

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)

3680 Victoria St. N., Shoreview, Minnesota

(Address of principal executive offices)

41-0216800

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

55126-2966

(Zip Code)

(651) 483-7111

(Registrant's telephone number, including area code)

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

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at October 19, 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	