117,761 | 123,654 |
| Inventories and supplies | 41,474 | 41,956 |
| Funds held for customers | 92,170 | 53,343 |
| Other current assets | 41,038 | 42,605 |
| Total current assets | 372,508 | 323,985 |
| Deferred income taxes | 1,749 | 1,238 |
| Long-term investments (including \$1,868 and \$2,091 of investments at fair value, respectively) | 41,893 | 41,691 |
| Property, plant and equipment (net of accumulated depreciation of \$349,856 and \$344,785, respectively) | 83,667 | 85,732 |
| Assets held for sale | 13,966 | 13,969 |
| Intangibles (net of accumulated amortization of \$451,214 and \$407,747, respectively) | 313,878 | 285,311 |
| Goodwill | 989,641 | 976,415 |
| Other non-current assets | 123,846 | 113,812 |
| Total assets | \$ 1,941,148 | \$ 1,842,153 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 86,835 | \$ 87,575 |
| Accrued liabilities | 240,637 | 228,423 |
| Long-term debt due within one year | 951 | 1,045 |
| Total current liabilities | 328,423 | 317,043 |
| Long-term debt | 616,790 | 627,973 |
| Deferred income taxes | 80,754 | 81,076 |
| Other non-current liabilities | 65,234 | 70,992 |
| Commitments and contingencies (Notes 11 and 12) | | |
| Shareholders' equity: | | |
| Common shares \$1 par value (authorized: 500,000 shares; outstanding: September 30, 2016 – 48,586; December 31, 2015 – 49,019) | 48,586 | 49,019 |
| Retained earnings | 851,420 | 751,253 |
| Accumulated other comprehensive loss | (50,059 |) (55,203) |
| Total shareholders' equity | 849,947 | 745,069 |
| Total liabilities and shareholders' equity | \$ 1,941,148 | \$ 1,842,153 |

See Condensed Notes to Unaudited Consolidated Financial Statements

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

| | Quarter Ended | | Nine Months Ended | |
|---|---------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Product revenue | \$364,680 | \$361,781 | \$1,090,686 | \$1,075,692 |
| Service revenue | 94,240 | 78,035 | 278,174 | 233,616 |
| Total revenue | 458,920 | 439,816 | 1,368,860 | 1,309,308 |
| Cost of products | (133,628) | (132,594) | (391,161) | (384,590) |
| Cost of services | (32,642) | (26,708) | (99,246) | (83,332) |
| Total cost of revenue | (166,270) | (159,302) | (490,407) | (467,922) |
| Gross profit | 292,650 | 280,514 | 878,453 | 841,386 |
| Selling, general and administrative expense | (198,365) | (189,641) | (598,563) | (575,110) |
| Net restructuring charges | (1,993) | (1,505) | (4,007) | (2,738) |
| Operating income | 92,292 | 89,368 | 275,883 | 263,538 |
| Loss on early debt extinguishment | — | — | — | (8,917) |
| Interest expense | (4,855) | (4,387) | (15,281) | (15,322) |
| Other income | 742 | 919 | 1,335 | 2,174 |
| Income before income taxes | 88,179 | 85,900 | 261,937 | 241,473 |
| Income tax provision | (29,516) | (28,983) | (86,783) | (82,553) |
| Net income | \$58,663 | \$56,917 | \$175,154 | \$158,920 |
| Comprehensive income | \$57,824 | \$52,680 | \$180,298 | \$150,190 |
| Basic earnings per share | 1.20 | 1.14 | 3.57 | 3.18 |
| Diluted earnings per share | 1.19 | 1.13 | 3.55 | 3.16 |
| Cash dividends per share | 0.30 | 0.30 | 0.90 | 0.90 |

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, 2015 | 49,019 | \$49,019 | \$ — | \$751,253 | \$ (55,203) | \$745,069 |
| Net income | — | — | — | 175,154 | — | 175,154 |
| Cash dividends | — | — | — | (44,127) | — | (44,127) |
| Common shares issued | 403 | 403 | 11,079 | — | — | 11,482 |
| Common shares repurchased | (733) | (733) | (13,351) | (30,860) | — | (44,944) |
| Other common shares retired | (103) | (103) | (6,230) | — | — | (6,333) |
| Fair value of share-based compensation | — | — | 8,502 | — | — | 8,502 |
| Other comprehensive income | — | — | — | — | 5,144 | 5,144 |
| Balance, September 30, 2016 | 48,586 | \$48,586 | \$ — | \$851,420 | \$ (50,059) | \$849,947 |

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

Nine Months Ended

September 30,

2016 2015

Cash
 flows
 from
 operating
 activities:

Net
 \$175,154 \$158,920
 income

Adjustments
 to
 reconcile
 net
 income

to
 net
 cash
 provided
 by

operating
 activities:
 Depreciation 12,006

Amortization
 of 6,364 42,425
 intangibles

Amortization
 of 4,700 14,059
 costs

Deferred
 income taxes (945)

Employee
 share-based
 compensation 8,774

Loss
 on
 early
 debt
 extinguishment 8,917

Other
 non-cash
 items, 1,197

net
 Changes
 in
 assets
 and
 liabilities,
 net
 of
 effect
 of
 acquisitions:
 Trade
 receivable
 5,310 13,970
 Inventories
 and
 supplies
 (1,376) (1,368)
 Other
 current
 assets
 (2,379) 2,377
 Non-current
 assets
 (3,351) (560)
 Accounts
 payable
 (1,619) (12,547)
 Contract
 acquisition
 payments
 (17,190) (9,843)
 Other
 accrued
 liabilities
 (11,316) (18,234)
 Net
 cash
 provided
 by
 operating
 activities
 208,121 219,148
 Cash
 flows
 from
 investing
 activities:
 Purchases
 of
 capital
 assets
 (32,215) (29,549)
 Payments
 for
 acquisitions,
 net

of
cash
acquired
Proceeds
from
company-owned
4,123 3,973
life
insurance
policies
2,130 805
Net
cash
used
(90,399) (75,704)
by
investing
activities
Cash
flows
from
financing
activities:
Proceeds
from
short-term 50,000
borrowings
Proceeds
from
issuance 276,500
long-term
debt
Payments
on
long-term
debt,
including 185,876) (375,291)
costs
of
debt
reacquisition
Proceeds
from
issuing 5,861 5,492
under
employee
plans
Excess 1,816
tax
benefit
from
share-based

employee
 awards
 Employee
 taxes
 paid
 (2,333) (1,236)
 for
 shares
 withheld
 Payments
 for
 (44,996) (46,996)
 shares
 repurchased
 Cash
 dividends
 paid
 (44,127) (44,965)
 to
 shareholders
 (1,634) (378)
 Net
 cash
 used
 (103,050) (135,058)
 by
 financing
 activities
 Effect
 of
 exchange
 rate
 (2,966) (7,032)
 change
 on
 cash
 Net
 change
 in
 cash
 and
 cash
 equivalents
 Cash
 and
 cash
 equivalents, 61,541
 beginning
 of
 year
 Cash
 and
 cash
 equivalents,
 end

of
period

See Condensed Notes to Unaudited Consolidated Financial Statements

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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, 2016, the consolidated statements of comprehensive income for the quarters and nine months ended September 30, 2016 and 2015, the consolidated statement of shareholders' equity for the nine months ended September 30, 2016, and the consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 are unaudited. The consolidated balance sheet as of December 31, 2015 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, 2015 (the "2015 Form 10-K").

During the quarter ended June 30, 2016, we identified an error in the balance sheet presentation of borrowings under our credit facility and the related asset for debt issuance costs. These amounts were previously presented as current items in our consolidated balance sheets, and we determined that they should have been presented as non-current. This change also corrects the presentation of the cash flows associated with borrowings under our credit facility. Previously these cash flows were presented on a net basis. The change in the balance sheet presentation requires that they be presented on a gross basis.

We assessed the materiality of this error on prior periods' financial statements in accordance with the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, Materiality, codified in Accounting Standards Codification (ASC) 250, Presentation of Financial Statements. We concluded that the error was not material to any prior annual or interim period and therefore, amendments of previously filed reports are not required. In accordance with ASC 250, we have corrected the error for all prior periods presented by revising the consolidated financial statements appearing herein. Periods not presented herein will be revised, as applicable, in future filings. The revisions had no impact on total assets, total liabilities, shareholders' equity, net income or net cash used by financing activities.

The impact of this revision on our unaudited consolidated balance sheet as of December 31, 2015 was as follows:

| | December 31, 2015 | | |
|---------------------------|------------------------------|-------------|---------------|
| (in thousands) | As Previously Reported | Adjustment | As Revised |
| Other current assets | \$44,608 | \$ (2,003) | \$42,605 |
| Total current assets | 325,988 | (2,003) | 323,985 |
| Other non-current assets | 111,809 | 2,003 | 113,812 |
| Short-term borrowings | 434,000 | (434,000) | — |
| Total current liabilities | 751,043 | (434,000) | 317,043 |
| Long-term debt | 193,973 | 434,000 | 627,973 |

The impact of this revision on our unaudited consolidated statement of cash flows for the nine months ended September 30, 2015 was as follows:

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Nine Months Ended September
30, 2015

As
Previously Reported Adjustment As
Revised

(in thousands)

| | | | |
|---|------------|--------------|-----------|
| Proceeds from short-term borrowings | \$ 159,000 | \$(109,000) | \$ 50,000 |
| Proceeds from issuing long-term debt | — | 276,500 | 276,500 |
| Payments on long-term debt, including costs of debt reacquisition | (207,791) | (167,500) | (375,291) |

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

Note 2: New accounting pronouncements

Recently adopted accounting pronouncements – In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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. We adopted this standard on January 1, 2016. As our accounting treatment for these awards was in compliance with the new guidance, adoption of this standard had 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 standard requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheets as a direct reduction from the carrying amount of the debt liability. We adopted this standard on January 1, 2016, applying it retrospectively. The consolidated balance sheet as of December 31, 2015 reflects the reclassification of debt issuance costs of \$2,249 from other non-current assets to long-term debt. The amount of debt issuance costs included in long-term debt as of September 30, 2016 was \$1,906. 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 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. Debt issuance costs of \$1,528 as of September 30, 2016 and \$2,003 as of December 31, 2015 related to our line-of-credit arrangement. We continue to include these costs within other non-current assets, amortizing 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 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. We adopted this standard on January 1, 2016, applying it prospectively to all arrangements entered into or materially modified on or after January 1, 2016. Adoption of this standard did not 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 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 standard was effective for us on January 1, 2016. It impacts the disclosures included in our Annual Report on Form 10-K regarding the plan assets of our postretirement benefit plan. As such, we will reflect this new guidance in the disclosures included in our Form 10-K for the year ending December 31, 2016, applying the guidance retrospectively to all periods presented.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The 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. We elected to early adopt this standard on January 1, 2016, applying it prospectively. Application of this standard did not 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. This standard 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. We adopted this standard on January 1, 2016, applying it prospectively. Application of this standard did not have a significant impact on our results of operations or financial position.

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

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify various aspects of the accounting and presentation of share-based payments. We elected to early adopt this standard as of January 1, 2016. Adoption of this standard had the following impacts on our consolidated financial statements:

Consolidated statements of comprehensive income – The new standard requires that the tax effects of share-based compensation be recognized in the income tax provision. Previously, these amounts were recognized in additional paid-in capital. Net tax benefits related to share-based compensation awards of \$234 for the quarter ended September 30, 2016 and \$1,745 for the nine months ended September 30, 2016 were recognized as reductions of income tax expense in the consolidated statements of comprehensive income. These tax benefits reduced our effective income tax rate 0.3 points for the quarter ended September 30, 2016 and 0.7 points for the nine months ended September 30, 2016. In addition, in calculating potential common shares used to determine diluted earnings per share, GAAP requires us to use the treasury stock method. The new standard requires that assumed proceeds under the treasury stock method be modified to exclude the amount of excess tax benefits that would have been recognized in additional paid-in capital. These changes were applied on a prospective basis and resulted in an increase in diluted earnings per share of \$0.03 for the nine months ended September 30, 2016. These changes had no impact on diluted earnings per share for the quarter ended September 30, 2016.

In recording share-based compensation expense, the standard allows companies to make a policy election as to whether they will include an estimate of awards expected to be forfeited or whether they will account for forfeitures as they occur. We have elected to include an estimate of forfeitures in the computation of our share-based compensation expense. As this treatment is consistent with previous guidance, this election had no impact on our consolidated financial statements.

Consolidated statements of cash flows – The standard requires that excess tax benefits from share-based employee awards be reported as operating activities in the consolidated statements of cash flows. Previously, these cash flows were included in financing activities. We elected to apply this change on a prospective basis, resulting in an increase in net cash provided by operating activities and in net cash used by financing activities of \$2,069 for the nine months ended September 30, 2016.

The standard requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows. Previously, these cash flows were included in operating activities. This change was required to be applied on a retrospective basis. As such, the consolidated statement of cash flows for the prior period was restated. This change resulted in an increase in net cash provided by operating activities and in net cash used by financing activities of \$2,333 for the nine months ended September 30, 2016 and \$1,236 for the nine months ended September 30, 2015.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The standard is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. We elected to early adopt this standard as of July 1, 2016. As our consolidated statement of cash flows presentation was in compliance with the new guidance, adoption of this standard 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 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 standard also expands the required financial statement disclosures regarding revenue recognition. The new guidance is effective for us on January 1, 2018. In addition, in March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), in April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients. These standards are intended to clarify aspects of ASU No. 2014-09 and are effective for us upon adoption of ASU No. 2014-09. We are currently assessing the impact of these standards on our consolidated financial statements, as well as the method of transition that we will use in adopting the new guidance.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The standard is intended to improve the recognition, measurement, presentation and disclosure of financial

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

instruments. The guidance is effective for us on January 1, 2018. We do not expect the application of this standard to have a significant impact on our results of operations or financial position.

In February 2016, the FASB issued ASU No. 2016-02, Leasing. The standard is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities for virtually all leases and by requiring the disclosure of key information about leasing arrangements. The guidance is effective for us on January 1, 2019, and requires adoption using a modified retrospective approach. We are currently assessing the impact of this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The standard introduces new guidance for the accounting for credit losses on instruments within its scope, including trade and loans receivable and available-for-sale debt securities. The guidance is effective for us on January 1, 2020, and requires adoption using a modified retrospective approach. 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, December 31, | |
|--------------------------|----------------------------|-----------|
| | 2016 | 2015 |
| Raw materials | \$ 5,593 | \$ 5,719 |
| Semi-finished goods | 8,857 | 8,208 |
| Finished goods | 23,937 | 24,955 |
| Supplies | 3,087 | 3,074 |
| Inventories and supplies | \$ 41,474 | \$ 41,956 |

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, 2016 | | | |
|---|--------------------|------------------------------|-------------------------------|---------------|
| | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Funds held for customers: ⁽¹⁾ | | | | |
| Canadian and provincial government securities | \$8,491 | \$ | —\$ (43) | \$8,448 |
| Canadian guaranteed investment certificates | 7,618 | — | — | 7,618 |
| Available-for-sale securities | \$16,109 | \$ | —\$ (43) | \$16,066 |

⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of September 30, 2016, also included cash of \$76,104. This cash included amounts related to FISC Solutions, which was acquired in December 2015. This business provides cash receipt processing services. A portion of the cash receipts are remitted to our clients the business day following receipt. As such, the amounts on-hand are reported as funds held for customers in the consolidated balance sheets, with a corresponding liability included in accrued liabilities. The asset and liability of \$18,743 were recorded as acquisition measurement-period balance sheet adjustments during 2016. In addition, this cash included \$12,532 related to the September 2016 acquisition of Payce, Inc., a payroll services provider (see Note 6).

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

| (in thousands) | December 31, 2015 | | | |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Canadian and provincial government securities | \$7,932 | \$ | —\$ (91) | \$7,841 |
| Canadian guaranteed investment certificates | 7,226 | — | — | 7,226 |
| Available-for-sale securities (funds held for customers) ⁽¹⁾ | 15,158 | — | (91) | 15,067 |
| Canadian money market fund (other current assets) | 1,616 | — | — | 1,616 |
| Available-for-sale securities | \$16,774 | \$ | —\$ (91) | \$16,683 |

⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of December 31, 2015, also included cash of \$38,276.

Expected maturities of available-for-sale securities as of September 30, 2016 were as follows:

| (in thousands) | Fair value |
|-------------------------------|---------------|
| Due in one year or less | \$9,629 |
| Due in two to five years | 4,190 |
| Due in six to ten years | 2,247 |
| Available-for-sale securities | \$16,066 |

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

Assets held for sale – Assets held for sale as of September 30, 2016 and December 31, 2015 included the operations of a small business distributor that we previously acquired. This business is included in our Small Business Services segment and the assets acquired consisted primarily of a customer list intangible asset. We are actively marketing the business and expect the selling price will exceed its carrying value. Net assets held for sale consisted of the following:

| (in thousands) | September 30, 2016 | December 31, 2015 | Balance sheet caption |
|---------------------------------|-----------------------|----------------------|-------------------------------|
| Current assets | \$ 4 | \$ 3 | Other current assets |
| Intangibles | 13,533 | 13,533 | Assets held for sale |
| Other non-current assets | 433 | 436 | Assets held for sale |
| Accrued liabilities | (112) | (366) | Accrued liabilities |
| Deferred income tax liabilities | (5,775) | (5,777) | Other non-current liabilities |
| Net assets held for sale | \$ 8,083 | \$ 7,829 | |

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

Intangibles – Intangibles were comprised of the following:

| (in thousands) | September 30, 2016 | | | December 31, 2015 | | |
|-------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Indefinite-lived intangibles: | | | | | | |
| Trade name | \$ 19,100 | \$ — | \$ 19,100 | \$ 19,100 | \$ — | \$ 19,100 |
| Amortizable intangibles: | | | | | | |
| Internal-use software | 410,231 | (336,356) | 73,875 | 375,037 | (310,665) | 64,372 |
| Customer lists/relationships | 239,972 | (67,366) | 172,606 | 202,682 | (54,990) | 147,692 |
| Trade names | 65,481 | (40,029) | 25,452 | 64,881 | (36,325) | 28,556 |
| Software to be sold | 28,500 | (6,141) | 22,359 | 28,500 | (3,765) | 24,735 |
| Other | 1,808 | (1,322) | 486 | 2,858 | (2,002) | 856 |
| Amortizable intangibles | 745,992 | (451,214) | 294,778 | 673,958 | (407,747) | 266,211 |
| Intangibles | \$ 765,092 | \$ (451,214) | \$ 313,878 | \$ 693,058 | \$ (407,747) | \$ 285,311 |

Amortization of intangibles was \$19,273 for the quarter ended September 30, 2016 and \$14,686 for the quarter ended September 30, 2015. Amortization of intangibles was \$56,364 for the nine months ended September 30, 2016 and \$42,425 for the nine months ended September 30, 2015. Based on the intangibles in service as of September 30, 2016, estimated future amortization expense is as follows:

| (in thousands) | Estimated amortization expense |
|-------------------|--------------------------------|
| Remainder of 2016 | \$ 18,260 |
| 2017 | 65,293 |
| 2018 | 51,235 |
| 2019 | 37,788 |
| 2020 | 31,737 |

During the nine months ended September 30, 2016, we acquired internal-use software in the normal course of business. We also acquired intangible assets in conjunction with acquisitions (Note 6). The following intangible assets were acquired during the nine months ended September 30, 2016:

| (in thousands) | Amount | Weighted-average amortization period (in years) |
|------------------------------|-----------|---|
| Internal-use software | \$ 34,970 | 4 |
| Customer lists/relationships | 48,982 | 7 |
| Trade names | 600 | 5 |
| Acquired intangibles | \$ 84,552 | 6 |

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

Goodwill – Changes in goodwill during the nine months ended September 30, 2016 were as follows:

| (in thousands) | Small Business Services | Financial Services | Direct Checks | Total |
|---|-------------------------------|-----------------------|------------------|------------|
| Balance, December 31, 2015: | | | | |
| Goodwill, gross | \$ 671,295 | \$ 176,614 | \$ 148,506 | \$ 996,415 |
| Accumulated impairment charges | (20,000) | — | — | (20,000) |
| Goodwill, net of accumulated impairment charges | 651,295 | 176,614 | 148,506 | 976,415 |
| Acquisition of 180 Fusion (Note 6) | 575 | — | — | 575 |
| Acquisition of Inkhead (Note 6) | 4,421 | — | — | 4,421 |
| Acquisition of Payce (Note 6) | 7,979 | — | — | 7,979 |
| Adjustment for acquisition of Datamyx (Note 6) | — | 172 | — | 172 |
| Currency translation adjustment | 79 | — | — | 79 |
| Balance, September 30, 2016: | | | | |
| Goodwill, gross | 684,349 | 176,786 | 148,506 | 1,009,641 |
| Accumulated impairment charges | (20,000) | — | — | (20,000) |
| Goodwill, net of accumulated impairment charges | \$ 664,349 | \$ 176,786 | \$ 148,506 | \$ 989,641 |

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

| (in thousands) | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| Contract acquisition costs | \$ 67,488 | \$ 58,792 |
| Loans and notes receivable from distributors | 21,531 | 23,957 |
| Postretirement benefit plan asset | 20,260 | 16,250 |
| Deferred advertising costs | 6,660 | 7,500 |
| Other | 7,907 | 7,313 |
| Other non-current assets | \$ 123,846 | \$ 113,812 |

Changes in contract acquisition costs during the nine months ended September 30, 2016 and 2015 were as follows:

| (in thousands) | Nine Months Ended September 30, | |
|----------------------------|---------------------------------------|-----------|
| | 2016 | 2015 |
| Balance, beginning of year | \$ 58,792 | \$ 74,101 |
| Additions ⁽¹⁾ | 23,471 | 4,828 |
| Amortization | (14,700) | (14,059) |
| Other | (75) | (3,458) |
| Balance, end of period | \$ 67,488 | \$ 61,412 |

⁽¹⁾ Contract acquisition costs are accrued upon contract execution. Cash payments made for contract acquisition costs were \$17,190 for the nine months ended September 30, 2016 and \$9,843 for the nine months ended September 30, 2015.

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(dollars and shares in thousands, except per share amounts)

Accrued liabilities – Accrued liabilities were comprised of the following:

| (in thousands) | September 30, December 31, | |
|--|----------------------------|------------|
| | 2016 | 2015 |
| Funds held for customers | \$ 90,960 | \$ 52,366 |
| Deferred revenue | 32,418 | 48,119 |
| Employee profit sharing/cash bonus | 24,771 | 40,683 |
| Customer rebates | 17,077 | 18,900 |
| Contract acquisition costs due within one year | 11,980 | 9,045 |
| Wages, including vacation | 11,260 | 5,731 |
| Restructuring due within one year (Note 9) | 2,648 | 3,864 |
| Other | 49,523 | 49,715 |
| Accrued liabilities | \$ 240,637 | \$ 228,423 |

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 | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Earnings per share – basic: | | | | |
| Net income | \$58,663 | \$56,917 | \$175,154 | \$158,920 |
| Income allocated to participating securities | (491) | (386) | (1,445) | (1,054) |
| Income available to common shareholders | \$58,172 | \$56,531 | \$173,709 | \$157,866 |
| Weighted-average shares outstanding | 48,493 | 49,396 | 48,634 | 49,592 |
| Earnings per share – basic | \$1.20 | \$1.14 | \$3.57 | \$3.18 |
| Earnings per share – diluted: | | | | |
| Net income | \$58,663 | \$56,917 | \$175,154 | \$158,920 |
| Income allocated to participating securities | (487) | (384) | (1,436) | (1,049) |
| Re-measurement of share-based awards classified as liabilities | (64) | (114) | 230 | (67) |
| Income available to common shareholders | \$58,112 | \$56,419 | \$173,948 | \$157,804 |
| Weighted-average shares outstanding | 48,493 | 49,396 | 48,634 | 49,592 |
| Dilutive impact of potential common shares | 455 | 366 | 427 | 391 |
| Weighted-average shares and potential common shares outstanding | 48,948 | 49,762 | 49,061 | 49,983 |
| Earnings per share – diluted | \$1.19 | \$1.13 | \$3.55 | \$3.16 |
| Antidilutive options excluded from calculation | 223 | 255 | 223 | 255 |

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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, | | |
| | 2016 | 2015 | 2016 | 2015 | |
| Amortization of postretirement benefit plan items: | | | | | |
| Prior service credit | \$355 | \$355 | 1,066 | 1,066 | (1) |
| Net actuarial loss | (949) | (780) | (2,848) | (2,340) | (1) |
| Total amortization | (594) | (425) | (1,782) | (1,274) | (1) |
| Tax benefit | 181 | 113 | 544 | 339 | (1) |
| Total reclassifications, net of tax | \$(413) | \$(312) | \$(1,238) | \$(935) | |

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

Accumulated other comprehensive loss – Changes in the components of accumulated other comprehensive loss during the nine months ended September 30, 2016 were as follows:

| (in thousands) | Postretirement loss on benefit plans, net of tax | Net unrealized | Currency translation adjustment | Accumulated other comprehensive loss |
|--|--|--|---------------------------------|--------------------------------------|
| | | loss on marketable securities, net of tax ⁽¹⁾ | | |
| Balance, December 31, 2015 | \$ (38,822) | \$ (114) | \$ (16,267) | \$ (55,203) |
| Other comprehensive income before reclassifications | — | 40 | 3,866 | 3,906 |
| Amounts reclassified from accumulated other comprehensive loss | 1,238 | — | — | 1,238 |
| Net current-period other comprehensive income | 1,238 | 40 | 3,866 | 5,144 |
| Balance, September 30, 2016 | \$ (37,584) | \$ (74) | \$ (12,401) | \$ (50,059) |

(1) Other comprehensive income before reclassifications is net of income tax expense of \$14.

Note 6: Acquisitions

We periodically complete business combinations that align with our business strategy. The assets and liabilities acquired are recorded at their estimated fair values and the results of operations of each acquired business are included in our consolidated statements of comprehensive income from their acquisition dates. Transaction costs related to

acquisitions were expensed as incurred and were not significant to the consolidated statements of comprehensive income for the quarters or nine months ended September 30, 2016 and 2015.

During the nine months ended September 30, 2016, we completed the following acquisitions which are included within our Small Business Services segment and for which the allocation of the purchase price to the assets acquired and liabilities assumed has been finalized:

In February 2016, we acquired selected assets of Category 99, Inc., doing business as MacHighway®, a web hosting and domain registration service provider.

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In March 2016, we acquired selected assets of New England Art Publishers, Inc., doing business as Birchcraft Studios, a supplier of personalized invitations, holiday cards, all-occasion cards and social announcements.

In June 2016, we acquired selected assets of L.A.M. Enterprises, Inc., a provider of printed and promotional products.

During the nine months ended September 30, 2016, we completed several acquisitions which are included within our Small Business Services segment and for which we expect to finalize the allocation of the purchase price by the end of 2016 when our valuation of all of the acquired assets and liabilities is completed, as well as the determination of the estimated useful lives of the acquired customer lists. These acquisitions were as follows:

In April 2016, we acquired selected assets of 180 Fusion LLC, a digital marketing services provider. 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 \$575. The acquisition resulted in goodwill as we expect it will enhance our Small Business Services product set by providing valuable marketing tools to our customers, thus, enhancing customer acquisition and loyalty.

In June 2016, we acquired selected assets of Liquid Web, LLC, a web hosting services provider.

In June 2016, we acquired selected assets of National Document Solutions, LLC, a provider of printing, promotional products, office products, scanning and document management solutions.

In July 2016, we acquired selected assets of Inkhead, Inc., a provider of customized promotional products. 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 \$4,421. The acquisition resulted in goodwill as it enables us to diversify our promotional product offerings and bring these offerings to our customer base.

In August 2016, we acquired selected assets of BNBS, Inc., doing business as B&B Solutions, a provider of printing, promotional and office products and services.

In September 2016, we acquired all of the outstanding capital stock of Payce, Inc., a provider of payroll processing, payroll tax filing and related payroll services. 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 \$7,979. The acquisition resulted in goodwill as we expect Payce's expertise, customer mix and operational strength to enhance our existing portfolio of small business services.

Also during the nine months ended September 30, 2016, we acquired the operations of several small business distributors which are included in our Small Business Services segment. The assets acquired consisted primarily of customer list intangible assets. As these distributors were previously part of our Safeguard® distributor network, our revenue was not impacted by these acquisitions and the impact to our costs was not significant. We expect to finalize the allocations of the purchase price by the end of 2016 when our valuations of the acquired customer lists are completed, including the determination of the related estimated useful lives.

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As our acquisitions were not significant to our operating results both individually and in the aggregate, pro forma results of operations are not provided. The following illustrates the preliminary allocation as of September 30, 2016 of the aggregate purchase price for the above acquisitions to the assets acquired and liabilities assumed:

| (in thousands) | 2016 acquisitions |
|--|----------------------|
| Net tangible assets acquired and liabilities assumed | \$ (784) |
| Identifiable intangible assets: | |
| Customer lists/relationships | 48,982 |
| Internal-use software | 10,250 |
| Trade names | 600 |
| Total intangible assets | 59,832 |
| Goodwill | 12,975 |
| Total aggregate purchase price | 72,023 |
| Liabilities for holdback payments | (6,900) |
| Non-cash consideration ⁽¹⁾ | (2,020) |
| Net cash paid for 2016 acquisitions | 63,103 |
| Holdback payments for prior year acquisitions | 1,534 |
| Payments for acquisitions, net of cash acquired | \$ 64,637 |

⁽¹⁾ 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 can be found in Note 8.

During the quarter ended September 30, 2016, we finalized purchase accounting for the acquisition of Datamyx LLC, which was acquired in October 2015. Further information regarding this acquisition can be found under the caption "Note 5: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2015 Form 10-K. The adjustments recorded during the quarter ended September 30, 2016 increased goodwill \$172 from the preliminary amount recorded as of December 31, 2015, with the offset to various assets and liabilities, primarily property, plant and equipment and other current assets.

During the nine months ended September 30, 2015, we acquired 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 using cPanel web hosting technology; and FMC Resource Management Corporation, a marketing services provider, as well as the operations of eight small business distributors, five of which were previously part of our Safeguard distributor network. The assets acquired consisted primarily of customer list intangible assets and goodwill. Payments for acquisitions, net of cash acquired, as presented on the consolidated statement of cash flows for the nine months ended September 30, 2015, included payments of \$46,796 for these acquisitions and \$4,137 for holdback payments for prior year acquisitions. Further information regarding our 2015 acquisitions can be found under the caption "Note 5: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2015 Form 10-K.

Note 7: Derivative financial instruments

We have entered into interest rate swaps, which we designated as fair value hedges, to hedge against changes in the fair value of a portion of our long-term debt. At the time we entered into these swaps in 2012, 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 \$109 as of September 30, 2016 and \$4,842 as of December 31, 2015. As the short-cut method is being used to account for these hedges, the consolidated balance sheets included a decrease in long-term debt of \$109 as of September 30, 2016 and \$4,842 as of December 31, 2015 due to fair value adjustments.

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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 2015 Form 10-K, explains our methodology for assessing impairment of these assets. In completing the 2016 annual goodwill impairment analysis, we elected to perform a qualitative assessment for all of our reporting units to which goodwill is assigned, with one exception. We elected to perform a quantitative analysis for our Financial Services Commercial reporting unit as the previous quantitative analysis completed as of July 31, 2015 indicated that the estimated fair value of this reporting unit exceeded its carrying value by approximately 13%. This relatively small percentage was primarily due to the fact that the reporting unit had been recently acquired.

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 completing the 2016 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. The quantitative analysis completed for the Financial Services Commercial reporting unit indicated that its estimated fair value exceeded its carrying value by approximately 49% as of July 31, 2016. Total goodwill for this reporting unit was approximately \$45,000 as of September 30, 2016. In completing the 2016 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 \$32,000 as of July 31, 2016. We recorded no impairment charges as a result of our 2016 annual impairment analyses.

2016 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, 2016 can be found in Note 6. The identifiable net assets acquired during the nine months ended September 30, 2016 were comprised primarily of customer lists with an aggregate fair value of \$48,982 and internal-use software with an aggregate fair value of \$10,250. Fair value of the customer lists 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. A portion of the fair value of the acquired software 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 the acquirees. The fair value of the remainder of the software was estimated using the relief from royalty method, which calculates the cost savings associated with owning rather than licensing the technology. Assumed royalty rates were applied to projected revenue for the remaining useful life of the software to estimate the royalty savings. Information regarding the useful lives of acquired intangibles can be found in Note 3.

Recurring fair value measurements – Funds held for customers included available-for-sale marketable securities (Note 3). These securities consisted of a mutual fund investment that invests in Canadian and provincial government securities, as well as investments in Canadian guaranteed investment certificates (GICs) 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 GICs 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, 2016 and 2015.

Other current assets as of December 31, 2015 included available-for-sale marketable securities (Note 3). These securities were sold during the first quarter of 2016, and consisted of a Canadian money market fund that was not traded in an active market. As such, the fair value of this investment was 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 approximated their fair value. No gains or losses on sales of these marketable securities were realized during the nine months ended September 30, 2016 and 2015.

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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 selling, general and administrative (SG&A) expense in the consolidated statements of comprehensive income. This investment corresponds to a liability under an officers' deferred compensation plan that 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, 2016 and 2015, net realized gains were not significant. We recognized net unrealized losses of \$160 during the nine months ended September 30, 2016 and \$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. Our interest rate swaps relate to our long-term debt due in 2020 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, the changes in the fair value of the derivative and related long-term debt are equal.

Liabilities for contingent consideration relate to acquisitions completed during 2015. Information concerning these acquisitions can be found under the caption "Note 5: Acquisitions" in the Notes to Consolidated Financial Statements included in the 2015 Form 10-K. Under the agreement related to the acquisition of Verify Valid, 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 agreement related to the acquisition of a small business distributor, 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 is estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in the calculations include 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 remeasured 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 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.

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

| (in thousands) | Fair value as of September 30, 2016 | Fair value measurements using Quoted prices in Significant markets | | Significant unobservable inputs (Level 3) |
|---|-------------------------------------|--|----------|---|
| | | Level 1 | Level 2 | |
| Available-for-sale marketable securities (funds held for customers) | \$ 16,066 | \$ 16,066 | \$ — | |
| Long-term investment in mutual funds | 1,868 | 1,868 | — | |
| Derivative liabilities | (109) | (109) | — | |
| Accrued contingent consideration | (4,276) | — | (4,276) | |

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| (in thousands) | Fair value as of December 31, 2015 | Fair value measurements using | |
|---|---|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant unobservable inputs (Level 2) (Level 3) |
| Available-for-sale marketable securities (funds held for customers) | \$ 15,067 | \$ 15,067 | \$ — |
| Available-for-sale marketable securities (other current assets) | 1,616 | —1,616 | — |
| Long-term investment in mutual funds | 2,091 | 2,091 | — |
| Derivative liabilities | (4,842) | —(4,842) | — |
| Accrued contingent consideration | (5,861) | — | (5,861) |

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, 2016.

Changes in accrued contingent consideration during the nine months ended September 30, 2016 were as follows:

| (in thousands) | Nine Months Ended September 30, 2016 |
|-----------------------------|--|
| Balance, December 31, 2015 | \$ 5,861 |
| Change in fair value | (448) |
| Payments | (1,137) |
| Balance, September 30, 2016 | \$ 4,276 |

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.

Cash 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 carrying amounts reported in the consolidated balance sheets for the amount drawn on our credit facility approximates fair value because our interest rate is variable and reflects current market rates. The fair value of

our long-term notes due in 2020 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 or debt issuance costs. The carrying amount of long-term debt includes the change in fair value of hedged long-term debt, as well as unamortized debt issuance costs related to our notes due in 2020 (Note 11).

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

| (in thousands) | September 30, 2016 | Fair value measurements using | | | | |
|--|-----------------------|--|--|---------------------------------------|-----------|--------|
| | | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs | | |
| | Carrying value | Fair value | (Level 1) | (Level 2) | (Level 3) | |
| Cash | \$80,065 | \$80,065 | \$80,065 | \$ | —\$ | — |
| Cash (funds held for customers) | 76,104 | 76,104 | 76,104 | — | — | — |
| Loans and notes receivable from distributors | 23,329 | 21,290 | — | — | — | 21,290 |
| Long-term debt ⁽¹⁾ | 615,985 | 624,758 | — | 624,758 | — | — |

⁽¹⁾ Amounts exclude capital lease obligations.

| (in thousands) | December 31, 2015 | Fair value measurements using | | | | |
|--|----------------------|--|--|---------------------------------------|-----------|--------|
| | | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs | | |
| | Carrying value | Fair value | (Level 1) | (Level 2) | (Level 3) | |
| Cash | \$62,427 | \$62,427 | \$62,427 | \$ | —\$ | — |
| Cash (funds held for customers) | 38,276 | 38,276 | 38,276 | — | — | — |
| Loans and notes receivable from distributors | 25,745 | 23,383 | — | — | — | 23,383 |
| Long-term debt ⁽¹⁾ | 626,909 | 641,000 | — | 641,000 | — | — |

⁽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 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Severance accruals | \$1,824 | \$1,443 | \$3,870 | \$3,493 |
| Severance reversals | (198) | (282) | (666) | (976) |
| Operating lease obligations | — | 88 | — | 88 |
| Net restructuring accruals | 1,626 | 1,249 | 3,204 | 2,605 |

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| | | | | |
|--|---------|---------|---------|---------|
| Other costs | 432 | 489 | 939 | 551 |
| Net restructuring charges | \$2,058 | \$1,738 | \$4,143 | \$3,156 |
| Number of employees included in severance accruals | 55 | 50 | 120 | 200 |

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 CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(dollars and shares in thousands, except per share amounts)

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

| (in thousands) | Quarter Ended | | Nine Months | |
|---------------------------|---------------|---------|-------------|---------|
| | September 30, | | Ended | |
| | 2016 | 2015 | 2016 | 2015 |
| Total cost of revenue | \$65 | \$233 | \$136 | \$418 |
| Operating expenses | 1,993 | 1,505 | 4,007 | 2,738 |
| Net restructuring charges | \$2,058 | \$1,738 | \$4,143 | \$3,156 |

During the nine months ended September 30, 2016 and September 30, 2015, 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 \$2,648 as of September 30, 2016 and \$3,864 as of December 31, 2015 are included in accrued liabilities in the consolidated balance sheets. The majority of the employee reductions are expected to be completed by the fourth quarter of 2016, and we expect most of the related severance payments to be paid by mid-2017, utilizing cash from operations. The remaining payments due under operating lease obligations will be paid by the end of 2016. As of September 30, 2016, approximately 25 employees had not yet started to receive severance benefits.

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

| (in thousands) | 2014 | 2015 | 2016 | Total |
|-----------------------------|-------------|-------------|-------------|-----------|
| | initiatives | initiatives | initiatives | |
| Balance, December 31, 2015 | \$ 176 | \$ 3,688 | \$ — | \$3,864 |
| Restructuring charges | — | 78 | 3,792 | 3,870 |
| Restructuring reversals | (111) | (465) | (90) | (666) |
| Payments | (65) | (2,989) | (1,366) | (4,420) |
| Balance, September 30, 2016 | \$ — | \$ 312 | \$ 2,336 | \$2,648 |
| Cumulative amounts: | | | | |
| Restructuring charges | \$ 8,242 | \$ 6,205 | \$ 3,792 | \$18,239 |
| Restructuring reversals | (1,444) | (923) | (90) | (2,457) |
| Payments | (6,798) | (4,970) | (1,366) | (13,134) |
| Balance, September 30, 2016 | \$ — | \$ 312 | \$ 2,336 | \$2,648 |

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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 | Financial Services | |
| Balance, December 31, 2015 | \$1,023 | \$884 | \$ — | \$ 1,859 | \$56 | \$ 42 | \$3,864 |
| Restructuring charges | 1,979 | 768 | 135 | 929 | 59 | — | 3,870 |
| Restructuring reversals | (255) | (50) | (2) | (359) | — | — | (666) |
| Payments | (1,457) | (922) | (85) | (1,811) | (103) | (42) | (4,420) |
| Balance, September 30, 2016 | \$1,290 | \$680 | \$ 48 | \$ 618 | \$12 | \$ — | \$2,648 |
| Cumulative amounts ⁽¹⁾ : | | | | | | | |
| Restructuring charges | \$7,704 | \$5,027 | \$ 171 | \$4,940 | \$344 | \$ 53 | \$18,239 |
| Restructuring reversals | (1,455) | (361) | (4) | (637) | — | — | (2,457) |
| Inter-segment transfer | 41 | (14) | — | (27) | — | — | — |
| Payments | (5,000) | (3,972) | (119) | (3,658) | (332) | (53) | (13,134) |
| Balance, September 30, 2016 | \$1,290 | \$680 | \$ 48 | \$ 618 | \$12 | \$ — | \$2,648 |

⁽¹⁾ Includes accruals related to our cost reduction initiatives for 2014 through 2016.

Note 10: Postretirement benefits

We have historically provided certain health care benefits for a portion of our 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 2015 Form 10-K.

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

| (in thousands) | Quarter Ended | | Nine Months | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Interest cost | \$780 | \$859 | \$2,339 | \$2,578 |
| Expected return on plan assets | (1,834) | (1,958) | (5,501) | (5,875) |
| Amortization of prior service credit | (355) | (355) | (1,066) | (1,066) |
| Amortization of net actuarial losses | 949 | 780 | 2,848 | 2,340 |
| Net periodic benefit income | \$(460) | \$(674) | \$(1,380) | \$(2,023) |

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Note 11: Debt

Debt outstanding was comprised of the following:

| (in thousands) | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| 6.0% senior notes due November 15, 2020, principal amount | \$ 200,000 | \$ 200,000 |
| Less unamortized debt issuance costs | (1,906) | (2,249) |
| Cumulative change in fair value of hedged debt (Note 7) | (109) | (4,842) |
| 6.0% senior notes, carrying value | 197,985 | 192,909 |
| Amount drawn on credit facility | 418,000 | 434,000 |
| Long-term portion of capital lease obligations | 805 | 1,064 |
| Long-term portion of debt | 616,790 | 627,973 |
| Capital lease obligations due within one year | 951 | 1,045 |
| Total debt | \$ 617,741 | \$ 629,018 |

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. 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 this agreement.

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 SEC via a registration statement that 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. Proceeds from the offering, net of offering costs, were \$196,340. These proceeds were used to retire our senior notes that were due in June 2015. In October 2016, we issued a notice to redeem all of these notes on November 15, 2016 at a redemption price of 103% of the principal amount. The fair value of these notes was \$206,758 as of September 30, 2016, based on quoted prices that are directly observable. As discussed in Note 7, we entered into interest rate swaps to hedge these notes.

In March 2011, we issued \$200,000 of 7.0% senior notes that were scheduled to mature 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 that 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, consisting of a contractual call premium and the write-off of related debt issuance costs. This retirement was funded utilizing our credit facility and a short-term bank loan that we

have since repaid.

We had capital lease obligations of \$1,756 as of September 30, 2016 and \$2,109 as of December 31, 2015 related to information technology hardware. The lease obligations will be paid through August 2020. 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.

As of September 30, 2016, we had a \$525,000 revolving 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. As of September 30, 2016, \$418,000 was drawn on our revolving credit facility at a weighted-average interest rate of 1.95%. As of December 31, 2015, \$434,000

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was drawn on our revolving credit facility at a weighted-average interest rate of 1.89%. In September 2016, we amended the credit agreement governing our credit facility to include a new term loan facility in the aggregate principal amount of \$200,000 in order to retire our senior notes due in 2020, which we expect to redeem on November 15, 2016. The term loan facility will be fully drawn on the date that it is funded and amounts repaid may not be reborrowed. Interest will be calculated at a variable rate and will be paid quarterly. Aggregate principal payments of \$21,250 will be due in 2017 and \$26,250 will be due in 2018, with the remainder due in February 2019 at the expiration of the credit agreement. We may prepay the term loan in full or in part at our discretion.

All borrowings under our credit agreement are collateralized by substantially all of our personal and intangible property. The credit agreement governing our credit facility contains 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 agreement also contains financial covenants regarding our leverage ratio, interest coverage and liquidity.

In March 2015, we entered into a \$75,000 short-term variable rate bank loan. Proceeds from this loan, net of related 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 that were scheduled to mature on March 15, 2019. During December 2015, we elected to repay this loan in full.

Daily average amounts outstanding under our credit facility and short-term borrowings were as follows:

| (in thousands) | Nine | |
|----------------------------------|--|------------------------------------|
| | Months Ended September 30, 2016 | Year Ended December 31, 2015 |
| Revolving credit facility: | | |
| Daily average amount outstanding | \$416,814 | \$270,063 |
| Weighted-average interest rate | 1.91 % | 1.66 % |
| Short-term bank loan: | | |
| Daily average amount outstanding | \$— | \$47,178 |
| Weighted-average interest rate | — | 1.59 % |

As of September 30, 2016, amounts were available for borrowing under our revolving credit facility as follows:

| (in thousands) | Total available |
|--|--------------------|
| Revolving credit facility commitment | \$525,000 |
| Amount drawn on revolving credit facility | (418,000) |
| Outstanding letters of credit ⁽¹⁾ | (12,795) |
| Net available for borrowing as of September 30, 2016 | \$94,205 |

⁽¹⁾ We use standby letters of credit to collateralize certain obligations related primarily 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 revolving 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, without limitation, 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. While we do not believe that any liability under these indemnities would likely have a material adverse effect on our financial position, annual results of operations or

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annual cash flows, inherent uncertainties exist regarding the scope and nature of such indemnities that could lead to material unfavorable outcomes. 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 that 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 \$3,329 as of September 30, 2016 and \$5,952 as of December 31, 2015, primarily related to facilities that 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 that 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. The consolidated statement of comprehensive income for the nine months ended September 30, 2016 included a benefit from environmental matters of \$1,759. During the quarter ended June 30, 2016, we reversed a portion of the liability for one of our sold facilities as we determined that it was no longer probable that a portion of the estimated environmental remediation costs for this location would be incurred. Environmental expense was \$915 for the nine months ended September 30, 2015.

We purchased an insurance policy during 2002 that covers up to \$10,000 of third-party pollution claims through 2032 at certain owned, leased and divested sites. We also purchased an insurance policy during 2009 that covers up to \$15,000 of third-party pollution claims through April 2019. 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. No accruals have been recorded in our consolidated financial statements for any of the events contemplated in these insurance policies. We do not anticipate significant net cash outlays for environmental matters during 2016.

Self-insurance – We are self-insured for certain costs, primarily workers' compensation claims and medical and dental benefits for active employees and those employees on long-term disability. The liabilities associated with these items represent our best estimate of the ultimate obligations for reported claims plus those incurred, but not reported, and totaled \$6,766 as of September 30, 2016 and \$6,457 as of December 31, 2015. These accruals are included in accrued liabilities and other non-current liabilities in the consolidated balance sheets. Our workers' compensation liability is accounted for on a present value basis. The difference between the discounted and undiscounted liability was not significant as of September 30, 2016 or December 31, 2015.

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.

Litigation – On September 2, 2014, one of our suppliers filed a petition for binding arbitration under the Commercial Rules of the American Arbitration Association, alleging that it is entitled to additional payment from us under our reseller agreement and seeking damages of up to approximately \$43,000. We did not record a liability for damages in connection with this matter in our consolidated balance sheets. In March 2016, the arbitrator rejected all of the supplier's claims and ruled in our favor.

Recorded liabilities for legal matters 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 will materially affect our financial position, results of operations or liquidity upon resolution. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, it may cause a material adverse impact on our financial position, results of operations or liquidity for the period in which the ruling occurs or in future periods.

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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 233 shares remained available for purchase under this authorization as of September 30, 2016. During the nine months ended September 30, 2016, we repurchased 733 shares for \$44,944.

In May 2016, our board of directors approved an additional authorization for the repurchase of up to \$300,000 of our common stock, effective at the conclusion of our previous authorization. The additional authorization also has no expiration date.

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, telecommunications clients and other partners; networks of distributors and independent dealers; a direct sales force that focuses on selling to and through 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.

Our product and service offerings are comprised of the following:

Checks – We remain one of the largest providers of checks in the United States. During 2015, checks represented 40.1% of our Small Business Services segment's revenue, 59.7% of our Financial Services segment's revenue and 84.6% of our Direct Checks segment's revenue.

Marketing solutions and other services – We offer products and services that help small businesses and/or financial institutions promote their businesses and acquire customers, as well as various other service offerings. Our Small Business Services segment offers services designed to fulfill the marketing and sales needs of small businesses, including logo and web design; hosting and other web services; search engine optimization; marketing programs, including email, mobile, social media and other self-service marketing solutions; and digital printing services. In addition, Small Business Services offers specialized services, including fraud protection and security, payroll services and electronic checks, as well as promotional solutions such as postcards, brochures, retail packaging supplies, apparel, greeting cards and business cards. Financial Services offers a suite of financial technology ("FinTech") solutions focused on enabling financial institutions to better manage the customer life cycle for their retail and commercial customers. These FinTech solutions include outsourced marketing campaign targeting and execution, digital channel onboarding, loyalty and rewards, technology-enabled treasury services, financial performance

management, and fraud protection and security services. 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 offers 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.

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The accounting policies of the segments are the same as those described in the Notes to Consolidated Financial Statements included in the 2015 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, finance and legal, 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; and 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, 2016 and 2015:

| (in thousands) | | Reportable Business Segments | | | | Corporate | Consolidated |
|--|------|------------------------------|--------------------|---------------|---------|-----------|--------------|
| | | Small Business Services | Financial Services | Direct Checks | | | |
| Total revenue from external customers: | 2016 | \$298,931 | \$123,033 | \$36,956 | \$ | — | \$ 458,920 |
| | 2015 | 288,966 | 110,894 | 39,956 | — | — | 439,816 |
| Operating income: | 2016 | 50,670 | 28,708 | 12,914 | — | — | 92,292 |
| | 2015 | 51,873 | 23,364 | 14,131 | — | — | 89,368 |
| Depreciation and amortization expense: | 2016 | 13,315 | 8,876 | 868 | — | — | 23,059 |
| | 2015 | 11,825 | 5,979 | 949 | — | — | 18,753 |
| Total assets: | 2016 | 1,075,661 | 434,374 | 160,624 | 270,489 | — | 1,941,148 |
| | 2015 | 990,282 | 270,421 | 161,636 | 267,718 | — | 1,690,057 |
| Capital asset purchases: | 2016 | — | — | — | 10,031 | — | 10,031 |
| | 2015 | — | — | — | 10,242 | — | 10,242 |

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The following is our segment information as of and for the nine months ended September 30, 2016 and 2015:

| (in thousands) | | Reportable Business Segments | | | | Consolidated |
|--|------|------------------------------|--------------------|---------------|-----------|--------------|
| | | Small Business Services | Financial Services | Direct Checks | Corporate | |
| Total revenue from external customers: | 2016 | \$877,384 | \$374,511 | \$116,965 | \$ | —\$1,368,860 |
| | 2015 | 848,216 | 335,134 | 125,958 | — | 1,309,308 |
| Operating income: | 2016 | 150,776 | 84,467 | 40,640 | — | 275,883 |
| | 2015 | 149,545 | 69,280 | 44,713 | — | 263,538 |
| Depreciation and amortization expense: | 2016 | 38,195 | 26,888 | 2,628 | — | 67,711 |
| | 2015 | 33,265 | 17,760 | 3,406 | — | 54,431 |
| Total assets: | 2016 | 1,075,661 | 434,374 | 160,624 | 270,489 | 1,941,148 |
| | 2015 | 990,282 | 270,421 | 161,636 | 267,718 | 1,690,057 |
| Capital asset purchases: | 2016 | — | — | — | 32,215 | 32,215 |
| | 2015 | — | — | — | 29,549 | 29,549 |

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 supplemental condensed 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. During the quarter ended June 30, 2016, we identified an error in the balance sheet presentation of borrowings under our credit facility and the related asset for debt issuance costs. These amounts were previously presented as current items in our consolidated balance sheets, and we have determined that they should have been presented as non-current. This change also corrects the presentation of the cash flows associated with borrowings under our credit facility. Previously these cash flows were presented on a net basis. The change in the balance sheet presentation requires that they be presented on a gross basis. Prior period consolidated amounts, as well as those for Deluxe Corporation, have been revised to reflect these changes. Further information about the revision can be found in Note 1.

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 that 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.

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Condensed Consolidating Balance Sheet
(Unaudited)

| (in thousands) | September 30, 2016 | | | | Total |
|---|--------------------|------------------------|----------------------------|---------------|--------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 14,019 | \$ 902 | \$ 66,903 | \$(1,759) | \$ 80,065 |
| Trade accounts receivable, net | — | 109,326 | 8,435 | — | 117,761 |
| Inventories and supplies | — | 39,175 | 2,299 | — | 41,474 |
| Funds held for customers | — | 24,031 | 68,139 | — | 92,170 |
| Other current assets | 6,718 | 32,934 | 1,386 | — | 41,038 |
| Total current assets | 20,737 | 206,368 | 147,162 | (1,759) | 372,508 |
| Deferred income taxes | 14,754 | — | 1,749 | (14,754) | 1,749 |
| Long-term investments | 34,156 | 7,737 | — | — | 41,893 |
| Property, plant and equipment, net | 11,914 | 66,833 | 4,920 | — | 83,667 |
| Assets held for sale | — | — | 13,966 | — | 13,966 |
| Intangibles, net | 19,119 | 283,237 | 11,522 | — | 313,878 |
| Goodwill | — | 980,142 | 9,499 | — | 989,641 |
| Investments in consolidated subsidiaries | 1,395,804 | 108,954 | — | (1,504,758) | — |
| Intercompany receivable | 23,164 | — | — | (23,164) | — |
| Other non-current assets | 6,549 | 117,215 | 82 | — | 123,846 |
| Total assets | \$ 1,526,197 | \$ 1,770,486 | \$ 188,900 | \$(1,544,435) | \$ 1,941,148 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 25,328 | \$ 60,456 | \$ 2,810 | \$(1,759) | \$ 86,835 |
| Accrued liabilities | 20,577 | 149,507 | 70,553 | — | 240,637 |
| Long-term debt due within one year | 906 | — | 45 | — | 951 |
| Total current liabilities | 46,811 | 209,963 | 73,408 | (1,759) | 328,423 |
| Long-term debt | 616,697 | — | 93 | — | 616,790 |
| Deferred income taxes | — | 95,508 | — | (14,754) | 80,754 |
| Intercompany payable | — | 22,494 | 670 | (23,164) | — |
| Other non-current liabilities | 12,742 | 46,717 | 5,775 | — | 65,234 |
| Total shareholders' equity | 849,947 | 1,395,804 | 108,954 | (1,504,758) | 849,947 |
| Total liabilities and shareholders' equity | \$ 1,526,197 | \$ 1,770,486 | \$ 188,900 | \$(1,544,435) | \$ 1,941,148 |

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Condensed Consolidating Balance Sheet
(Unaudited)

| (in thousands) | December 31, 2015 | | | | Total |
|---|--------------------|------------------------|----------------------------|---------------|-------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$5,187 | \$940 | \$56,422 | \$(122) | \$62,427 |
| Trade accounts receivable, net | — | 115,951 | 7,703 | — | 123,654 |
| Inventories and supplies | — | 39,758 | 2,198 | — | 41,956 |
| Funds held for customers | — | — | 53,343 | — | 53,343 |
| Other current assets | 7,230 | 32,765 | 2,610 | — | 42,605 |
| Total current assets | 12,417 | 189,414 | 122,276 | (122) | 323,985 |
| Deferred income taxes | 13,498 | — | 1,238 | (13,498) | 1,238 |
| Long-term investments | 34,304 | 7,387 | — | — | 41,691 |
| Property, plant and equipment, net | 10,111 | 71,017 | 4,604 | — | 85,732 |
| Assets held for sale | — | — | 13,969 | — | 13,969 |
| Intangibles, net | 9,066 | 273,051 | 3,194 | — | 285,311 |
| Goodwill | — | 974,973 | 1,442 | — | 976,415 |
| Investments in consolidated subsidiaries | 1,248,549 | 81,099 | — | (1,329,648) | — |
| Intercompany receivable | 99,506 | — | — | (99,506) | — |
| Other non-current assets | 5,861 | 107,767 | 184 | — | 113,812 |
| Total assets | \$1,433,312 | \$1,704,708 | \$146,907 | \$(1,442,774) | \$1,842,153 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$15,625 | \$69,809 | \$2,263 | \$(122) | \$87,575 |
| Accrued liabilities | 23,567 | 148,279 | 56,577 | — | 228,423 |
| Long-term debt due within one year | 1,026 | — | 19 | — | 1,045 |
| Total current liabilities | 40,218 | 218,088 | 58,859 | (122) | 317,043 |
| Long-term debt | 627,942 | — | 31 | — | 627,973 |
| Deferred income taxes | — | 94,574 | — | (13,498) | 81,076 |
| Intercompany payable | — | 98,365 | 1,141 | (99,506) | — |
| Other non-current liabilities | 20,083 | 45,132 | 5,777 | — | 70,992 |
| Total shareholders' equity | 745,069 | 1,248,549 | 81,099 | (1,329,648) | 745,069 |
| Total liabilities and shareholders' equity | \$1,433,312 | \$1,704,708 | \$146,907 | \$(1,442,774) | \$1,842,153 |

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

Condensed Consolidating Statement of Comprehensive Income
 (Unaudited)

| (in thousands) | Quarter Ended September 30, 2016 | | | | Total |
|--|----------------------------------|------------------------|----------------------------|--------------|------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| Product revenue | \$— | \$ 350,454 | \$ 14,226 | \$— | \$364,680 |
| Service revenue | 36,078 | 89,355 | 6,006 | (37,199) | 94,240 |
| Total revenue | 36,078 | 439,809 | 20,232 | (37,199) | 458,920 |
| Cost of products | — | (127,210) | (6,418) | — | (133,628) |
| Cost of services | (40,487) | (30,363) | (1,934) | 40,142 | (32,642) |
| Total cost of revenue | (40,487) | (157,573) | (8,352) | 40,142 | (166,270) |
| Gross profit | (4,409) | 282,236 | 11,880 | 2,943 | 292,650 |
| Operating expenses | — | (188,768) | (8,647) | (2,943) | (200,358) |
| Operating (loss) income | (4,409) | 93,468 | 3,233 | — | 92,292 |
| Interest expense | (5,019) | (4,206) | (1) | 4,371 | (4,855) |
| Other income | 3,994 | 919 | 200 | (4,371) | 742 |
| (Loss) income before income taxes | (5,434) | 90,181 | 3,432 | — | 88,179 |
| Income tax benefit (provision) | 4,592 | (33,138) | (970) | — | (29,516) |
| (Loss) income before equity in earnings of consolidated subsidiaries | (842) | 57,043 | 2,462 | — | 58,663 |
| Equity in earnings of consolidated subsidiaries | 59,505 | 2,462 | — | (61,967) | — |
| Net income | \$58,663 | \$ 59,505 | \$ 2,462 | \$(61,967) | \$58,663 |
| Comprehensive income | \$57,824 | \$ 58,614 | \$ 1,212 | \$(59,826) | \$57,824 |

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

Condensed Consolidating Statement of Comprehensive Income
 (Unaudited)

| (in thousands) | Quarter Ended September 30, 2015 | | | | Total |
|--|----------------------------------|------------------------|----------------------------|--------------|------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| 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) |
| (Loss) 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 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (dollars and shares in thousands, except per share amounts)

Condensed Consolidating Statement of Comprehensive Income
 (Unaudited)

| (in thousands) | Nine Months Ended September 30, 2016 | | | | |
|--|--------------------------------------|---------------------------|-------------------------------|--------------|-------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Total |
| Product revenue | \$— | \$1,048,288 | \$ 42,398 | \$— | \$1,090,686 |
| Service revenue | 103,173 | 263,292 | 18,241 | (106,532) | 278,174 |
| Total revenue | 103,173 | 1,311,580 | 60,639 | (106,532) | 1,368,860 |
| Cost of products | — | (372,165) | (18,996) | — | (391,161) |
| Cost of services | (115,810) | (95,125) | (5,600) | 117,289 | (99,246) |
| Total cost of revenue | (115,810) | (467,290) | (24,596) | 117,289 | (490,407) |
| Gross profit | (12,637) | 844,290 | 36,043 | 10,757 | 878,453 |
| Operating expenses | — | (566,081) | (25,732) | (10,757) | (602,570) |
| Operating (loss) income | (12,637) | 278,209 | 10,311 | — | 275,883 |
| Interest expense | (14,920) | (11,171) | (2) | 10,812 | (15,281) |
| Other income | 10,302 | 1,786 | 59 | (10,812) | 1,335 |
| (Loss) income before income taxes | (17,255) | 268,824 | 10,368 | — | 261,937 |
| Income tax benefit (provision) | 11,431 | (95,924) | (2,290) | — | (86,783) |
| (Loss) income before equity in earnings of consolidated subsidiaries | (5,824) | 172,900 | 8,078 | — | 175,154 |
| Equity in earnings of consolidated subsidiaries | 180,978 | 8,078 | — | (189,056) | — |
| Net income | \$175,154 | \$180,978 | \$ 8,078 | \$(189,056) | \$175,154 |
| Comprehensive income | \$180,298 | \$185,966 | \$ 11,989 | \$(197,955) | \$180,298 |

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

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

Condensed Consolidating Statement of Cash Flows
 (Unaudited)

| (in thousands) | Nine Months Ended September 30, 2016 | | | | Total |
|---|--------------------------------------|------------------------|----------------------------|--------------|------------|
| | Deluxe Corporation | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | |
| Net cash provided by operating activities | \$3,734 | \$ 196,493 | \$ 9,531 | \$ (1,637) | \$208,121 |
| Cash flows from investing activities: | | | | | |
| Purchases of capital assets | (18,463) | (11,777) | (1,975) | — | (32,215) |
| Payments for acquisitions, net of cash acquired | — | (64,637) | — | — | (64,637) |
| Proceeds from company-owned life insurance policies | 4,123 | — | — | — | 4,123 |
| Other | (290) | 965 | 1,655 | — | 2,330 |
| Net cash used by investing activities | (14,630) | (75,449) | (320) | — | (90,399) |
| Cash flows from financing activities: | | | | | |
| Proceeds from issuing long-term debt | 169,000 | — | — | — | 169,000 |
| Payments on long-term debt, including costs of debt reacquisition | (185,849) | — | (24) | — | (185,873) |
| Proceeds from issuing shares under employee plans | 6,861 | — | — | — | 6,861 |
| Employee taxes paid for shares withheld | (2,333) | — | — | — | (2,333) |
| Payments for common shares repurchased | (44,944) | — | — | — | (44,944) |
| Cash dividends paid to shareholders | (44,127) | — | — | — | (44,127) |
| Advances from (to) consolidated subsidiaries | 121,653 | (119,981) | (1,672) | — | — |
| Other | (533) | (1,101) | — | — | (1,634) |
| Net cash provided (used) by financing activities | 19,728 | (121,082) | (1,696) | — | (103,050) |
| Effect of exchange rate change on cash | — | — | 2,966 | — | 2,966 |
| Net change in cash and cash equivalents | 8,832 | (38) | 10,481 | (1,637) | 17,638 |
| Cash and cash equivalents, beginning of year | 5,187 | 940 | 56,422 | (122) | 62,427 |
| Cash and cash equivalents, end of period | \$14,019 | \$ 902 | \$ 66,903 | \$ (1,759) | \$80,065 |

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

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 | \$(820) | \$ 205,987 | \$ 10,852 | \$ 3,129 | \$ 219,148 |
| 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: | | | | | |
| Proceeds from short-term borrowings | 50,000 | — | — | — | 50,000 |
| Proceeds from issuing long-term debt | 276,500 | — | — | — | 276,500 |
| Payments on long-term debt, including costs of debt reacquisition | (375,279) | — | (12) | — | (375,291) |
| Proceeds from issuing shares under employee plans | 5,492 | — | — | — | 5,492 |
| Excess tax benefit from share-based employee awards | 1,816 | — | — | — | 1,816 |
| Employee taxes paid for shares withheld | (1,236) | — | — | — | (1,236) |
| 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 | (136) | (92) | (150) | — | (378) |
| Net cash (used) provided by financing activities | (1,926) | (133,169) | 37 | — | (135,058) |
| 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 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and shares in thousands, except per share amounts)

Note 16: Subsequent events

In October 2016, we issued a notice to redeem all \$200,000 of our senior notes due in 2020 on November 15, 2016 at a redemption price of 103% of the principal amount. We plan to utilize borrowings under our recently expanded credit facility to fund the redemption (see Note 11). In conjunction with the redemption, we plan to terminate our \$200,000 of interest rate swaps (see Note 7).

In October 2016, we acquired selected assets of Data Support Systems, Inc. for aggregate estimated cash payments of \$21,000, subject to post-closing adjustments, and including estimated contingent consideration. Data Support Systems is a provider of image-based software for payments reconciliation and back-office case management and will be included in our Financial Services segment. 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 provide a suite of customer life cycle management solutions that help our customers acquire and engage their customers across multiple channels. To promote and sell a wide range of products and services, we use printed and electronic marketing; a direct sales force; referrals from financial institutions, telecommunication clients and other partners; purchased search results from online search engines; and networks of distributors and independent dealers. Our Small Business Services segment provides products and services to approximately 4.5 million small business customers and our Direct Checks segment has provided products and services to more than six million consumers. Through our Financial Services segment, we provide products and services to approximately 5,100 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. During 2015, checks represented 40.1% of our Small Business Services segment's revenue, 59.7% of our Financial Services segment's revenue and 84.6% of our Direct Checks segment's revenue.

Marketing solutions and other services – We offer products and services that help small businesses and/or financial institutions promote their businesses and acquire customers, as well as various other service offerings. Our Small Business Services segment offers services designed to fulfill the marketing and sales needs of small businesses, including logo and web design; hosting and other web services; search engine optimization; marketing programs, including email, mobile, social media and other self-service marketing solutions; and digital printing services. In addition, Small Business Services offers specialized services, including fraud protection and security, payroll services and electronic checks, as well as promotional solutions such as postcards, brochures, retail packaging supplies, apparel, greeting cards and business cards. Financial Services offers a suite of financial technology ("FinTech") solutions focused on enabling financial institutions to better manage the customer life cycle for their retail and commercial customers. These FinTech solutions include outsourced marketing campaign targeting and execution, digital channel onboarding, loyalty and rewards, technology-enabled treasury services, financial performance management, and fraud protection and security services. 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, 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, primarily marketing solutions and other services offerings. Information about our acquisitions can be found under the captions "Note 6: Acquisitions" and "Note 16: Subsequent events" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report and under the caption "Note 5: Acquisitions" of the Notes to Consolidated Financial Statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K"). During the remainder of 2016, we plan to continue our focus in these areas, with an emphasis on profitable revenue growth and increasing the mix of marketing solutions and other services revenue. We also plan to continue 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 2016, as compared to the first nine months of 2015, benefited from price increases 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.

Certain amounts included in our consolidated balance sheet as of December 31, 2015 and our consolidated statement of cash flows for the first nine months of 2015 have been revised to correct the presentation of borrowings under our credit facility and the related asset for debt issuance costs. Further information can be found under the caption "Note 1: Consolidated financial statements" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

Our Strategies

Details concerning our strategies were provided under the caption "Business Segments" appearing in Item 1 of the 2015 Form 10-K. We made no significant changes to our strategies during the first nine months of 2016.

Consistent with our strategies, during the first nine months of 2016, we acquired selected assets of several businesses and the outstanding common stock of one business in our Small Business Services segment. Further information regarding these acquisitions can be found under the captions "Note 6: Acquisitions" and "Note 16: Subsequent events" of the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

Cost Reduction Initiatives

As discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2015 Form 10-K, we anticipated that we would realize net cost reductions of approximately \$50 million in 2016, as compared to our 2015 results of operations. We are currently on track to realize these cost reductions, primarily from our sales, marketing and fulfillment organizations. Approximately 70% of these savings are expected to impact selling, general and administrative (SG&A) expense, with the remaining 30% affecting cost of revenue.

Outlook for 2016

We anticipate that consolidated revenue will be between \$1.850 billion and \$1.860 billion for 2016, compared to \$1.773 billion for 2015. In Small Business Services, we expect revenue to increase between 4% and 5% compared to 2015 revenue of \$1.152 billion. Volume declines in core business products and the negative impact of foreign exchange rates are expected to be more than offset by growth in our online, dealer and major accounts channels, price increases, and growth in our marketing solutions and other services offerings, as well as the impact of continued small tuck-in acquisitions. In Financial Services, we expect revenue to increase between 9% and 10% compared to 2015 revenue of \$455.4 million. We expect continued growth in marketing solutions and other services, including

incremental revenue from the acquisitions of Datamyx in October 2015 and FISC Solutions in December 2015, as well as growth in Wausau Financial Systems and Deluxe Rewards revenue and the impact of small tuck-in acquisitions. We expect these revenue increases to be partially offset by year-over-year secular check order declines of approximately 4%, as well as the impact of expected contract renewal allowances. In Direct Checks, we expect revenue to decline approximately 8%, compared to 2015 revenue of \$165.5 million, driven primarily by secular check order volume declines resulting from reduced check usage.

We expect that 2016 diluted earnings per share will be between \$4.78 and \$4.83, including charges of \$0.17 per share related to a loss on early debt extinguishment we expect in the fourth quarter of 2016, as well as restructuring costs and transaction costs related to acquisitions. This compares to \$4.36 for 2015, which included total charges of \$0.23 per share related to the loss on early debt extinguishment in the first quarter of 2015, as well as restructuring costs and transaction costs related to acquisitions. We expect that the benefits of our cost reduction activities will be partially offset by a continued

sluggish economy and 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 internet capabilities. We estimate that our annual effective tax rate for 2016 will be approximately 33%, consistent with 33.3% for 2015.

We anticipate that net cash provided by operating activities will be between \$315 million and \$320 million in 2016, compared to \$310 million in 2015, driven by stronger operating performance and lower interest payments, partially offset by higher income tax, contract acquisition and employee medical payments. We anticipate contract acquisition payments of approximately \$25 million in 2016, and we estimate that capital spending will be approximately \$43 million in 2016, 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 payments, and periodic share repurchases, 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 and major accounts channels. We anticipate that our board of directors will maintain our current dividend level. However, dividends are approved by the board of directors on a quarterly basis, and thus are subject to change. As of September 30, 2016, \$94.2 million was available for borrowing under our revolving credit facility. To the extent we generate excess cash, we plan to reduce the amount outstanding under our credit facility. In September 2016, we amended the credit agreement governing our credit facility to provide a new term loan facility in the aggregate principal amount of \$200.0 million. On November 15, 2016, we expect to use this term loan, as needed, to redeem our remaining senior notes of \$200.0 million at a redemption price of 103% of the principal amount. This redemption is expected to result in a loss on early debt extinguishment of approximately \$0.11 per diluted share in the fourth quarter of 2016. In conjunction with the redemption, we plan to terminate our \$200.0 million of interest rate swaps. We believe our increasing cash flow, strong balance sheet and flexible capital structure position us well to continue advancing our transformation.

BUSINESS CHALLENGES/MARKET RISKS

Information regarding business challenges/market risks was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the 2015 Form 10-K. There were no significant changes in these items during the first nine months of 2016.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Revenue

| (in thousands, except per order amounts) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-----------------------------|-----------|---------|---------------------------------|-------------|---------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total revenue | \$458,920 | \$439,816 | 4.3 % | \$1,368,860 | \$1,309,308 | 4.5 % |
| Orders ⁽¹⁾ | 12,912 | 13,198 | (2.2 %) | 39,173 | 40,110 | (2.3 %) |
| Revenue per order | \$35.54 | \$33.32 | 6.7 % | \$34.94 | \$32.64 | 7.0 % |

⁽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 2016, as compared to the same periods in 2015, was primarily due to growth in marketing solutions and other services revenue of \$21 million for the third quarter of 2016 and \$65 million for the first nine months of 2016, including incremental revenue from businesses acquired during 2016 and 2015. Information regarding our 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 and under the caption "Note 5: Acquisitions" of the Notes to Consolidated Financial Statements appearing in the 2015 Form 10-K. In addition, revenue benefited from previous price increases. 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.

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Service revenue represented 20.3% of total revenue for the first nine months of 2016 and 17.8% for the first nine months of 2015. 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 products and services based on the following categories:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------|---------------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Checks | 46.9 % | 49.1 % | 47.8 % | 50.4 % |
| Marketing solutions and other services | 33.5 % | 30.1 % | 32.5 % | 29.0 % |
| Forms | 11.8 % | 12.1 % | 11.6 % | 12.1 % |
| Accessories and other products | 7.8 % | 8.7 % | 8.1 % | 8.5 % |
| Total revenue | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

The number of orders decreased for the third quarter and first nine months of 2016, as compared to the same periods in 2015, 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 2016 and 2015. Revenue per order increased for the third quarter and first nine months of 2016, as compared to the same periods in 2015, primarily due to the benefit of previous price increases 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, | | |
|--|-----------------------------|-----------|--------|---------------------------------|-----------|------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total cost of revenue | \$166,270 | \$159,302 | 4.4 % | \$490,407 | \$467,922 | 4.8 % |
| Total cost of revenue as a percentage of total revenue | 36.2 | % 36.2 | % — | 35.8 | % 35.7 | % 0.1 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 our service offerings, and related overhead.

The increase in total cost of revenue for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was primarily attributable to the growth in revenue, including an increase in outsourced product costs of \$2 million for the third quarter of 2016 and \$13 million for the first nine months of 2016, primarily resulting from investments to expand our distributor and major accounts channels. In addition, the businesses acquired in 2015 in our Financial Services segment incurred incremental costs of approximately \$4 million for the third quarter of 2016 and \$13 million for the first nine months of 2016, and delivery rates and material costs increased in 2016. Partially offsetting these increases in total cost of revenue were the impact of lower order volume for both personal and business checks, as well as manufacturing efficiencies and other benefits resulting from our continued cost reduction initiatives of approximately \$4 million for the third quarter of 2016 and \$12 million for the first nine months of 2016. In addition, during the first nine months of 2016, we reduced by \$2 million a liability for environmental remediation costs related to a manufacturing facility which we previously sold.

Consolidated Selling, General & Administrative Expense

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------|-----------------------------|-----------|--------|---------------------------------|-----------|--------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| SG&A expense | \$198,365 | \$189,641 | 4.6 % | \$598,563 | \$575,110 | 4.1 % |
| | 43.2 | % 43.1 | % | 43.7 | % 43.9 | % |

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| | | |
|---|-------------|---------------|
| SG&A expense as a percentage of total revenue | 0.1 pts. | (0.2) pts. |
|---|-------------|---------------|

The increase in SG&A expense for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was driven primarily by incremental operating expenses of the businesses we acquired in 2015 in our Financial Services segment of approximately \$7 million for the third quarter of 2016 and \$21 million for the first nine months of 2016, as well as investments in revenue growth opportunities, including investments to expand our major accounts channel. These increases were partially offset by various expense reduction initiatives of approximately \$8 million for the third quarter of 2016 and \$21

million for the first nine months of 2016, primarily within our sales and marketing organizations, as well as lower incentive compensation expense.

Net Restructuring Charges

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------|--------------------------------|---------|--------|------------------------------------|---------|---------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Net restructuring charges | \$1,993 | \$1,505 | \$ 488 | \$4,007 | \$2,738 | \$1,269 |

We recorded net restructuring charges related to the cost reduction initiatives discussed under Executive Overview. The net charges for each period relate primarily to costs of our restructuring activities, such as employee severance benefits, information technology costs, employee and equipment moves, training and travel. Further information can be found under Restructuring Costs.

Loss on Early Debt Extinguishment

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------------|--------------------------------|------|--------|---------------------------------------|---------|--------|
| | 2016 | 2015 | Change | 2016 | 2015 | 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 that we have since repaid. On November 15, 2016, we expect to redeem all \$200.0 million of our senior notes due in 2020 at a redemption price of 103% of the principal amount. This redemption is expected to result in a loss on early debt extinguishment of approximately \$0.11 per diluted share in the fourth quarter of 2016.

Interest Expense

| (in thousands) | Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------------|-----------------------------|---------|----------|------------------------------------|----------|------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Interest expense | \$4,855 | \$4,387 | 10.7 % | \$15,281 | \$15,322 | (0.3 %) |
| Weighted-average debt outstanding | 613,244 | 516,582 | 18.7 % | 618,644 | 533,940 | 15.9 % |
| Weighted-average interest rate | 3.0 % | 2.9 % | 0.1 pts. | 3.0 % | 3.4 % | (0.4) pts. |

The increase in interest expense for the third quarter of 2016, as compared to the third quarter of 2015, was primarily due to our higher weighted-average debt level in 2016 and the slight increase in our weighted-average interest rate.

The slight decrease in interest expense for the first nine months of 2016, as compared to the first nine months of 2015, was driven by changes in our debt structure. 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, which we have since repaid, to fund this redemption. Amounts outstanding under our credit facility carried a weighted-average interest rate of 1.9% during the first nine months of 2016. Partially offsetting the decrease in interest expense resulting from our lower weighted-average interest rate, was our higher weighted-average debt level in 2016.

Income Tax Provision

| Quarter Ended September 30, | Nine Months Ended September 30, |
|-----------------------------|------------------------------------|
|-----------------------------|------------------------------------|

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| (in thousands) | 2016 | 2015 | Change | 2016 | 2015 | Change |
|---------------------------|-----------|-----------|------------|-----------|-----------|------------|
| Income tax provision | \$ 29,516 | \$ 28,983 | 1.8 % | \$ 86,783 | \$ 82,553 | 5.1 % |
| Effective income tax rate | 33.5 % | 33.7 % | (0.2) pts. | 33.1 % | 34.2 % | (1.1) pts. |

The decrease in our effective tax rate for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was primarily due to the adoption of Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which reduced income tax expense \$0.2 million for the third quarter of 2016 and \$1.7 million for the first nine months of 2016. This resulted in a reduction in our effective income tax rate of 0.3 points for the third

quarter of 2016 and 0.7 points for the first nine months of 2016. Further information regarding the adoption of this accounting standard 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. In addition, our effective tax rate for the third quarter and first nine months of 2016 included the benefit of the federal research and development credit, which we were not able to record in the same periods in 2015, as legislation extending the credit had not yet been enacted. Partially offsetting these decreases in our effective income tax rate for the third quarter of 2016 were a number of individually minor items which increased our effective income tax rate. We expect that our annual effective tax rate for 2016 will be approximately 33%.

RESTRUCTURING COSTS

We have recorded expenses related to our restructuring activities, including accruals consisting primarily of employee severance benefits, as well as costs that are expensed when 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. During the first nine months of 2016, we closed a call center, a fulfillment facility and a sales office. During 2015, we closed two call centers, a sales office, a warehouse, a fulfillment facility and one facility that contained both fulfillment and call center functions. 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, | |
|--|--------------------------------|---------|---------------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Severance accruals | \$1,824 | \$1,443 | \$3,870 | \$3,493 |
| Severance reversals | (198) | (282) | (666) | (976) |
| Operating lease obligations | — | 88 | — | 88 |
| Net restructuring accruals | 1,626 | 1,249 | 3,204 | 2,605 |
| Other costs | 432 | 489 | 939 | 551 |
| Net restructuring charges | \$2,058 | \$1,738 | \$4,143 | \$3,156 |
| Number of employees included in severance accruals | 55 | 50 | 120 | 200 |

The majority of the employee reductions included in our restructuring accruals are expected to be completed by the fourth quarter of 2016, and we expect most of the related severance payments to be paid by mid-2017, utilizing cash from operations.

As a result of our employee reductions and facility closings, we expect to realize cost savings of approximately \$3 million in total cost of revenue and \$11 million in SG&A expense in 2016, in comparison to our 2015 results of operations, which represents a portion of the estimated \$50 million of total net cost reductions we expect to realize in 2016. Expense reductions consist primarily of labor and facility costs. Information about the other initiatives driving our cost savings can be found in Executive Overview.

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.

Small Business Services

This segment's products and services are promoted through direct response mail and internet advertising; referrals from financial institutions, telecommunications clients and other partners; networks of distributors and independent dealers; a growing direct sales force that focuses on selling to and through 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, | | |
|------------------|-----------------------------|------------|------------|---------------------------------|------------|------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total revenue | \$ 298,931 | \$ 288,966 | 3.4 % | \$ 877,384 | \$ 848,216 | 3.4 % |
| Operating income | 50,670 | 51,873 | (2.3 %) | 150,776 | 149,545 | 0.8 % |
| Operating margin | 17.0 % | 18.0 % | (1.0) pts. | 17.2 % | 17.6 % | (0.4) pts. |

The increase in total revenue for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was due primarily to growth in marketing solutions and other services revenue of \$9 million for the third quarter of 2016 and \$26 million for the first nine months of 2016, including incremental revenue from businesses acquired in 2016 and 2015. Information about our 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 and under the caption "Note 5: Acquisitions" of the Notes to Consolidated Financial Statements appearing in the 2015 Form 10-K. In addition, revenue benefited from previous price increases. These increases in revenue were partially offset by a decrease in business check and forms volume, as well as an unfavorable currency exchange rate impact of \$3 million for the first nine months of 2016.

The decrease in operating income for the third quarter of 2016, as compared to the third quarter of 2015, was primarily due to increased investments in revenue growth opportunities, including investments to expand our major accounts channel and brand awareness initiatives, as well as increased delivery rates and material costs in 2016. Partially offsetting these decreases in operating income were price increases, benefits of our cost reduction initiatives and lower incentive compensation expense.

The increase in operating income for the first nine months of 2016, as compared to the first nine months of 2015, was primarily due to price increases and benefits of our cost reduction initiatives. Partially offsetting these increases in operating income were increased investments in revenue growth opportunities, including investments to expand our major accounts channel. In addition, delivery rates and material costs increased in 2016 and commission expense increased approximately \$3 million due primarily to increased financial institution commission rates.

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, | | |
|------------------|-----------------------------|------------|----------|---------------------------------|------------|----------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total revenue | \$ 123,033 | \$ 110,894 | 10.9 % | \$ 374,511 | \$ 335,134 | 11.7 % |
| Operating income | 28,708 | 23,364 | 22.9 % | 84,467 | 69,280 | 21.9 % |
| Operating margin | 23.3 % | 21.1 % | 2.2 pts. | 22.6 % | 20.7 % | 1.9 pts. |

The increase in revenue for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was driven by growth in marketing solutions and other services of \$13 million for the third quarter of 2016 and \$40

million for the first nine months of 2016, including incremental revenue from the acquisitions of Datamyx LLC and FISC Solutions in 2015 of \$11 million for the third quarter of 2016 and \$35 million for the first nine months of 2016. In addition, Wausau Financial Systems revenues increased \$1 million for the third quarter of 2016 and \$5 million for the first nine months of 2016. Information about our acquisitions can be found under the caption "Note 5: Acquisitions" of the Notes to Consolidated Financial Statements appearing in the 2015 Form 10-K. Additionally, revenue benefited from previous 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 2016, as compared to the same periods in 2015, was primarily due to previous price increases, the benefit of our continuing cost reduction initiatives and compensation expense in 2015 for an earn-out agreement related to a 2013 acquisition. 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 2016. The operating results of our acquisitions, including acquisition-related amortization, reduced Financial Services' operating margin 2.2 points for the third quarter of 2016 and 2.0 points for the first nine months of 2016.

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, | | |
|------------------|-----------------------------|----------|------------|---------------------------------|-----------|------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total revenue | \$36,956 | \$39,956 | (7.5 %) | \$116,965 | \$125,958 | (7.1 %) |
| Operating income | 12,914 | 14,131 | (8.6 %) | 40,640 | 44,713 | (9.1 %) |
| Operating margin | 34.9 % | 35.4 % | (0.5) pts. | 34.7 % | 35.5 % | (0.8) pts. |

The decrease in revenue for the third quarter of 2016, as compared to the the third quarter of 2015, was primarily due to a reduction in orders stemming from the continued decline in check usage. Partially offsetting the volume decline was higher revenue per order, driven by price increases and other initiatives to improve revenue per order.

The decrease in revenue for the first nine months of 2016, as compared to the first nine months of 2015, was primarily due to a reduction in orders stemming from the continued decline in check usage. Partially offsetting the volume decline was higher revenue per order, primarily driven by an improved call center incentive plan.

The decrease in operating income for the third quarter and first nine months of 2016, as compared to the same periods in 2015, was due primarily to lower order volume and increased delivery rates and material costs in 2016, as well as increased restructuring costs in 2016. These decreases in operating income were partially offset by the benefits from our cost reduction initiatives, including lower advertising expense, as well as higher revenue per order.

CASH FLOWS AND LIQUIDITY

As of September 30, 2016, we held cash and cash equivalents of \$80.1 million. The following table shows our cash flow activity for the nine months ended September 30, 2016 and 2015, 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, | | |
|---|---------------------------------|------------|------------|
| | 2016 | 2015 | Change |
| Net cash provided by operating activities | \$208,121 | \$219,148 | \$(11,027) |
| Net cash used by investing activities | (90,399) | (75,704) | (14,695) |
| Net cash used by financing activities | (103,050) | (135,058) | 32,008 |
| Effect of exchange rate change on cash | 2,966 | (7,032) | 9,998 |
| Net change in cash and cash equivalents | \$17,638 | \$1,354 | \$16,284 |

The \$11.0 million decrease in net cash provided by operating activities for the first nine months of 2016, as compared to the first nine months of 2015, was primarily due to a \$10.4 million increase in income tax payments, a \$7.3 million

increase in contract acquisition payments and the payment in 2016 of an incentive related to a 2013 acquisition. These decreases in cash provided by operating activities were partially offset by stronger operating performance and a \$4.2 million decrease in interest payments due primarily to the retirement of long-term notes in March 2015.

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

| (in thousands) | Nine Months Ended | | |
|--|-------------------|----------|----------|
| | September 30, | | |
| | 2016 | 2015 | Change |
| Income tax payments | \$93,993 | \$83,546 | \$10,447 |
| Performance-based compensation payments ⁽¹⁾ | 32,821 | 31,046 | 1,775 |
| Contract acquisition payments | 17,190 | 9,843 | 7,347 |
| Interest payments | 12,274 | 16,497 | (4,223) |
| Incentive payment related to previous acquisition | 5,434 | — | 5,434 |
| Severance payments | 4,275 | 4,420 | (145) |

⁽¹⁾ Amounts reflect compensation based on total company performance.

Net cash used by investing activities for the first nine months of 2016 was \$14.7 million higher than the first nine months of 2015, driven primarily by a \$13.7 million increase in payments for acquisitions and a \$2.7 million increase in capital asset purchases. Partially offsetting this increase in cash used by investing activities was proceeds from the sale of Canadian marketable securities during 2016.

Net cash used by financing activities for the first nine months of 2016 was \$32.0 million lower than the first nine months of 2015 due primarily to a decrease of \$189.4 million in payments on long-term debt driven primarily by the 2015 redemption of \$200.0 million of long-term notes due in 2019. Partially offsetting this decrease in net cash used by financing activities was a decrease of \$157.5 million in amounts borrowed under our credit facility and short-term borrowings, as we utilized these borrowings in 2015 to redeem the long-term notes due in 2019.

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

| (in thousands) | Nine Months Ended | | |
|--------------------------------------|-------------------|-----------|--------|
| | September 30, | | |
| | 2016 | 2015 | Change |
| Proceeds from issuing long-term debt | \$169,000 | \$276,500 | |