DELUXE CORP
Form 10-Q
October 27, 2017

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

FORM 10-Q

(Mark One)

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended <u>September 30, 2017</u>

[ ] **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	**41-0216800**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3680 Victoria St. N., Shoreview, Minnesota	**55126-2966**
(Address of principal executive offices)	(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. [X] 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).
[X] Yes [ ] No

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

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

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

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

The number of shares outstanding of registrant's common stock, par value $1.00 per share, as of October 18, 2017 was 48,121,582.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

DELUXE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share par value)

(Unaudited)

	September 30, 2017	**December 31, 2016**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,410	$ 76,574
Trade accounts receivable (net of allowances for uncollectible accounts of $2,808 and $2,828, respectively)	136,262	152,649
Inventories and supplies	40,929	40,182
Funds held for customers	78,447	87,823
Other current assets	63,471	41,002
Total current assets	372,519	398,230
Deferred income taxes	2,839	1,605
Long-term investments (including $1,729 and $1,877 of investments at fair value, respectively)	42,178	42,240
Property, plant and equipment (net of accumulated depreciation of $355,254 and $349,249, respectively)	83,253	86,896
Assets held for sale	8,689	14,568
Intangibles (net of accumulated amortization of $481,667 and $435,756, respectively)	392,523	409,781
Goodwill	1,126,086	1,105,956
Other non-current assets	151,893	125,062
Total assets	$ 2,179,980	$ 2,184,338
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 103,577	$ 106,793
Accrued liabilities	255,542	273,049
Long-term debt due within one year	41,966	35,842
Total current liabilities	401,085	415,684
Long-term debt	714,432	722,806
Deferred income taxes	65,226	85,172
Other non-current liabilities	48,692	79,706
Commitments and contingencies (Notes 11 and 12)		
Shareholders' equity:		
Common shares $1 par value (authorized: 500,000 shares; outstanding: September 30, 2017 – 48,120; December 31, 2016 – 48,546)	48,120	48,546
Retained earnings	947,261	882,795
Accumulated other comprehensive loss	(44,836)	(50,371)
Total shareholders' equity	950,545	880,970
Total liabilities and shareholders' equity	$ 2,179,980	$ 2,184,338

See Condensed Notes to Unaudited Consolidated Financial Statements

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Product revenue	$361,963	$364,680	$1,097,777	$1,090,686
Service revenue	135,706	94,240	372,889	278,174
Total revenue	497,669	458,920	1,470,666	1,368,860
Cost of products	(129,055)	(133,628)	(392,040)	(391,161)
Cost of services	(63,862)	(32,642)	(159,250)	(99,246)
Total cost of revenue	(192,917)	(166,270)	(551,290)	(490,407)
Gross profit	304,752	292,650	919,376	878,453
Selling, general and administrative expense	(202,999)	(198,365)	(628,100)	(598,563)
Net restructuring charges	(1,267)	(1,993)	(3,708)	(4,007)
Asset impairment charges	(46,630)	—	(54,880)	—
Operating income	53,856	92,292	232,688	275,883
Interest expense	(5,708)	(4,855)	(15,795)	(15,281)
Other income	799	742	2,104	1,335
Income before income taxes	48,947	88,179	218,997	261,937
Income tax provision	(20,146)	(29,516)	(73,551)	(86,783)
Net income	$28,801	$58,663	$145,446	$175,154
Comprehensive income	$31,543	$57,824	$150,981	$180,298
Basic earnings per share	0.60	1.20	3.00	3.57
Diluted earnings per share	0.59	1.19	2.98	3.55
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, 2016	48,546	$48,546	$ —	$882,795	$ (50,371)	$880,970
Net income	—	—	—	145,446	—	145,446
Cash dividends	—	—	—	(43,672)	—	(43,672)
Common shares issued	435	435	12,906	—	—	13,341
Common shares repurchased	(709)	(709)	(12,053)	(37,308)	—	(50,070)
Other common shares retired	(152)	(152)	(11,148)	—	—	(11,300)
Fair value of share-based compensation	—	—	10,295	—	—	10,295
Other comprehensive income	—	—	—	—	5,535	5,535
Balance, September 30, 2017	48,120	$48,120	$ —	$947,261	$ (44,836)	$950,545

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net income	$145,446	$175,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,013	11,347
Amortization of intangibles	79,284	56,364
Asset impairment charges	54,880	—
Amortization of contract acquisition costs	14,685	14,700
Deferred income taxes	(20,587)	(1,477)
Employee share-based compensation expense	11,149	9,264
Other non-cash items, net	(2,492)	3,128

Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	19,140	5,320
Inventories and supplies	800	176
Other current assets	(16,692)	(2,379)
Non-current assets	(3,748)	(3,351)
Accounts payable	(6,750)	(1,619)
Contract acquisition payments	(20,003)	(17,190)
Other accrued and non-current liabilities	(41,229)	(41,316)
Net cash provided by operating activities	225,896	208,121
Cash flows from investing activities:		
Purchases of capital assets	(34,351)	(32,215)
Payments for acquisitions, net of	(125,417)	(64,637)

cash acquired		
Proceeds from sales of marketable securities	3,500	1,635
Proceeds from company-owned life insurance policies	1,293	4,123
Other	873	695
Net cash used by investing activities	(154,102)	(90,399)
Cash flows from financing activities:		
Proceeds from issuing long-term debt	333,000	169,000
Payments on long-term debt	(336,590)	(185,873)
Proceeds from issuing shares under employee plans	8,218	6,861
Employee taxes paid for shares withheld	(6,816)	(2,333)
Payments for common	(50,070)	(44,944)

shares repurchased		
Cash dividends paid to shareholders	(43,672)	(44,127)
Other	(1,281)	(1,634)
Net cash used by financing activities	(97,211)	(103,050)
Effect of exchange rate change on cash	2,253	2,966
Net change in cash and cash equivalents	(23,164)	17,638
Cash and cash equivalents, beginning of year	76,574	62,427
Cash and cash equivalents, end of period	$53,410	$80,065

See Condensed Notes to Unaudited Consolidated Financial Statements

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

Note 1: Consolidated financial statements

The consolidated balance sheet as of September 30, 2017, the consolidated statements of comprehensive income for the quarters and nine months ended September 30, 2017 and 2016, the consolidated statement of shareholders' equity for the nine months ended September 30, 2017, and the consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016 are unaudited. The consolidated balance sheet as of December 31, 2016 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, 2016 (the "2016 Form 10-K").

Amounts within the cash flows from investing activities section of the consolidated statement of cash flows for the nine months ended September 30, 2016 have been modified to conform to the current year presentation. This change presents proceeds from sales of marketable securities separately. In the previous year, this item was included within the other caption.

Note 2: New accounting pronouncements

Recently adopted accounting pronouncements – In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The standard removes Step 2 of the goodwill impairment test, which requires a company to perform procedures to determine the fair value of a reporting unit's assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, a goodwill impairment charge will now be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. We elected to early adopt this standard on January 1, 2017 and applied this guidance when calculating the goodwill impairment charge discussed in Note 7: Fair value measurements.

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. 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. The new guidance is effective for us on January 1, 2018. We are currently in the process of analyzing each of our revenue streams in accordance with the new guidance. We have completed the evaluation of our checks, forms and accessories revenue streams and we do not expect the application of these standards to those revenue streams to have a material impact on our results of operations or financial position. We continue to make progress in the evaluation of our various marketing solutions and other services revenue streams. We currently anticipate that we will adopt the standards using the modified retrospective method. This method requires the standard to be applied to existing and future contracts as of the effective date, with an adjustment to opening retained earnings in the year of adoption for the cumulative effect of the change. In addition, we will disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the new guidance as compared with the guidance that was in effect before the change.

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 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.

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. The standard requires recognition of the tax effects resulting from the intercompany sale of an asset when the transfer occurs. Previously, the tax effects were deferred until the transferred asset was sold to a third party. The guidance is effective for us on January 1, 2018 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.

In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*. The standard revises the definition of a business, which affects many areas of accounting such as business combinations and disposals and goodwill impairment. The revised definition of a business will likely result in more acquisitions being accounted for as asset acquisitions, as opposed to business combinations. The guidance is effective for us on January 1, 2018 and is required to be applied prospectively to transactions occurring on or after the effective date.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that the service cost component of net periodic benefit expense be recognized in the same statement of comprehensive income caption(s) as other compensation costs, and requires that the other components of net periodic benefit expense be recognized in the non-operating section of the statement of comprehensive income. In addition, only the service cost component of net periodic benefit expense is eligible for capitalization when applicable. The guidance is effective for us on January 1, 2018. The reclassification of the other components of net periodic benefit expense will be applied on a retrospective basis. As we will use the practical expedient for adoption outlined in the standard, annual net periodic benefit income of $2,016 for 2017, $1,841 for 2016 and $2,697 for 2015 will be reclassified from total cost of revenue and selling, general and administrative (SG&A) expense to other income in our consolidated statements of comprehensive income. This represents the entire amount of our net periodic benefit income as there is no service cost associated with our plans. The guidance allowing only the service cost component of net periodic benefit expense to be capitalized will be adopted on a prospective basis, and we do not expect this change to have a significant impact on our results of operations or financial position.

In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting*. The standard provides guidance about which changes to the terms or conditions of a share-based payment award require modification accounting, which may result in a different fair value for the award. The guidance is effective for us on January 1, 2018 and is required to be applied prospectively to awards modified on or after the effective date. Historically, modifications to our share-based payment awards have been rare. As such, 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, 2017**	**December 31, 2016**
Raw materials	$ 7,702	$ 5,861
Semi-finished goods	8,322	7,990
Finished goods	21,716	23,235
Supplies	3,189	3,096
Inventories and supplies	$ 40,929	$ 40,182

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

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

	September 30, 2017			
(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Funds held for customers:[1]				
Domestic money market fund	$10,000	$ —	$ —	$10,000
Canadian and provincial government securities	9,091	—	(424)	8,667
Canadian guaranteed investment certificates	8,018	—	—	8,018
Available-for-sale securities	$27,109	$ —	$ (424)	$26,685

[1] Funds held for customers, as reported on the consolidated balance sheet as of September 30, 2017, also included cash of $51,762.

	December 31, 2016			
(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Funds held for customers:[1]				
Domestic money market fund	$6,002	$ —	$ —	$6,002
Canadian and provincial government securities	8,320	—	(228)	8,092
Canadian guaranteed investment certificates	7,440	—	—	7,440
Available-for-sale securities	$21,762	$ —	$ (228)	$21,534

[1] Funds held for customers, as reported on the consolidated balance sheet as of December 31, 2016, also included cash of $66,289.

Expected maturities of available-for-sale securities as of September 30, 2017 were as follows:

(in thousands)	Fair value
Due in one year or less	$18,564
Due in two to five years	4,255
Due in six to ten years	3,866
Available-for-sale securities	$26,685

Further information regarding the fair value of available-for-sale securities can be found in Note 7.

Assets held for sale – Assets held for sale as of September 30, 2017 included 2 providers of printing and promotional products that were classified as held for sale during the third quarter of 2017. Assets held for sale as of December 31, 2016 included the operations of a small business distributor that was sold during the second quarter of 2017 and a provider of printed and promotional products that was sold during the first quarter of 2017. Also during the nine months ended September 30, 2017, we sold the operations of an additional small business distributor that previously did not meet the requirements to be reported as assets held for sale in the consolidated balance sheets, as well as a small business distributor and assets associated with certain custom printing activities that were classified as held for sale during the second quarter of 2017. We determined that these businesses would be better positioned for long-term growth if they were managed independently. Subsequent to the sales, these businesses are owned by independent distributors that are part of our Safeguard® distributor network. As such, our revenue is not impacted by these sales and the impact to our costs is not significant. We entered into aggregate notes receivable of $24,497 in conjunction with these sales (non-cash investing activity) and we recognized aggregate net gains of $1,924 for the quarter ended September 30, 2017 and $8,703 for the nine months ended September 30, 2017. The gains are included in SG&A expense in the consolidated statements of comprehensive income.

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

The businesses sold during 2017, as well as those held for sale as of September 30, 2017, were included in our Small Business Services segment and their net assets consisted primarily of intangible assets. During the first six months of 2017, we recorded aggregate pre-tax asset impairment charges of $8,250 related to the small business distributor sold during the second quarter of 2017. The impairment charges reduced the carrying value of the business to its fair value less costs to sell, as we finalized the sale of the business.

We are actively marketing the remaining assets held for sale and we expect the selling prices will equal or exceed their current carrying values. Net assets held for sale consisted of the following:

(in thousands)	September 30, 2017	December 31, 2016	Balance sheet caption
Current assets	$ 4	$ 3	Other current assets
Intangibles	6,401	14,135	Assets held for sale
Goodwill	2,081	—	Assets held for sale
Other non-current assets	207	433	Assets held for sale
Accrued liabilities	(621)	(146)	Accrued liabilities
Deferred income tax liabilities	—	(5,697)	Other non-current liabilities
Net assets held for sale	$ 8,072	$ 8,728	

Intangibles – Intangibles were comprised of the following:

	September 30, 2017			December 31, 2016		
(in thousands)	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	407,844	(335,112)	72,732	385,293	(310,195)	75,098
Customer lists/relationships	337,985	(109,495)	228,490	308,375	(76,276)	232,099
Trade names[1]	38,761	(20,595)	18,166	68,261	(40,857)	27,404
Software to be sold	36,900	(10,147)	26,753	34,700	(7,050)	27,650
Technology-based intangibles	31,800	(4,783)	27,017	28,000	—	28,000
Other	1,800	(1,535)	265	1,808	(1,378)	430
Amortizable intangibles	855,090	(481,667)	373,423	826,437	(435,756)	390,681
Intangibles	$874,190	$ (481,667)	$392,523	$845,537	$ (435,756)	$409,781

[1] During the third quarter of 2017, we recorded a pre-tax asset impairment charge of $14,752 for one of our trade names. Further information can be found in Note 7.

Amortization of intangibles was $27,456 for the quarter ended September 30, 2017, $19,273 for the quarter ended September 30, 2016, $79,284 for the nine months ended September 30, 2017 and $56,364 for the nine months ended September 30, 2016. Based on the intangibles in service as of September 30, 2017, estimated future amortization expense is as follows:

(in thousands)	**Estimated amortization expense**
Remainder of 2017	$ 28,333
2018	93,153
2019	72,877
2020	54,692
2021	44,412

During the nine months ended September 30, 2017, 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, 2017:

(in thousands)	**Amount**	**Weighted-average amortization period (in years)**
Internal-use software	$27,065	3
Customer lists/relationships	50,184	8
Trade names	9,795	6
Software to be sold	2,200	5
Technology-based intangibles	800	3
Acquired intangibles	$90,044	6

Information regarding acquired intangibles does not include adjustments recorded during the nine months ended September 30, 2017 for changes in the estimated fair values of intangibles acquired during 2016 through acquisitions. Information regarding these adjustments can be found in Note 6.

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Goodwill – Changes in goodwill during the nine months ended September 30, 2017 were as follows:

(in thousands)	Small Business Services	Financial Services	Direct Checks	Total
Balance, December 31, 2016:				
Goodwill, gross	$684,261	$293,189	$148,506	$1,125,956
Accumulated impairment charges	(20,000)	—	—	(20,000)
Goodwill, net of accumulated impairment charges	664,261	293,189	148,506	1,105,956
Impairment charge (Note 7)	(28,379)	—	—	(28,379)
Goodwill resulting from acquisitions	22,966	30,583	—	53,549
Measurement-period adjustments for previous acquisitions (Note 6)	30	(2,160)	—	(2,130)
Sale of small business distributor	(1,000)	—	—	(1,000)
Reclassification to assets held for sale	(2,484)	—	—	(2,484)
Currency translation adjustment	574	—	—	574
Balance, September 30, 2017:				
Goodwill, gross	704,347	321,612	148,506	1,174,465
Accumulated impairment charges	(48,379)	—	—	(48,379)
Goodwill, net of accumulated impairment charges	$655,968	$321,612	$148,506	$1,126,086

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

(in thousands)	September 30, 2017	December 31, 2016
Contract acquisition costs	$ 66,631	$ 65,792
Loans and notes receivable from Safeguard distributors	43,904	21,313
Postretirement benefit plan asset	28,840	23,940
Deferred advertising costs	5,987	7,309
Other	6,531	6,708
Other non-current assets	$ 151,893	$ 125,062

Changes in contract acquisition costs during the nine months ended September 30, 2017 and 2016 were as follows:

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Balance, beginning of year	$65,792	$58,792
Additions[1]	15,651	23,471
Amortization	(14,685)	(14,700)
Other	(127)	(75)
Balance, end of period	$66,631	$67,488

[1] Contract acquisition costs are accrued upon contract execution. Cash payments made for contract acquisition costs were $20,003 for the nine months ended September 30, 2017 and $17,190 for the nine months ended September 30, 2016.

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Accrued liabilities – Accrued liabilities were comprised of the following:

(in thousands)	**September 30, 2017**	**December 31, 2016**
Funds held for customers	$ 77,397	$ 86,799
Deferred revenue	34,567	48,049
Employee profit sharing/cash bonus	25,560	27,760
Acquisition-related liabilities[(1)]	25,346	12,763
Customer rebates	14,256	16,281
Contract acquisition costs due within one year	13,508	12,426
Wages, including vacation	12,381	8,640
Income tax	6,890	19,708
Restructuring due within one year (Note 8)	1,549	4,181
Other	44,088	36,442
Accrued liabilities	$ 255,542	$ 273,049

[(1)] Consists of holdback payments due at future dates and liabilities for contingent consideration. Further information regarding liabilities for contingent consideration can be found in Note 7.

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

(in thousands)	**September 30, 2017**	**December 31, 2016**
Contract acquisition costs	$ 24,348	$ 29,855
Acquisition-related liabilities[(1)]	2,415	19,390
Other	21,929	30,461
Other non-current liabilities	$ 48,692	$ 79,706

[(1)] Consists of holdback payments due at future dates and liabilities for contingent consideration. Further information regarding liabilities for contingent consideration can be found in Note 7.

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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.

(in thousands, except per share amounts)	Quarter Ended September 30, 2017	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Earnings per share – basic:				
Net income	$28,801	$58,663	$145,446	$175,154
Income allocated to participating securities	(176)	(491)	(961)	(1,445)
Income available to common shareholders	$28,625	$58,172	$144,485	$173,709
Weighted-average shares outstanding	48,081	48,493	48,217	48,634
Earnings per share – basic	$0.60	$1.20	$3.00	$3.57
Earnings per share – diluted:				
Net income	$28,801	$58,663	$145,446	$175,154
Income allocated to participating securities	(175)	(487)	(956)	(1,436)
Re-measurement of share-based awards classified as liabilities	53	(64)	7	230
Income available to common shareholders	$28,679	$58,112	$144,497	$173,948
Weighted-average shares outstanding	48,081	48,493	48,217	48,634
Dilutive impact of potential common shares	296	455	331	427
Weighted-average shares and potential common shares outstanding	48,377	48,948	48,548	49,061
Earnings per share – diluted	$0.59	$1.19	$2.98	$3.55
Antidilutive options excluded from calculation	266	223	266	223

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: Quarter Ended September 30, 2017	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Affected line item in consolidated statements of comprehensive income
Amortization of postretirement benefit plan items:					
Prior service credit	$355	$355	1,066	1,066	(1)
Net actuarial loss	(909)	(949)	(2,728)	(2,848)	(1)
Total amortization	(554)	(594)	(1,662)	(1,782)	(1)
Tax benefit	167	181	497	544	(1)
Total reclassifications, net of tax	$(387)	$(413)	$(1,165)	$(1,238)	

[(1)] Amortization of postretirement benefit plan items is included in the computation of net periodic benefit income as presented in Note 10. Net periodic benefit income is included in cost of revenue and SG&A expense in the consolidated statements of comprehensive income, based on the composition

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of our workforce. A portion of net periodic benefit income is capitalized as a component of labor costs and is included in inventories and intangibles in our consolidated balance sheets.

Accumulated other comprehensive loss – Changes in the components of accumulated other comprehensive loss during the nine months ended September 30, 2017 were as follows:

(in thousands)	**Postretirement benefit plans, net of tax**	**Net unrealized loss on marketable securities, net of tax**[(1)]	**Currency translation adjustment**	**Accumulated other comprehensive loss**
Balance, December 31, 2016	$ (35,684)	$ (213)	$ (14,474)	$ (50,371)
Other comprehensive (loss) income before reclassifications	—	(130)	4,500	4,370
Amounts reclassified from accumulated other comprehensive loss	1,165	—	—	1,165
Net current-period other comprehensive income (loss)	1,165	(130)	4,500	5,535
Balance, September 30, 2017	$ (34,519)	$ (343)	$ (9,974)	$ (44,836)

(1) Other comprehensive loss before reclassifications is net of income tax benefit of $45.

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 are expensed as incurred and are included in SG&A expense in the consolidated statements of comprehensive income. Transaction costs were not significant to our consolidated statements of comprehensive income for the quarters or nine months ended September 30, 2017 and 2016. The acquisitions completed during the nine months ended September 30, 2017 were cash transactions, funded by cash on hand and/or use of our revolving credit facility. We completed these acquisitions to increase our mix of marketing solutions and other services revenue and to reach new customers.
2017 acquisitions – In February 2017, we acquired selected assets of Panthur Pty Ltd (Panthur), an Australian web hosting and domain registration service provider. The allocation of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in goodwill of $1,198 that is not deductible for tax purposes. The acquisition resulted in goodwill as we expect to utilize Panthur's platform as we selectively expand into foreign markets. The operations of this business from its acquisition date are included within our Small Business Services segment.

In April 2017, we acquired all of the equity of RDM Corporation (RDM) of Canada, a provider of remote deposit capture software, hardware and digital imaging solutions for financial institutions and corporate clients. The preliminary allocation of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in goodwill of $30,583 that is not deductible for tax purposes. The acquisition resulted in goodwill as it enhances our suite of treasury management solutions, strengthening our value proposition and improving our market position. We expect to finalize the allocation of the purchase price by the end of 2017 when our valuation of several of the acquired assets and liabilities is completed. The operations of this business from its acquisition date are included within our Financial Services segment.

In July 2017, we acquired all of the equity of Digital Pacific Group Pty Ltd (Digital Pacific), and in September 2017, we acquired all of the equity of j2 Global Australia Pty Ltd, doing business as Web24. Both businesses are based in Australia and provide web hosting and domain registration services. The preliminary allocations of the purchase price based upon the estimated fair values of the assets acquired and liabilities assumed resulted in goodwill of $21,768 that is not deductible for tax purposes. The goodwill resulted from our acquisition of enhanced web hosting capabilities as we selectively expand into foreign markets. We expect to finalize the allocations of the purchase price by the end of 2017 when our valuation of several of the acquired assets and liabilities is completed. The operations of these businesses from their acquisition dates are included within our Small Business Services segment.

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Also during the nine months ended September 30, 2017, 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. We expect to finalize the allocations of the purchase price by the end of 2017 when our valuation of the acquired intangible assets is completed, as well as the determination of the related estimated useful lives. As these small business 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.

Information regarding the useful lives of acquired intangibles and goodwill by reportable segment can be found in Note 3. Information regarding the calculation of the estimated fair values of the acquired intangibles can be found in Note 7. As our acquisitions were immaterial to our reported 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, 2017, of the aggregate purchase price for the above acquisitions to the assets acquired and liabilities assumed:

(in thousands)	**2017 acquisitions**
Net tangible assets acquired and liabilities assumed[1]	$ 5,123
Identifiable intangible assets:	
Customer lists/relationships	50,184
Trade name	9,795
Software to be sold	2,200
Technology-based intangible	800
Internal-use software	445
Total intangible assets	63,424
Goodwill	53,549
Total aggregate purchase price	122,096
Liabilities for holdback payments	(4,562)
Net cash paid for 2017 acquisitions	117,534
Holdback payments for prior year acquisitions	7,883
Payments for acquisitions, net of cash acquired of $27,282	$ 125,417

[1] Net tangible assets acquired consisted primarily of accounts receivable, marketable securities, inventory and accrued liabilities of RDM.

During the nine months ended September 30, 2017, we finalized the purchase accounting for the acquisitions of BNBS, Inc., Payce, Inc., PTM Document Systems, Inc. and Data Support Systems, Inc., which were acquired in 2016, and we adjusted the purchase accounting for First Manhattan Consulting Group, LLC (FMCG Direct), which was acquired in December 2016. We expect to finalize the purchase accounting for FMCG Direct by the end of 2017 when our valuation of certain miscellaneous receivables and liabilities is completed. Further information regarding these acquisitions can be found under the caption “Note 5: Acquisitions” in the Notes to Consolidated Financial Statements appearing in the 2016 Form 10-K. These measurement-period adjustments resulted in a decrease in goodwill of $2,130 during the nine months ended September 30, 2017, with the offset to various assets and liabilities, including other current assets, accounts payable and intangibles, including an increase of $3,000 in acquired technology-based intangibles and a decrease of $1,924 in customer list intangibles.

During the nine months ended September 30, 2016, we completed the following acquisitions:

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

- 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 April 2016, we acquired selected assets of 180 Fusion LLC, a digital marketing services provider.
- In June 2016, we acquired selected assets of L.A.M. Enterprises, Inc., a provider of printed and promotional products.
- 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.

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- In July 2016, we acquired selected assets of Inkhead, Inc., a provider of customized promotional products.
- 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 equity of Payce, Inc., a provider of payroll processing, payroll tax filing and related payroll services.
- We acquired the operations of several small business distributors, all of which were previously part of our Safeguard distributor network.

Payments for acquisitions, net of cash acquired, as presented on the consolidated statement of cash flows for the nine months ended September 30, 2016, included payments of $63,103 for these acquisitions and $1,534 for holdback payments for prior year acquisitions. Further information regarding our 2016 acquisitions can be found under the caption “Note 5: Acquisitions” in the Notes to Consolidated Financial Statements appearing in the 2016 Form 10-K.

Note 7: 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 2016 Form 10-K, explains our methodology for assessing impairment of these assets.

In conjunction with our annual strategic planning process during the third quarter of 2017, we made various changes to our internal reporting structure. As a result, we reassessed our operating segments and determined that no changes were required in our reportable operating segments. We also reassessed our previously determined reporting units and concluded that a realignment of a portion of our reporting units was required. As such, we reallocated the carrying value of goodwill to our revised reporting units based on their relative fair values. We analyzed goodwill for impairment immediately prior to this realignment by performing qualitative analyses for our Small Business Services reporting units and quantitative analyses for our Financial Services and Direct Checks reporting units. The qualitative analyses 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 last quantitative analysis we completed. In completing these assessments, we noted no changes in events or circumstances that indicated that it was more likely than not that the fair value of any reporting unit was less than its carrying amount, with the exception of our Small Business Services Safeguard reporting unit. The analysis of this reporting unit, which incorporated the results of the annual strategic planning process, indicated lowered projected long-term revenue growth and profitability levels resulting from changes in market trends and the mix of products and services sold, including the continuing decline in check and forms usage. As a result, we completed impairment analyses of the long-term assets of this reporting unit, excluding goodwill, and concluded that these assets were not impaired. We then completed the quantitative analysis of the reporting unit, utilizing the income approach outlined under the caption "Note 1: Significant accounting policies" in the Notes to Consolidated Financial Statements appearing in the 2016 Form 10-K. This quantitative analysis indicated that this reporting unit's goodwill was fully impaired and resulted in a non-cash pre-tax goodwill impairment charge of $28,379 during the quarter ended September 30, 2017. In accordance with ASU No. 2017-04, which we adopted on January 1, 2017, the impairment charge was measured as the amount by which the reporting unit's carrying value exceeded its estimated fair value. Further information regarding this accounting pronouncement can be found in Note 2.

Immediately subsequent to the realignment of our reporting unit structure, we completed a quantitative analysis for all of our reporting units to which goodwill is assigned. This quantitative analysis as of July 31, 2017 indicated that the estimated fair values of our reporting units exceeded their carrying values by approximate amounts between $64,000 and $1,405,000, or by amounts between 36% and 314% above the carrying values of their net assets.

In completing the 2017 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 $16,000 as of July 31, 2017.

Non-recurring asset impairment analyses – During the six months ended June 30, 2017, we recorded aggregate pre-tax asset impairment charges of $8,250 related to a small business distributor that was classified as held for sale in the consolidated balance sheets prior to its sale during the second quarter of 2017. The impairment charges were calculated based on on-going

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negotiations for the sale of the business and reduced its carrying value to its fair value less costs to sell by reducing the carrying value of the related customer list intangible asset. Further information regarding assets held for sale can be found in Note 3.

During the quarter ended September 30, 2017, we decided that we would no longer utilize our Small Business Services NEBS® trade name in the marketplace, and we recorded a pre-tax asset impairment charge of $14,752 to write down the remaining book value of this trade name to a fair value of $0. Also during the quarter ended September 30, 2017, we recorded pre-tax asset impairment charges of $3,499 related to other long-lived assets within Small Business Services, primarily internal-use software related to an order capture system. During the third quarter of 2017, we signed a contract for customer relationship management services that resulted in our decision to no longer utilize a portion of this software. As such, the remaining net book value of the assets was written down to a fair value of $0.

Information regarding these non-recurring asset impairment analyses is as follows:

(in thousands)	Fair value as of measurement date	Fair value measurements using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impairment charge
Trade name	$ —	$ —	$ —	$ —	$ 14,752
Assets held for sale	3,500	—	—	3,500	8,250
Other	—	—	—	—	3,499
Total					$ 26,501

2017 acquisitions – For all acquisitions, we are required to measure the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Information regarding the acquisitions completed during the nine months ended September 30, 2017 can be found in Note 6. The identifiable net assets acquired during the nine months ended September 30, 2017 were comprised primarily of customer list intangible assets and trade names. The estimated fair values of the RDM, Digital Pacific and Web24 customer list intangibles were calculated using the multi-period excess earnings method. This valuation model estimates revenues and cash flows derived from the asset and then deducts portions of the cash flow that can be attributed to supporting assets, such as a brand name or fixed assets, that contributed to the generation of the cash flows. The resulting cash flow, which is attributable solely to the customer list asset, is then discounted at a rate of return commensurate with the risk of the asset to calculate a present value. The estimated fair value of the remainder of our acquired customers lists was calculated by discounting the estimated cash flows expected to be generated by the assets. Key assumptions used in the calculations included same-customer revenue growth rates and estimated customer retention rates based on the acquirees' historical information. The estimated fair values of the Digital Pacific and Web24 trade names were calculated using the relief from royalty method, which calculates the cost savings associated with owning rather than licensing the trade name. An assumed royalty rate is applied to forecasted revenue and the resulting cash flows are discounted.

Recurring fair value measurements – Funds held for customers included cash equivalents and available-for-sale marketable securities (Note 3). The cash equivalents consisted of a money market fund investment that is traded in an active market. Because of the short-term nature of the underlying investments, the cost of this investment approximates its fair value. Available-for-sale marketable securities consisted of a mutual fund investment that invests in Canadian and provincial government securities and investments in Canadian guaranteed investment certificates (GICs) with maturities of 1 year. 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, 2017 and 2016.

We have elected to account for long-term investments 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 investments are included in long-term investments in the consolidated balance sheets. Long-term investments also include the cash surrender val

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ues of company-owned life insurance policies. Realized and unrealized gains and losses, as well as dividends earned by the mutual fund investments, are included in SG&A expense in the consolidated statements of comprehensive income. These investments correspond to a liability under an officers' deferred compensation plan that is not available to new participants and is fully funded by the mutual fund investments. The liability under the plan equals the fair value of the mutual fund investments. Thus, as the value of the investments 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 mutual fund investments allows us to net changes in the investments and the related liability in the statements of comprehensive income. The cost of securities sold is determined using the average cost method. The fair value of the mutual fund investments is determined by obtaining quoted prices in active markets for the mutual funds. Net unrealized losses recognized during the nine months ended September 30, 2017 and net realized gains recognized during the nine months ended September 30, 2017 and September 30, 2016 were not significant. We recognized net unrealized losses of $160 during the nine months ended September 30, 2016.

We have recorded liabilities for contingent consideration related to certain of our acquisitions, primarily the acquisitions of Verify Valid and a small business distributor during 2015 and the acquisition of Data Support Systems, Inc. during 2016. Further information regarding these acquisitions can be found under the caption "Note 5: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2016 Form 10-K. Under the Verify Valid and Data Support Systems agreements, there are no maximum amounts of contingent payments specified, although payments are based on a percentage of the revenue or operating income generated by the business. The fair value of accrued contingent consideration is remeasured each reporting period. Increases or decreases in projected revenue, gross profit or operating income, as appropriate, and the related probabilities of achieving the forecasted results 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.

Changes in accrued contingent consideration during the nine months ended September 30, 2017 were as follows:

(in thousands)	**Nine Months Ended September 30, 2017**
Balance, December 31, 2016	$ 4,682
Change in fair value	1,028
Settlements	(1,249)
Balance, September 30, 2017	$ 4,461

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

		Fair value measurements using		
	Fair value as of September 30, 2017	**Quoted prices in active markets for identical**	**Significant other observable inputs**	**Significant unobservable inputs**

(in thousands)		**assets (Level 1)**	**(Level 2)**	**(Level 3)**
Cash equivalents (funds held for customers)	$ 10,000	$ 10,000	$ —	$ —
Available-for-sale marketable securities (funds held for customers)	16,685	—	16,685	—
Long-term investments in mutual funds	1,729	1,729	—	—
Accrued contingent consideration	(4,461)	—	—	(4,461)

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		Fair value measurements using		
(in thousands)	**Fair value as of December 31, 2016**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash equivalents (funds held for customers)	$ 6,002	$ 6,002	$ —	$ —
Available-for-sale marketable securities (funds held for customers)	15,532	—	15,532	—
Long-term investments in mutual funds	1,877	1,877	—	—
Accrued contingent consideration	(4,682)	—	—	(4,682)

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, 2017.

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 Safeguard 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. 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 – Information regarding the composition of our long-term debt can be found in Note 11. The carrying amounts reported in the consolidated balance sheets for amounts drawn under our revolving credit facility and our term loan facility, excluding unamortized debt issuance costs, approximate fair value because our interest rates are variable and reflect current market rates.

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

	September 30, 2017		**Fair value measurements using**		
			Quoted prices in active markets for identical assets	**Significant other observable inputs**	**Significant unobservable inputs**
(in thousands)	**Carrying value**	**Fair value**	**(Level 1)**	**(Level 2)**	**(Level 3)**

Cash	$53,410	$53,410	$ 53,410	$ —	$ —
Cash (funds held for customers)	51,762	51,762	51,762	—	—
Loans and notes receivable from Safeguard distributors	45,820	41,987	—	—	41,987
Long-term debt[1]	754,580	755,250	—	755,250	—

[1] Amounts exclude capital lease obligations.

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	December 31, 2016		Fair value measurements using		
			Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
(in thousands)	Carrying value	Fair value	(Level 1)	(Level 2)	(Level 3)
Cash	$76,574	$76,574	$ 76,574	$ —	$ —
Cash (funds held for customers)	66,289	66,289	66,289	—	—
Loans and notes receivable from Safeguard distributors	23,278	21,145	—	—	21,145
Long-term debt(1)	756,963	758,000	—	758,000	—

(1) Amounts exclude capital lease obligations.

Note 8: Restructuring charges

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