**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 June 30, 2019**

☐ **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)**

| **MN** | **41-0216800** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **3680 Victoria St. N. Shoreview MN** | **55126-2966** |
| (Address of principal executive offices) | (Zip Code) |

**(651) 483-7111**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, par value $1.00 per share** | **DLX** | **NYSE** |

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 every Interactive Data File required to be submitted 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, 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 | ☒ | Accelerated Filer | ☐ |
|---|---|---|---|
| Non-accelerated Filer | ☐ | 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 ☒ No

The number of shares outstanding of registrant's common stock as of July 17, 2019 was 42,931,368.

## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

**DELUXE CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
(in thousands, except share par value)
(Unaudited)

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 66,732 | $ 59,740 |
| Trade accounts receivable, net of allowances for uncollectible accounts | 152,784 | 173,862 |
| Inventories and supplies | 46,097 | 46,441 |
| Funds held for customers | 93,709 | 100,982 |
| Revenue in excess of billings | 30,868 | 30,458 |
| Other current assets | 54,887 | 38,563 |
| Total current assets | 445,077 | 450,046 |
| Deferred income taxes | 5,464 | 2,886 |
| Long-term investments | 44,396 | 43,773 |
| Property, plant and equipment (net of accumulated depreciation of $374,625 and $367,205, respectively) | 91,494 | 90,342 |
| Operating lease assets | 43,972 | — |
| Intangibles (net of accumulated amortization of $587,075 and $535,627, respectively) | 325,659 | 359,965 |
| Goodwill | 1,158,813 | 1,160,626 |
| Assets held for sale | 1,350 | 1,350 |
| Other non-current assets | 197,813 | 196,108 |
| Total assets | $ 2,314,038 | $ 2,305,096 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 95,412 | $ 106,978 |
| Accrued liabilities | 254,222 | 284,281 |
| Long-term debt due within one year | — | 791 |
| Total current liabilities | 349,634 | 392,050 |
| Long-term debt | 951,000 | 911,073 |
| Operating lease liabilities | 33,496 | — |
| Deferred income taxes | 51,910 | 46,680 |
| Other non-current liabilities | 33,849 | 39,880 |
| Commitments and contingencies (Notes 13 and 14) | | |
| Shareholders' equity: | | |
| Common shares $1 par value (authorized: 500,000 shares; outstanding: June 30, 2019 – 42,928; December 31, 2018 – 44,647) | 42,928 | 44,647 |
| Retained earnings | 904,748 | 927,345 |
| Accumulated other comprehensive loss | (53,527) | (56,579) |
| Total shareholders' equity | 894,149 | 915,413 |
| Total liabilities and shareholders' equity | $ 2,314,038 | $ 2,305,096 |

See Condensed Notes to Unaudited Consolidated Financial Statements

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Product revenue | $ 347,061 | $ 359,935 | $ 697,580 | $ 723,342 |
| Service revenue | 146,925 | 128,309 | 295,471 | 256,816 |
| Total revenue | 493,986 | 488,244 | 993,051 | 980,158 |
| Cost of products | (133,798) | (134,332) | (265,061) | (267,703) |
| Cost of services | (68,730) | (55,869) | (137,090) | (111,256) |
| Total cost of revenue | (202,528) | (190,201) | (402,151) | (378,959) |
| Gross profit | 291,458 | 298,043 | 590,900 | 601,199 |
| Selling, general and administrative expense | (222,292) | (209,585) | (452,469) | (420,739) |
| Restructuring and integration expense | (17,342) | (5,635) | (22,834) | (7,780) |
| Asset impairment charges | — | — | — | (2,149) |
| Operating income | 51,824 | 82,823 | 115,597 | 170,531 |
| Interest expense | (9,239) | (6,130) | (18,540) | (11,708) |
| Other income | 2,168 | 2,436 | 3,934 | 3,724 |
| Income before income taxes | 44,753 | 79,129 | 100,991 | 162,547 |
| Income tax provision | (12,171) | (18,922) | (27,219) | (39,003) |
| Net income | $ 32,582 | $ 60,207 | $ 73,772 | $ 123,544 |
| Comprehensive income | $ 33,744 | $ 57,272 | $ 76,824 | $ 118,838 |
| Basic earnings per share | 0.75 | 1.26 | 1.68 | 2.58 |
| Diluted earnings per share | 0.75 | 1.25 | 1.68 | 2.56 |

See Condensed Notes to Unaudited Consolidated Financial Statements

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

| | Common shares | Common shares par value | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance, March 31, 2019 | 43,638 | $ 43,638 | $ — | $ 908,614 | $ (54,689) | $ 897,563 |
| Net income | — | — | — | 32,582 | — | 32,582 |
| Cash dividends ($0.30 per share) | — | — | — | (13,296) | — | (13,296) |
| Common shares issued | 13 | 13 | 76 | — | — | 89 |
| Common shares repurchased | (718) | (718) | (5,026) | (23,152) | — | (28,896) |
| Other common shares retired | (5) | (5) | (196) | — | — | (201) |
| Employee share-based compensation | — | — | 5,146 | — | — | 5,146 |
| Other comprehensive income | — | — | — | — | 1,162 | 1,162 |
| Balance, June 30, 2019 | 42,928 | $ 42,928 | $ — | $ 904,748 | $ (53,527) | $ 894,149 |

| | Common shares | Common shares par value | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2018 | 44,647 | $ 44,647 | $ — | $ 927,345 | $ (56,579) | $ 915,413 |
| Net income | — | — | — | 73,772 | — | 73,772 |
| Cash dividends ($0.60 per share) | — | — | — | (26,467) | — | (26,467) |
| Common shares issued | 99 | 99 | 1,938 | — | — | 2,037 |
| Common shares repurchased | (1,757) | (1,757) | (7,504) | (69,635) | — | (78,896) |
| Other common shares retired | (61) | (61) | (2,810) | — | — | (2,871) |
| Employee share-based compensation | — | — | 8,376 | — | — | 8,376 |
| Adoption of Accounting Standards Update No. 2016-02 (Note 2) | — | — | — | (267) | — | (267) |
| Other comprehensive income | — | — | — | — | 3,052 | 3,052 |
| Balance, June 30, 2019 | 42,928 | $ 42,928 | $ — | $ 904,748 | $ (53,527) | $ 894,149 |

See Condensed Notes to Unaudited Consolidated Financial Statements

**DELUXE CORPORATION**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)**
(in thousands)
(Unaudited)

| | Common shares | Common shares par value | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance, March 31, 2018 | 47,841 | $ 47,841 | $ — | $ 1,050,064 | $ (46,235) | $ 1,051,670 |
| Net income | — | — | — | 60,207 | — | 60,207 |
| Cash dividends ($0.30 per share) | — | — | — | (14,385) | — | (14,385) |
| Common shares issued | 241 | 241 | 9,220 | — | — | 9,461 |
| Common shares repurchased | (295) | (295) | (502) | (19,203) | — | (20,000) |
| Other common shares retired | (164) | (164) | (11,534) | — | — | (11,698) |
| Employee share-based compensation | — | — | 2,816 | — | — | 2,816 |
| Other comprehensive loss | — | — | — | — | (2,935) | (2,935) |
| Balance, June 30, 2018 | 47,623 | $ 47,623 | $ — | $ 1,076,683 | $ (49,170) | $ 1,075,136 |

| | Common shares | Common shares par value | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 47,953 | $ 47,953 | $ — | $ 1,004,657 | $ (37,597) | $ 1,015,013 |
| Net income | — | — | — | 123,544 | — | 123,544 |
| Cash dividends ($0.60 per share) | — | — | — | (28,804) | — | (28,804) |
| Common shares issued | 490 | 490 | 16,677 | — | — | 17,167 |
| Common shares repurchased | (573) | (573) | (4,876) | (34,547) | — | (39,996) |
| Other common shares retired | (247) | (247) | (17,579) | — | — | (17,826) |
| Employee share-based compensation | — | — | 5,778 | — | — | 5,778 |
| Adoption of Accounting Standards Update No. 2014-09 | — | — | — | 4,966 | — | 4,966 |
| Adoption of Accounting Standards Update No. 2018-02 | — | — | — | 6,867 | (6,867) | — |
| Other comprehensive loss | — | — | — | — | (4,706) | (4,706) |
| Balance, June 30, 2018 | 47,623 | $ 47,623 | $ — | $ 1,076,683 | $ (49,170) | $ 1,075,136 |

See Condensed Notes to Unaudited Consolidated Financial Statements

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income | $ 73,772 | $ 123,544 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 8,448 | 7,823 |
| Amortization of intangibles | 56,488 | 55,694 |
| Operating lease expense | 8,782 | — |
| Asset impairment charges | — | 2,149 |
| Amortization of prepaid product discounts | 11,681 | 11,124 |
| Deferred income taxes | 2,718 | (2,747) |
| Employee share-based compensation expense | 9,224 | 5,757 |
| Loss (gain) on sales of businesses and customer lists | 99 | (11,090) |
| Other non-cash items, net | 7,224 | 3,547 |
| Changes in assets and liabilities, net of effect of acquisitions: | | |
| Trade accounts receivable | 18,881 | 16,670 |
| Inventories and supplies | (836) | (1,245) |
| Other current assets | (11,975) | (12,435) |
| Non-current assets | (2,249) | (3,400) |
| Accounts payable | (12,621) | 2,858 |
| Prepaid product discount payments | (16,182) | (13,282) |
| Other accrued and non-current liabilities | (48,350) | (38,031) |
| Net cash provided by operating activities | 105,104 | 146,936 |
| Cash flows from investing activities: | | |
| Purchases of capital assets | (32,344) | (28,040) |
| Payments for acquisitions, net of cash acquired | (1,566) | (90,205) |
| Purchases of customer funds marketable securities | (3,778) | (3,943) |
| Proceeds from customer funds marketable securities | 3,778 | 3,943 |
| Other | 1,110 | 682 |
| Net cash used by investing activities | (32,800) | (117,563) |
| Cash flows from financing activities: | | |
| Proceeds from issuing long-term debt | 154,000 | 908,000 |
| Payments on long-term debt | (113,000) | (851,410) |
| Net change in customer funds obligations | (10,677) | 9,287 |
| Proceeds from issuing shares under employee plans | 1,637 | 5,767 |
| Employee taxes paid for shares withheld | (2,872) | (7,947) |
| Payments for common shares repurchased | (78,896) | (39,996) |
| Cash dividends paid to shareholders | (26,253) | (28,762) |
| Other | (1,440) | (3,921) |
| Net cash used by financing activities | (77,501) | (8,982) |
| Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted cash equivalents | 3,996 | (3,907) |
| Net change in cash, cash equivalents, restricted cash and restricted cash equivalents | (1,201) | 16,484 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of year | 145,259 | 128,819 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period (Note 3) | $ 144,058 | $ 145,303 |

See Condensed Notes to Unaudited Consolidated Financial Statements

**Note 1: Consolidated financial statements**

The consolidated balance sheet as of June 30, 2019, the consolidated statements of comprehensive income for the quarters and six months ended June 30, 2019 and 2018, the consolidated statements of shareholders' equity for the quarters and six months ended June 30, 2019 and 2018, and the consolidated statements of cash flows for the six months ended June 30, 2019 and 2018 are unaudited. The consolidated balance sheet as of December 31, 2018 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, 2018 (the "2018 Form 10-K").

Amounts within cash flows from operating activities on the consolidated statement of cash flows for the six months ended June 30, 2018 have been modified to conform to the current year presentation. Loss (gain) on sales of businesses and customer lists is now presented separately. In the previous year, this amount was included within other non-cash items, net.

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Restricted Cash*. This standard requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. This standard was effective for us on January 1, 2018 and was required to be applied retrospectively. During the quarter ended December 31, 2018, we identified a misstatement in our statement of cash flows presentation under this standard. We concluded that the cash and cash equivalents included in funds held for customers should be included with cash, cash equivalents, restricted cash and restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows, in accordance with ASU No. 2016-18. Additionally, we determined that gross redemptions and purchases of marketable debt securities included in funds held for customers should be presented as cash flows from investing activities in the statements of cash flows. This misstatement affected our consolidated statements of cash flows as presented in our 2018 Quarterly Reports on Form 10-Q.

We assessed the materiality of this misstatement on prior periods' financial statements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 99, *Materiality*, codified in Accounting Standards Codification (ASC) 250, *Presentation of Financial Statements*. We concluded that the misstatement was not material to any prior interim period and therefore, amendments of previously filed reports are not required. In accordance with ASC 250, we have corrected the misstatement 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 provided by operating activities.

The impact of the revisions on our consolidated statement of cash flows for the six months ended June 30, 2018 was as follows:

| (in thousands) | Previously reported | Adjustment | Revised |
|---|---|---|---|
| Purchases of customer funds marketable securities | $ — | $ (3,943) | $ (3,943) |
| Proceeds from customer funds marketable securities | — | 3,943 | 3,943 |
| Net cash used by investing activities | (117,563) | — | (117,563) |
| Net change in customer funds obligations | — | 9,287 | 9,287 |
| Net cash used by financing activities | (18,269) | 9,287 | (8,982) |
| Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted cash equivalents | (1,750) | (2,157) | (3,907) |
| Net change in cash, cash equivalents, restricted cash and restricted cash equivalents | 9,354 | 7,130 | 16,484 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of year | 59,240 | 69,579 | 128,819 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period | $ 68,594 | $ 76,709 | $ 145,303 |

**Note 2: New accounting pronouncements**

*ASU No. 2016-02* – In February 2016, the FASB issued ASU No. 2016-02, *Leasing*. This standard is intended to increase transparency and comparability among organizations by requiring the recognition of lease right-of-use assets and lease liabilities for virtually all leases and by requiring the disclosure of key information about leasing arrangements. In July 2018, the FASB issued two amendments to this standard: ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which amended narrow aspects of the guidance in ASU No. 2016-02, and ASU No. 2018-11, *Targeted Improvements,* which provided an optional transition method under which comparative periods presented in financial statements in the period of adoption would not be restated. In March 2019, the FASB issued ASU No. 2019-01, *Codification Improvements*. This standard addressed areas identified as companies prepared to implement ASU No. 2016-02. We adopted all of these standards on January 1, 2019, using a modified retrospective approach and the optional transition method under ASU No. 2018-11. As such, prior periods have not been restated to reflect the new guidance.

We elected the practical expedient package outlined in ASU No. 2016-02 under which we did not have to reassess whether an arrangement contains a lease, we carried forward our previous classification of leases as either operating or capital leases, and we did not reassess previously recorded initial direct costs. Additionally, we made the following policy elections:

- we excluded leases with original terms of 12 months or less from lease assets and lease liabilities;
- we separated nonlease components, such as common area maintenance charges and utilities, from the associated lease component for real estate leases, based on their estimated fair values; and
- we used the accounting lease term when determining the incremental borrowing rate for leases with renewal options.

Adoption of the standards had a material impact on our consolidated balance sheet, but did not have a significant impact on our consolidated statement of comprehensive income or our consolidated statement of cash flows. The most significant impact was the recognition of operating lease assets of $50,803, current operating lease liabilities of $13,611 and non-current operating lease liabilities of $37,440 as of January 1, 2019. Our accounting for finance leases remained substantially unchanged.

We determine if an arrangement is a lease at inception by considering whether a contract explicitly or implicitly identifies assets deployed in the arrangement and whether we have obtained substantially all of the economic benefits from the use of the underlying assets and direct how and for what purpose the assets are used during the term of the contract. Operating leases are included in operating lease assets, accrued liabilities and operating lease liabilities on our consolidated balance sheet. Finance leases are included in property, plant and equipment, accrued liabilities and other non-current liabilities on our consolidated balance sheet.

Lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As our lease agreements typically do not provide an implicit rate, we use our incremental borrowing rate based on information available at the lease commencement date in determining the present value of lease payments. Certain of our lease agreements include options to extend or terminate the lease. The lease term takes into account these options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is included in total cost of revenue and in selling, general and administrative (SG&A) expense on the consolidated statement of comprehensive income, and interest on finance leases is included in interest expense on the consolidated statement of comprehensive income. Operating lease expense is recognized on the straight-line basis over the lease term. Information regarding our leases can be found in Note 13.

*ASU No. 2016-13* – In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. This 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. Subsequently, the FASB issued several amendments to this standard. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses,* which clarifies that receivables arising from operating leases are not within the scope of ASU No. 2016-13. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* This standard provides additional

guidance on the measurement and presentation of credit losses. In May 2019, the FASB issued ASU No. 2019-05, *Targeted Transition Relief*, which provides transition guidance to entities that elect the fair value option for eligible instruments. All of these standards are effective for us on January 1, 2020 and require adoption using a modified retrospective approach. We do not expect the application of these standards to have a significant impact on our results of operations or financial position.

*ASU No. 2018-13* – In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*. This standard removes, modifies and adds certain disclosures related to recurring and nonrecurring fair value measurements. During 2018, we adopted the provisions of the standard that remove and modify disclosure requirements. The additional disclosures required under the guidance are effective for us on January 1, 2020 and are required to be applied prospectively to fair value measurements completed on or after the effective date.

*ASU No. 2018-15* – In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the new standard. The guidance is effective for us on January 1, 2020 and may be adopted retrospectively or prospectively to eligible costs incurred on or after the date the guidance is first applied. This new guidance will impact our results of operations and financial position as we currently expense these implementation costs as incurred. As we have not historically tracked these costs, we are not able to quantify the expected impact on our consolidated financial statements. We plan to adopt the standard prospectively.

**Note 3: Supplemental balance sheet and cash flow information**

*Allowance for uncollectible accounts* – Changes in the allowance for uncollectible accounts for the six months ended June 30, 2019 and 2018 were as follows:

| | Six Months Ended June 30, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Balance, beginning of year | $ 3,639 | $ 2,884 |
| Bad debt expense | 2,549 | 1,470 |
| Write-offs, net of recoveries | (1,669) | (1,383) |
| Balance, end of period | $ 4,519 | $ 2,971 |

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

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 7,856 | $ 7,543 |
| Semi-finished goods | 7,519 | 7,273 |
| Finished goods | 27,600 | 27,608 |
| Supplies | 3,122 | 4,017 |
| Inventories and supplies | $ 46,097 | $ 46,441 |

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

| | June 30, 2019 | | | |
|---|---|---|---|---|
| (in thousands) | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Funds held for customers:[1] | | | | |
| Domestic money market fund | $ 14,000 | $ — | $ — | $ 14,000 |
| Canadian and provincial government securities | 8,916 | — | (170) | 8,746 |
| Canadian guaranteed investment certificates | 7,637 | — | — | 7,637 |
| Available-for-sale debt securities | $ 30,553 | $ — | $ (170) | $ 30,383 |

[1] Funds held for customers, as reported on the consolidated balance sheet as of June 30, 2019, also included cash of $63,326.

| | December 31, 2018 | | | |
|---|---|---|---|---|
| (in thousands) | Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Funds held for customers:[1] | | | | |
| Domestic money market fund | $ 16,000 | $ — | $ — | $ 16,000 |
| Canadian and provincial government securities | 8,485 | — | (355) | 8,130 |
| Canadian guaranteed investment certificates | 7,333 | — | — | 7,333 |
| Available-for-sale debt securities | $ 31,818 | $ — | $ (355) | $ 31,463 |

[1] Funds held for customers, as reported on the consolidated balance sheet as of December 31, 2018, also included cash of $69,519.

Expected maturities of available-for-sale debt securities as of June 30, 2019 were as follows:

| (in thousands) | Fair value |
|---|---|
| Due in one year or less | $ 24,820 |
| Due in two to five years | 3,892 |
| Due in six to ten years | 1,671 |
| Available-for-sale debt securities | $ 30,383 |

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

*Revenue in excess of billings* – Revenue in excess of billings was comprised of the following:

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Conditional right to receive consideration | $ 19,781 | $ 19,705 |
| Unconditional right to receive consideration | 11,087 | 10,753 |
| Revenue in excess of billings | $ 30,868 | $ 30,458 |

*Assets held for sale* – Assets held for sale as of June 30, 2019 and December 31, 2018 consisted of 1 small business customer list with a carrying value of $1,350. We are actively marketing this asset, and we expect the selling price will equal or exceed its current carrying value.

During the quarter ended June 30, 2018, we sold the assets of a provider of printed and promotional products, as well as certain small business customer lists. During the six months ended June 30, 2018, we also sold the assets of a small business distributor, as well as additional small business customer lists. We determined that these assets would be better positioned for

long-term growth if they were managed by independent distributors. Subsequent to the sales, the assets are owned by independent distributors that are part of our Safeguard® distributor network. As such, our revenue was not impacted by these sales and the impact to our costs was not significant. These sales resulted in aggregate net gains within SG&A expense of $3,862 for the quarter ended June 30, 2018 and $11,090 for the six months ended June 30, 2018.

*Intangibles* – Intangibles were comprised of the following:

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortizable intangibles: | | | | | | |
| Internal-use software | $ 405,467 | $ (323,714) | $ 81,753 | $ 388,477 | $ (308,313) | $ 80,164 |
| Customer lists/relationships | 379,760 | (197,429) | 182,331 | 379,570 | (170,973) | 208,597 |
| Trade names | 50,607 | (29,703) | 20,904 | 50,645 | (26,204) | 24,441 |
| Technology-based intangibles | 39,300 | (17,985) | 21,315 | 39,300 | (14,007) | 25,293 |
| Software to be sold | 36,900 | (17,544) | 19,356 | 36,900 | (15,430) | 21,470 |
| Other | 700 | (700) | — | 700 | (700) | — |
| Intangibles | $ 912,734 | $ (587,075) | $ 325,659 | $ 895,592 | $ (535,627) | $ 359,965 |

Amortization of intangibles was $28,314 for the quarter ended June 30, 2019, $28,228 for the quarter ended June 30, 2018, $56,488 for the six months ended June 30, 2019 and $55,694 for the six months ended June 30, 2018. Based on the intangibles in service as of June 30, 2019, estimated future amortization expense is as follows:

| (in thousands) | Estimated amortization expense |
|---|---|
| Remainder of 2019 | $ 53,141 |
| 2020 | 101,371 |
| 2021 | 78,840 |
| 2022 | 50,827 |
| 2023 | 32,710 |

The following intangibles were acquired during the six months ended June 30, 2019:

| (in thousands) | Amount | Weighted-average amortization period (in years) |
|---|---|---|
| Internal-use software | $ 21,616 | 4 |
| Customer lists/relationships | 974 | 8 |
| Acquired intangibles | $ 22,590 | 4 |

*Goodwill* – Changes in goodwill during the six months ended June 30, 2019 were as follows:

| (in thousands) | Small Business Services | Financial Services | Direct Checks | Total |
|---|---|---|---|---|
| Balance, December 31, 2018: | | | | |
| Goodwill, gross | $ 765,266 | $ 373,421 | $ 148,506 | $ 1,287,193 |
| Accumulated impairment charges | (126,567) | — | — | (126,567) |
| Goodwill, net of accumulated impairment charges | 638,699 | 373,421 | 148,506 | 1,160,626 |
| Measurement-period adjustments for prior year acquisitions (Note 6) | (340) | (1,427) | — | (1,767) |
| Currency translation adjustment | (46) | — | — | (46) |
| Balance, June 30, 2019: | | | | |
| Goodwill, gross | 764,880 | 371,994 | 148,506 | 1,285,380 |
| Accumulated impairment charges | (126,567) | — | — | (126,567) |
| Goodwill, net of accumulated impairment charges | $ 638,313 | $ 371,994 | $ 148,506 | $ 1,158,813 |

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

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Loans and notes receivable from Safeguard distributors | $ 77,415 | $ 78,693 |
| Prepaid product discounts | 54,919 | 54,642 |
| Postretirement benefit plan asset | 44,351 | 41,259 |
| Deferred sales commissions[1] | 8,236 | 6,482 |
| Deferred advertising costs | 4,420 | 5,746 |
| Other | 8,472 | 9,286 |
| Other non-current assets | $ 197,813 | $ 196,108 |

[1] Amortization of deferred sales commissions was $1,464 for the six months ended June 30, 2019 and $1,350 for the six months ended June 30, 2018.

Changes in prepaid product discounts during the six months ended June 30, 2019 and 2018 were as follows:

| | Six Months Ended June 30, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Balance, beginning of year | $ 54,642 | $ 63,895 |
| Additions[1] | 12,405 | 10,296 |
| Amortization | (11,681) | (11,124) |
| Other | (447) | (50) |
| Balance, end of period | $ 54,919 | $ 63,017 |

[1] Prepaid product discounts are generally accrued upon contract execution. Cash payments for prepaid product discounts were $16,182 for the six months ended June 30, 2019 and $13,282 for the six months ended June 30, 2018.

*Accrued liabilities* – Accrued liabilities were comprised of the following:

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Funds held for customers | $ 92,191 | $ 99,818 |
| Deferred revenue[1] | 45,926 | 54,313 |
| Employee profit sharing/cash bonus | 22,464 | 31,286 |
| Operating lease liabilities | 12,300 | — |
| Prepaid product discounts due within one year | 10,473 | 10,926 |
| Customer rebates | 9,104 | 9,555 |
| Restructuring (Note 8) | 4,285 | 3,320 |
| Other | 57,479 | 75,063 |
| Accrued liabilities | $ 254,222 | $ 284,281 |

[1] $35,709 of the December 31, 2018 amount was recognized as revenue during the six months ended June 30, 2019.

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

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Prepaid product discounts | $ 8,788 | $ 12,513 |
| Other | 25,061 | 27,367 |
| Other non-current liabilities | $ 33,849 | $ 39,880 |

*Supplemental cash flow information* – The reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents to the consolidated balance sheets was as follows:

| (in thousands) | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 66,732 | $ 68,594 |
| Restricted cash and restricted cash equivalents included in funds held for customers | 77,326 | 76,709 |
| Total cash, cash equivalents, restricted cash and restricted cash equivalents | $ 144,058 | $ 145,303 |

**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.

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2019 | 2018 | 2019 | 2018 |
| Earnings per share – basic: | | | | |
| Net income | $ 32,582 | $ 60,207 | $ 73,772 | $ 123,544 |
| Income allocated to participating securities | (60) | (228) | (170) | (515) |
| Income available to common shareholders | $ 32,522 | $ 59,979 | $ 73,602 | $ 123,029 |
| Weighted-average shares outstanding | 43,400 | 47,594 | 43,697 | 47,675 |
| Earnings per share – basic | $ 0.75 | $ 1.26 | $ 1.68 | $ 2.58 |
| Earnings per share – diluted: | | | | |
| Net income | $ 32,582 | $ 60,207 | $ 73,772 | $ 123,544 |
| Income allocated to participating securities | (10) | (228) | (76) | (514) |
| Re-measurement of share-based awards classified as liabilities | (44) | (90) | (44) | (176) |
| Income available to common shareholders | $ 32,528 | $ 59,889 | $ 73,652 | $ 122,854 |
| Weighted-average shares outstanding | 43,400 | 47,594 | 43,697 | 47,675 |
| Dilutive impact of potential common shares | 154 | 183 | 127 | 222 |
| Weighted-average shares and potential common shares outstanding | 43,554 | 47,777 | 43,824 | 47,897 |
| Earnings per share – diluted | $ 0.75 | $ 1.25 | $ 1.68 | $ 2.56 |
| Antidilutive options excluded from calculation | 1,439 | 529 | 1,439 | 529 |

**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 | Amounts reclassified from accumulated other comprehensive loss | | | | Affected line item in consolidated statements of comprehensive income |
|---|---|---|---|---|---|
| | Quarter Ended June 30, | | Six Months Ended June 30, | | |
| (in thousands) | 2019 | 2018 | 2019 | 2018 | |
| Amortization of postretirement benefit plan items: | | | | | |
| Prior service credit | $ 355 | $ 355 | $ 711 | $ 711 | Other income |
| Net actuarial loss | (806) | (721) | (1,612) | (1,442) | Other income |
| Total amortization | (451) | (366) | (901) | (731) | Other income |
| Tax benefit | 71 | 45 | 140 | 400 | Income tax provision |
| Total reclassifications, net of tax | $ (380) | $ (321) | $ (761) | $ (331) | Net income |

*Accumulated other comprehensive loss* – Changes in the components of accumulated other comprehensive loss during the six months ended June 30, 2019 were as follows:

| (in thousands) | Postretirement benefit plans | Net unrealized loss on marketable debt securities, net of tax[(1)] | Currency translation adjustment | Accumulated other comprehensive loss |
|---|---|---|---|---|
| Balance, December 31, 2018 | $ (36,529) | $ (323) | $ (19,727) | $ (56,579) |
| Other comprehensive income before reclassifications | — | 145 | 2,146 | 2,291 |
| Amounts reclassified from accumulated other comprehensive loss | 761 | — | — | 761 |
| Net current-period other comprehensive income | 761 | 145 | 2,146 | 3,052 |
| Balance, June 30, 2019 | $ (35,768) | $ (178) | $ (17,581) | $ (53,527) |

[(1)] Other comprehensive income before reclassifications is net of income tax expense of $51.

**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 six months ended June 30, 2019 and 2018.

We did not complete any acquisitions during the six months ended June 30, 2019. Payments for acquisitions, net of cash acquired, for the six months ended June 30, 2019 were $1,566 and related to holdback payments for prior year acquisitions. During the six months ended June 30, 2018, we completed the following acquisitions within our Small Business Services segment:

- In June 2018, we acquired selected assets of Velocity Servers, Inc., doing business as ColoCrossing, a data center solutions, cloud hosting and infrastructure colocation provider of dedicated hosing services.
- In March 2018, we acquired all of the equity of Logomix Inc., a self-service marketing and branding platform that helps small businesses create logos and custom marketing products.
- We acquired the operations of 2 small business distributors.

Payments for acquisitions, net of cash acquired, for the six months ended June 30, 2018, included payments of $73,540 for these acquisitions and $16,665 for holdback payments for prior year acquisitions. Further information regarding our 2018 acquisitions can be found under the caption “Note 6: Acquisitions” in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

As of June 30, 2019, purchase accounting for the 2018 acquisitions of REMITCO LLC and My Corporation Business Services, Inc. was not finalized. We expect to finalize purchase accounting in the third quarter of 2019 when the valuation of certain miscellaneous assets and liabilities is finalized for REMITCO LLC and the valuation of the acquired intangible assets is finalized for My Corporation Business Services, Inc. During the quarter ended June 30, 2019, we recorded measurement-period adjustments for 2018 acquisitions that decreased goodwill $1,767, with the offset to various assets and liabilities, including a $1,000 increase in customer list intangible assets.

**Note 7: Fair value measurements**

*Non-recurring asset impairment analysis* – During the quarter ended March 31, 2018, we recorded a pre-tax asset impairment charge of $2,149 related to a Small Business Services customer list intangible asset. Based on changes in the

customer base of an acquired small business distributor, we determined that the customer list asset was fully impaired (level 3 fair value measurement) as of March 31, 2018.

*Recurring fair value measurements* – Funds held for customers included cash equivalents and available-for-sale debt 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 debt 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 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 on the consolidated statements of comprehensive income and were not significant for the quarters or six months ended June 30, 2019 and 2018.

The fair value of accrued contingent consideration is remeasured each reporting period. Increases or decreases in projected revenue 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 on the consolidated statements of comprehensive income. Changes in fair value resulting from accretion for the passage of time are included in interest expense on the consolidated statements of comprehensive income.

Changes in accrued contingent consideration during the six months ended June 30, 2019 were as follows:

| (in thousands) | Six Months Ended June 30, 2019 |
|---|---|
| Balance, December 31, 2018 | $ 2,396 |
| Change in fair value | 117 |
| Payments | (1,284) |
| Balance, June 30, 2019 | $ 1,229 |

Information regarding the fair values of our financial instruments was as follows:

| | June 30, 2019 | | Fair value measurements using | | |
|---|---|---|---|---|---|
| (in thousands) | Carrying value | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Measured at fair value through net income: | | | | | |
| Accrued contingent consideration | $ (1,229) | $ (1,229) | $ — | $ — | $ (1,229) |
| Measured at fair value through comprehensive income: | | | | | |
| Cash equivalents (funds held for customers) | 14,000 | 14,000 | 14,000 | — | — |
| Available-for-sale debt securities (funds held for customers) | 16,383 | 16,383 | — | 16,383 | — |
| Amortized cost: | | | | | |
| Cash | 66,732 | 66,732 | 66,732 | — | — |
| Cash (funds held for customers) | 63,326 | 63,326 | 63,326 | — | — |
| Loans and notes receivable from Safeguard distributors | 80,971 | 64,108 | — | — | 64,108 |
| Long-term debt | 951,000 | 951,000 | — | 951,000 | — |

| | December 31, 2018 | | Fair value measurements using | | |
|---|---|---|---|---|---|
| (in thousands) | Carrying value | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Measured at fair value through net income: | | | | | |
| Accrued contingent consideration | $ (2,396) | $ (2,396) | $ — | $ — | $ (2,396) |
| Measured at fair value through comprehensive income: | | | | | |
| Cash equivalents (funds held for customers) | 16,000 | 16,000 | 16,000 | — | — |
| Available-for-sale debt securities (funds held for customers) | 15,463 | 15,463 | — | 15,463 | — |
| Amortized cost: | | | | | |
| Cash | 59,740 | 59,740 | 59,740 | — | — |
| Cash (funds held for customers) | 69,519 | 69,519 | 69,519 | — | — |
| Loans and notes receivable from Safeguard distributors | 81,560 | 60,795 | — | — | 60,795 |
| Long-term debt[1] | 910,000 | 910,000 | — | 910,000 | — |

[1] Amounts exclude capital lease obligations.

**Note 8: Restructuring and integration expense**

Restructuring and integration expense consists of costs related to the integration of acquired businesses into our systems and processes. It also includes costs related to the consolidation and migration of certain applications and processes, including our human resources management system and certain of our sales systems. These costs primarily consist of information technology consulting and project management services, internal labor, training and travel. In addition, we recorded employee severance costs related to these initiatives, as well as our ongoing cost reduction initiatives, primarily within our sales, marketing and fulfillment functions. Our restructuring and integration activities have increased in 2019, as we are currently pursuing several initiatives designed to focus our business behind our growth strategies and to increase our efficiency. None of our initiatives are individually material to our consolidated financial statements.

Restructuring and integration expense for each period consisted of the following components:

| (in thousands, except number of employees) | Quarter Ended June 30, 2019 | Quarter Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Severance accruals | $ 2,913 | $ 3,804 | $ 5,146 | $ 4,648 |
| Severance reversals | (216) | (95) | (385) | (230) |
| Net accruals | 2,697 | 3,709 | 4,761 | 4,418 |
| Other costs | 14,800 | 2,662 | 19,019 | 4,275 |
| Restructuring and integration expense | $ 17,497 | $ 6,371 | $ 23,780 | $ 8,693 |
| Number of employees included in severance accruals | 40 | 80 | 90 | 105 |

Restructuring and integration expense is reflected in the consolidated statements of comprehensive income as follows:

| (in thousands) | Quarter Ended June 30, 2019 | Quarter Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Total cost of revenue | $ 155 | $ 736 | $ 946 | $ 913 |
| Operating expenses | 17,342 | 5,635 | 22,834 | 7,780 |
| Restructuring and integration expense | $ 17,497 | $ 6,371 | $ 23,780 | $ 8,693 |

Restructuring accruals of $4,285 as of June 30, 2019 are reflected in the consolidated balance sheet as accrued liabilities. Accruals of $3,461 as of December 31, 2018 are reflected in the consolidated balance sheet as accrued liabilities of $3,320 and other non-current liabilities of $141. The majority of the related employee reductions are expected to be completed by the end of 2019, and we expect most of the related severance payments to be paid by mid-2020. As of June 30, 2019, approximately 20 employees had not yet started to receive severance benefits.

Restructuring accruals, summarized by year, were as follows:

| (in thousands) | 2019 initiatives | 2018 initiatives | 2017 initiatives | Total |
|---|---|---|---|---|
| Balance, December 31, 2018 | $ — | $ 3,448 | $ 13 | $ 3,461 |
| Charges | 5,038 | 108 | — | 5,146 |
| Reversals | (69) | (303) | (13) | (385) |
| Payments | (1,225) | (2,430) | — | (3,655) |
| Adoption of ASU No. 2016-02[(1)] | — | (282) | — | (282) |
| Balance, June 30, 2019 | $ 3,744 | $ 541 | $ — | $ 4,285 |
| Cumulative amounts: | | | | |
| Charges | $ 5,038 | $ 8,244 | $ 7,355 | $ 20,637 |
| Reversals | (69) | (1,715) | (726) | (2,510) |
| Payments | (1,225) | (5,706) | (6,629) | (13,560) |
| Adoption of ASU No. 2016-02[(1)] | — | (282) | — | (282) |
| Balance, June 30, 2019 | $ 3,744 | $ 541 | $ — | $ 4,285 |

[(1)] Upon adoption of ASU No. 2016-02, *Leasing,* on January 1, 2019 (Note 2), our operating lease obligations accrual was reversed and the related operating lease asset was analyzed for impairment in accordance with the new guidance.

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

| | Employee severance benefits | | | | Operating lease obligations | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Small Business Services | Financial Services | Direct Checks | Corporate[1] | Small Business Services | Financial Services | Total |
| Balance, December 31, 2018 | $ 1,326 | $ 1,397 | $ — | $ 456 | $ 282 | $ — | $ 3,461 |
| Charges | 1,198 | 1,429 | 114 | 2,405 | — | — | 5,146 |
| Reversals | (113) | (96) | — | (176) | — | — | (385) |
| Payments | (1,242) | (1,686) | (48) | (679) | — | — | (3,655) |
| Adoption of ASU No. 2016-02[2] | — | — | — | — | (282) | — | (282) |
| Balance, June 30, 2019 | $ 1,169 | $ 1,044 | $ 66 | $ 2,006 | $ — | $ — | $ 4,285 |
| Cumulative amounts:[3] | | | | | | | |
| Charges | $ 5,737 | $ 7,595 | $ 257 | $ 6,428 | $ 329 | $ 291 | $ 20,637 |
| Reversals | (717) | (1,303) | (5) | (414) | — | (71) | (2,510) |
| Payments | (3,851) | (5,248) | (186) | (4,008) | (47) | (220) | (13,560) |
| Adoption of ASU No. 2016-02[2] | — | — | — | — | (282) | — | (282) |
| Balance, June 30, 2019 | $ 1,169 | $ 1,044 | $ 66 | $ 2,006 | $ — | $ — | $ 4,285 |

[1] As discussed in Note 16, corporate costs are allocated to our business segments. As such, the net corporate charges are reflected in the business segment operating income presented in Note 16 in accordance with our allocation methodology.

[2] Upon adoption of ASU No. 2016-02, *Leasing,* on January 1, 2019 (Note 2), our operating lease obligations accrual was reversed and the related operating lease asset was analyzed for impairment in accordance with the new guidance.

[3] Includes accruals related to our cost reduction initiatives for 2017 through 2019.

**Note 9: Chief Executive Officer transition costs**

In April 2018, we announced the retirement of Lee Schram, our former Chief Executive Officer (CEO). Mr. Schram remained employed under the terms of a transition agreement through March 1, 2019. Under the terms of this agreement, we provided certain benefits to Mr. Schram, including a transition bonus in the amount of $2,000 that was paid in March 2019, accelerated vesting of certain restricted stock unit awards, and continued vesting and settlement of a pro-rata portion of outstanding performance share awards to the extent such awards were earned based on the attainment of performance goals. The modifications to Mr. Schram's share-based payment awards resulted in expense of $2,088, which was largely recognized in 2018.

In conjunction with the CEO transition, we offered retention agreements to certain members of our management team under which each employee will be entitled to receive a cash bonus equal to his or her annual base salary or up to 1.5 times his or her annual base salary if he or she remains employed during the retention period, generally from July 1, 2018 to December 31, 2019, and complies with certain covenants. The retention bonus will be paid to an employee if his or her employment is terminated without cause before the end of the retention period. In addition to these expenses, we incurred certain other costs related to the CEO transition process, including executive search, legal, travel and board of directors fees in 2018. During 2019, we incurred consulting fees related to the evaluation of our strategic plan and we expensed the majority of the current CEO's signing bonus in 2019. CEO transition costs are included in SG&A expense in the consolidated statements of comprehensive income and were $1,906 for the quarter ended June 30, 2019, $7,394 for the six months ended June 30, 2019 and $1,530 for the quarter and six months ended June 30, 2018. Accruals for CEO transition costs were $4,324 as of June 30, 2019 and were included in accrued liabilities on the consolidated balance sheet. Accruals for CEO transition costs as of December 31, 2018 were $1,972 within accrued liabilities and $1,808 within other non-current liabilities.

**Note 10: Income tax provision**

The effective tax rate on pre-tax income reconciles to the United States federal statutory rate of 21% as follows:

| | Six Months Ended June 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Income tax at federal statutory rate | 21.0% | 21.0% |
| Goodwill impairment charge | — | 7.1% |
| State income tax, net of federal income tax benefit | 3.3% | 3.0% |
| Net tax impact of share-based compensation | 1.8% | (0.8%) |
| Impact of Tax Cuts and Jobs Act | — | (0.8%) |
| Other | 0.9% | 0.1% |
| Effective tax rate | 27.0% | 29.6 % |

**Note 11: Postretirement benefits**

We have historically provided certain health care benefits for a large number of retired United States 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 14: Postretirement benefits" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

Postretirement benefit income is included in other income on the consolidated statements of comprehensive income and consisted of the following components:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Interest cost | $ 682 | $ 656 | $ 1,364 | $ 1,313 |
| Expected return on plan assets | (1,740) | (1,934) | (3,479) | (3,868) |
| Amortization of prior service credit | (355) | (355) | (711) | (711) |
| Amortization of net actuarial losses | 806 | 721 | 1,612 | 1,442 |
| Net periodic benefit income | $ (607) | $ (912) | $ (1,214) | $ (1,824) |

**Note 12: Debt**

Debt outstanding was comprised of the following:

| (in thousands) | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Amount drawn on revolving credit facility | $ 951,000 | $ 910,000 |
| Capital lease obligations[1] | — | 1,864 |
| Long-term debt, principal amount | 951,000 | 911,864 |
| Less current portion of long-term debt | — | (791) |
| Long-term debt | 951,000 | 911,073 |
| Current portion of capital lease obligations[1] | — | 791 |
| Long-term debt due within one year | — | 791 |
| Total debt | $ 951,000 | $ 911,864 |

[1] Upon adoption of ASU No. 2016-02, *Leasing*, on January 1, 2019 (Note 2), we reclassified our capital lease obligations, now known as finance lease obligations, to accrued liabilities and other non-current liabilities on the consolidated balance sheet.

There are currently no limitations on the amount of dividends and share repurchases under the terms of our credit agreement. However, if our leverage ratio, defined as total debt less unrestricted cash to EBITDA, should exceed 2.75 to 1, there would be an annual limitation on the amount of dividends and share repurchases.

As of December 31, 2018, we had a revolving credit facility in the amount of $950,000. In January 2019, we increased the credit facility by $200,000, bringing the total availability to $1,150,000, subject to increase under the credit agreement to an aggregate amount not exceeding $1,425,000. The credit facility matures in March 2023. Our quarterly commitment fee ranges from 0.175% to 0.35%, based on our leverage ratio. Amounts drawn under the credit facility had a weighted-average interest rate of 3.76% as of June 30, 2019 and 3.79% as of December 31, 2018.

Borrowings under the 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 requires us to maintain certain financial ratios, including a maximum leverage ratio of 3.5 and a minimum ratio of consolidated earnings before interest and taxes to consolidated interest expense, as defined in the credit agreement, of 3.0.

Daily average amounts outstanding under our credit facility were as follows:

| (in thousands) | Six Months Ended June 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Revolving credit facility: | | |
| Daily average amount outstanding | $ 935,378 | $ 731,110 |
| Weighted-average interest rate | 3.77% | 3.24% |
| Term loan facility:[1] | | |
| Daily average amount outstanding | $ — | $ 63,638 |
| Weighted-average interest rate | — | 2.97% |

[1] During 2018, we had borrowings outstanding under a variable rate term loan facility. These amounts were repaid in March 2018.

As of June 30, 2019, amounts were available for borrowing under our revolving credit facility as follows:

| (in thousands) | Total available |
|---|---|
| Revolving credit facility commitment | $ 1,150,000 |
| Amount drawn on revolving credit facility | (951,000) |
| Outstanding letters of credit[1] | (5,716) |
| Net available for borrowing as of June 30, 2019 | $ 193,284 |

[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 13: Leases**

We have entered into operating leases for the majority of our facilities. These real estate leases have remaining terms of up to 10.3 years, with a weighted-average remaining term of 5.6 years as of June 30, 2019. We utilize leases for these facilities to limit our exposure to risks related to ownership, such as fluctuations in real estate prices, and to maintain flexibility in our real estate utilization. We have also entered into operating leases for certain equipment, primarily production printers and data center equipment. Certain of our leases include options to extend the lease term. The impact of renewal periods was not significant to the amounts recorded for operating lease assets and liabilities.

We have entered into finance leases for certain information technology hardware. The net book value of the related lease assets was $1,338 as of June 30, 2019 and the related lease liabilities were $1,761. The lease obligations are due through

December 2022 and do not have a significant impact on our consolidated statements of comprehensive income or our consolidated statements of cash flows.

Operating lease expense was $4,752 for the quarter ended June 30, 2019 and $8,782 for the six months ended June 30, 2019. Additional information regarding our operating leases was as follows:

| (in thousands) | Six Months Ended June 30, 2019 |
|---|---|
| Operating cash outflows | $ 8,264 |
| Lease assets obtained during the period in exchange for lease obligations | 2,169 |
| | **June 30, 2019** |
| Operating lease assets | $ 43,972 |
| Accrued liabilities | 12,300 |
| Operating lease liabilities | 33,496 |
| Total operating lease liabilities | $ 45,796 |
| Weighted-average remaining lease term (in years) | 5.3 |
| Weighted-average discount rate | 3.6% |

Maturities of operating lease liabilities were as follows:

| (in thousands) | Operating leases |
|---|---|
| Remainder of 2019 | $ 7,089 |
| 2020 | 13,326 |
| 2021 | 9,535 |
| 2022 | 6,313 |
| 2023 | 3,647 |
| Thereafter | 11,334 |
| Total lease payments | 51,244 |
| Less imputed interest | (5,448) |
| Present value of lease payments | $ 45,796 |

**Note 14: Other commitments and contingencies**

*Indemnifications* – In the normal course of business, we periodically enter into agreements that incorporate general indemnification language. These indemnification provisions generally 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 matters related to periods prior to disposition. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we do not believe that any liability under these indemnities would have a material adverse effect on our financial position, annual results of operations or annual cash flows. We have recorded liabilities for known indemnifications related to environmental matters.

*Environmental matters* – We are currently involved in environmental compliance, investigation and remediation activities at some of our 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 that 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 $2,379 as of June 30, 2019 and $2,755 as of December 31, 2018. These accruals are included in accrued liabilities and other non-current liabilities on 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. Environmental expense was not significant for the quarters or six months ended June 30, 2019 and 2018.

We maintain an insurance policy that covers up to $10,000 of third-party pollution claims through 2032 at certain owned, leased and divested sites. We also maintain a policy that covers up to $15,000 of third-party pollution claims through April 2022 at certain other sites. These policies cover liability for claims of bodily injury or property damage arising from pollution events at the covered facilities, as well as 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 2019.

*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 $6,968 as of June 30, 2019 and $6,627 as of December 31, 2018. These accruals are included in accrued liabilities and other non-current liabilities on the consolidated balance sheets. Our workers' compensation liability is recorded at present value. The difference between the discounted and undiscounted liability was not significant as of June 30, 2019 or December 31, 2018.

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* – Recorded liabilities for legal matters, as well as related charges recorded in each period, were not material to our financial position, results of operations or liquidity during the quarters or six months ended June 30, 2019 and 2018, 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 in the period in which the ruling occurs or in future periods.

**Note 15: Shareholders' equity**

In May 2016, our board of directors authorized the repurchase of up to $300,000 of our common stock. In October 2018, the board increased our share repurchase authorization to $500,000, inclusive of the remaining amount outstanding under the prior authorization. This authorization has no expiration date. During the six months ended June 30, 2019, we repurchased 1.8 million shares for $78,896. As of June 30, 2019, $341,104 remained available for repurchase under the current authorization.

**Note 16: Business segment information**

As of June 30, 2019, we operated 3 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 currently 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 others; networks of Safeguard distributors and independent dealers; a direct sales force that focuses on selling to and through enterprise accounts; and an outbound telemarketing group. Financial Services' products and services are sold primarily through a direct sales force

that executes product and service supply contracts with our financial institution clients, including banks, credit unions and financial services companies. Direct Checks sells products and services directly to consumers using direct marketing, including print advertising and search engine marketing and optimization strategies. All 3 segments operate primarily in the United States. Small Business Services also has operations in Canada, Australia and portions of Europe, and Financial Services has operations in Canada.

Our product and service offerings are comprised of the following:

*Marketing solutions and other services (MOS)* – We offer products and services designed to meet our customers' sales and marketing needs, as well as various other service offerings. Our MOS offerings generally consist of the following:

- Small business marketing solutions – Our marketing products utilize digital printing and web-to-print solutions to provide printed marketing materials and promotional solutions, such as postcards, brochures, retail packaging supplies, apparel, greeting cards and business cards.

- Treasury management solutions – These Financial Services solutions include remote deposit capture, receivables management, payment processing, and paperless treasury management, as well as software, hardware and digital imaging solutions.

- Web services – These service offerings include hosting and domain name services, logo and web design, search engine marketing and optimization, email marketing, payroll services and business incorporation and organization services.

- Data-driven marketing solutions – These Financial Services offerings include outsourced marketing campaign targeting and execution and marketing analytics solutions that help our customers grow revenue through strategic targeting, lead optimization, retention and cross-selling services.

- Fraud, security, risk management and operational services – These service offerings include fraud protection and security services, electronic checks and deposits ("ePayments") and digital engagement solutions, including loyalty and rewards programs and finacial management tools.

*Checks* – We remain one of the largest providers of personal and business checks in the United States.

*Forms, accessories and other products* – 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, as well as computer forms compatible with accounting software packages commonly used by small businesses. Small Business Services also offers other customized products, including envelopes, office supplies, ink stamps and labels. Our Financial Services and Direct Checks segments offer deposit tickets, check registers, checkbook covers, labels and ink stamps.

The following tables present revenue disaggregated by our product and service offerings:

| | Quarter Ended June 30, 2019 | | | |
|---|---|---|---|---|
| (in thousands) | Small Business Services | Financial Services | Direct Checks | Consolidated |
| Marketing solutions and other services: | | | | |
| Small business marketing solutions | $ 68,313 | $ — | $ — | $ 68,313 |
| Treasury management solutions | — | 45,475 | — | 45,475 |
| Web services | 41,346 | — | — | 41,346 |
| Data-driven marketing solutions | — | 38,796 | — | 38,796 |
| Fraud, security, risk management and operational services | 6,057 | 12,244 | 3,231 | 21,532 |
| Total MOS | 115,716 | 96,515 | 3,231 | 215,462 |
| Checks | 115,301 | 56,481 | 24,714 | 196,496 |
| Forms, accessories and other products | 77,485 | 3,131 | 1,412 | 82,028 |
| Total revenue | $ 308,502 | $ 156,127 | $ 29,357 | $ 493,986 |

| | Six Months Ended June 30, 2019 | | | |
|---|---|---|---|---|
| (in thousands) | Small Business Services | Financial Services | Direct Checks | Consolidated |
| Marketing solutions and other services: | | | | |
| Small business marketing solutions | $ 134,934 | $ — | — | $ 134,934 |
| Treasury management solutions | — | 90,946 | — | 90,946 |
| Web services | 84,950 | — | — | 84,950 |
| Data-driven marketing solutions | — | 75,580 | — | 75,580 |
| Fraud, security, risk management and operational services | 12,168 | 24,529 | 6,755 | 43,452 |
| Total MOS | 232,052 | 191,055 | 6,755 | 429,862 |
| Checks | 233,724 | 112,666 | 51,257 | 397,647 |
| Forms, accessories and other products | 155,784 | 6,765 | 2,993 | 165,542 |
| Total revenue | $ 621,560 | $ 310,486 | $ 61,005 | $ 993,051 |

| | Quarter Ended June 30, 2018 | | | |
|---|---|---|---|---|
| (in thousands) | Small Business Services | Financial Services | Direct Checks | Consolidated |
| Marketing solutions and other services: | | | | |
| Small business marketing solutions | $ 69,442 | $ — | $ — | $ 69,442 |
| Treasury management solutions | — | 28,558 | — | 28,558 |
| Web services | 40,850 | — | — | 40,850 |
| Data-driven marketing solutions | — | 37,327 | — | 37,327 |
| Fraud, security, risk management and operational services | 6,588 | 12,596 | 3,444 | 22,628 |
| Total MOS | 116,880 | 78,481 | 3,444 | 198,805 |
| Checks | 119,786 | 57,591 | 26,196 | 203,573 |
| Forms, accessories and other products | 81,076 | 3,243 | 1,547 | 85,866 |
| Total revenue | $ 317,742 | $ 139,315 | $ 31,187 | $ 488,244 |

| | Six Months Ended June 30, 2018 | | | |
|---|---|---|---|---|
| (in thousands) | Small Business Services | Financial Services | Direct Checks | Consolidated |
| Marketing solutions and other services: | | | | |
| Small business marketing solutions | $ 136,204 | $ — | $ — | $ 136,204 |
| Treasury management solutions | — | 57,758 | — | 57,758 |
| Web services | 78,226 | — | — | 78,226 |
| Data-driven marketing solutions | — | 74,467 | — | 74,467 |
| Fraud, security, risk management and operational services | 13,104 | 24,903 | 7,301 | 45,308 |
| Total MOS | 227,534 | 157,128 | 7,301 | 391,963 |
| Checks | 242,719 | 115,642 | 55,550 | 413,911 |
| Forms, accessories and other products | 163,803 | 7,186 | 3,295 | 174,284 |
| Total revenue | $ 634,056 | $ 279,956 | $ 66,146 | $ 980,158 |

The following tables present our revenue disaggregated by geography, based on where items are shipped or services are performed.

| (in thousands) | Small Business Services | Financial Services | Direct Checks | Total |
|---|---|---|---|---|
| Quarter Ended June 30, 2019: | | | | |
| United States | $ 283,526 | $ 151,501 | $ 29,357 | $ 464,384 |
| Foreign, primarily Canada and Australia | 24,976 | 4,626 | — | 29,602 |
| Total revenue | $ 308,502 | $ 156,127 | $ 29,357 | $ 493,986 |
| Six Months Ended June 30, 2019: | | | | |
| United States | $ 571,734 | $ 301,550 | $ 61,005 | $ 934,289 |
| Foreign, primarily Canada and Australia | 49,826 | 8,936 | — | 58,762 |
| Total revenue | $ 621,560 | $ 310,486 | $ 61,005 | $ 993,051 |

| (in thousands) | Small Business Services | Financial Services | Direct Checks | Total |
|---|---|---|---|---|
| Quarter Ended June 30, 2018: | | | | |
| United States | $ 290,863 | $ 134,040 | $ 31,187 | $ 456,090 |
| Foreign, primarily Canada and Australia | 26,879 | 5,275 | — | 32,154 |
| Total revenue | $ 317,742 | $ 139,315 | $ 31,187 | $ 488,244 |
| Six Months Ended June 30, 2018: | | | | |
| United States | $ 580,822 | $ 269,206 | $ 66,146 | $ 916,174 |
| Foreign, primarily Canada and Australia | 53,234 | 10,750 | — | 63,984 |
| Total revenue | $ 634,056 | $ 279,956 | $ 66,146 | $ 980,158 |

The accounting policies of the segments are the same as those described in the Notes to Consolidated Financial Statements included in the 2018 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, real estate, finance, information technology and legal functions. Where costs incurred are directly attributable to a business segment, those costs are charged directly to that segment. Those costs not directly attributable to a business segment, primarily certain human resources costs, are allocated to the segments based on the number of employees in each segment. Corporate assets are not allocated to the segments and consisted primarily of long-term investments and assets related to our corporate shared services functions of manufacturing, information technology and real estate, including property, plant and equipment; internal-use software; operating lease assets; and inventories and supplies.

We are an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations and 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 June 30, 2019 and 2018:

| (in thousands) | | Reportable Business Segments: Small Business Services | Reportable Business Segments: Financial Services | Reportable Business Segments: Direct Checks | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Total revenue from external customers: | 2019 | $ 308,502 | $ 156,127 | $ 29,357 | $ — | $ 493,986 |
| | 2018 | 317,742 | 139,315 | 31,187 | — | 488,244 |
| Operating income: | 2019 | 34,706 | 9,306 | 7,812 | — | 51,824 |
| | 2018 | 58,642 | 13,980 | 10,201 | — | 82,823 |
| Depreciation and amortization expense: | 2019 | 16,621 | 14,968 | 928 | — | 32,517 |
| | 2018 | 16,154 | 15,422 | 800 | — | 32,376 |
| Total assets: | 2019 | 1,076,248 | 721,334 | 155,831 | 360,625 | 2,314,038 |
| | 2018 | 1,165,781 | 662,076 | 157,649 | 307,738 | 2,293,244 |
| Capital asset purchases: | 2019 | — | — | — | 17,725 | 17,725 |
| | 2018 | — | — | — | 14,006 | 14,006 |

The following is our segment information as of and for the six months ended June 30, 2019 and 2018:

| (in thousands) | | Reportable Business Segments: Small Business Services | Reportable Business Segments: Financial Services | Reportable Business Segments: Direct Checks | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Total revenue from external customers: | 2019 | $ 621,560 | $ 310,486 | $ 61,005 | $ — | $ 993,051 |
| | 2018 | 634,056 | 279,956 | 66,146 | — | 980,158 |
| Operating income: | 2019 | 79,388 | 19,557 | 16,652 | — | 115,597 |
| | 2018 | 117,541 | 31,954 | 21,036 | — | 170,531 |
| Depreciation and amortization expense: | 2019 | 33,233 | 30,011 | 1,692 | — | 64,936 |
| | 2018 | 31,592 | 30,316 | 1,609 | — | 63,517 |
| Asset impairment charges: | 2019 | — | — | — | — | — |
| | 2018 | 2,149 | — | — | — | 2,149 |
| Total assets: | 2019 | 1,076,248 | 721,334 | 155,831 | 360,625 | 2,314,038 |
| | 2018 | 1,165,781 | 662,076 | 157,649 | 307,738 | 2,293,244 |
| Capital asset purchases: | 2019 | — | — | — | 32,344 | 32,344 |
| | 2018 | — | — | — | 28,040 | 28,040 |

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) includes the following sections:

- Executive Overview that discusses what we do, our operating results at a high level and our financial outlook for the year;
- Consolidated Results of Operations, Restructuring and Integration Costs, CEO Transition Costs and Segment Results that include a more detailed discussion of our revenue and expenses;
- Cash Flows and Liquidity, Capital Resources and Other Financial Position Information that discusses key aspects of our cash flows, capital structure and financial position;
- Off-Balance Sheet Arrangements, Guarantees and Contractual Obligations that discusses our financial commitments; and

- Critical Accounting Policies that discusses the policies we believe are important to understanding the assumptions and judgments underlying our financial statements.

Please note that this MD&A discussion contains forward-looking statements that involve risks and uncertainties. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K") outlines known material risks and important information to consider when evaluating our forward-looking statements and is incorporated into this Item 2 of this report on Form 10-Q as if fully stated herein. Updates to the risk factors discussed in the 2018 Form 10-K are included in Part II, Item 1A of this report on Form 10-Q. The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information. We make the following cautionary statement in connection with the Reform Act. When we use the words or phrases "should result," "believe," "intend," "plan," "are expected to," "targeted," "will continue," "will approximate," "is anticipated," "estimate," "project," "outlook," "forecast" or similar expressions in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, in our press releases, investor presentations and in oral statements made by our representatives, they indicate forward-looking statements within the meaning of the Reform Act.

This MD&A includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In addition, we discuss adjusted diluted earnings per share (EPS), which is a non-GAAP financial measure. We believe that this non-GAAP financial measure, when reviewed in conjunction with GAAP financial measures, can provide useful information to assist investors in analyzing our current period operating performance and in assessing our future period operating performance. For this reason, our internal management reporting also includes adjusted diluted EPS, which should be considered in addition to, and not as superior to or as a substitute for, GAAP financial measures. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Our measure of adjusted diluted EPS may not be comparable to similarly titled measures used by other companies and therefore, may not result in useful comparisons. The detailed reconciliation of GAAP diluted EPS to adjusted diluted EPS can be found in *Consolidated Results of Operations*.

Our unaudited consolidated statement of cash flows for the six months ended June 30, 2018 has been revised to correct a misstatement associated with the presentation of restricted cash and restricted cash equivalents included in funds held for customers on our consolidated balance sheet. Further information regarding this misstatement can be found under the caption "Note 1: Consolidated financial statements" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

**EXECUTIVE OVERVIEW**

As of June 30, 2019, we operated 3 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 currently manage the company. Further information regarding our segments and our product and service offerings can be found under the caption "Note 16: Business segment information" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

Earnings for the first six months of 2019 were negatively impacted by continued volume reductions in personal and business checks and forms, due primarily to the secular decline in check and forms usage and 1 fewer business day in the first quarter of 2019, as well as an increase of $15.1 million in restructuring and integration expense in support of our growth strategies and to increase our efficiency, an increase in medical costs of approximately $7.0 million, an increase in interest expense of $6.8 million, lower organic treasury management and web services revenue, an increase in Chief Executive Officer (CEO) transition costs of $5.9 million, a higher average Small Business Services commission rate, an increase of approximately $5.0 million in legal-related costs, and continued check pricing allowances within Financial Services. In addition, we recognized gains from sales of businesses and customer lists within Small Business Services of $11.1 million in the first six months of 2018. These decreases in earnings were partially offset by a benefit of approximately $22.0 million from continuing initiatives to reduce our cost structure, primarily within our sales, marketing and fulfillment organizations, and the benefit of Small Business Services price increases.

**"New Deluxe" Strategy**

Throughout the past several years, as the use of checks and forms has continued to decline, we have focused on opportunities to increase revenue and operating income and to diversify our revenue streams and customer base. These opportunities have included new product and service offerings, brand awareness and positioning initiatives, investing in technology for our service offerings, enhancing our information technology capabilities and infrastructure, improving customer

segmentation, extending the reach of our sales channels, and reducing costs. In addition, we invested in various acquisitions that extended the range of products and services we offer to our customers. Information about our acquisitions can be found under the caption "Note 6: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

We plan to move beyond diversification as we transform into a Trusted, Tech-Enabled Solutions Company™. Our growth strategy focuses on organic growth, supplemented by acquisitions, rather than being dependent on acquisitions for growth. This will require us to fundamentally change our go-to-market strategy, operating model and organizational design. We expect that fully integrating past acquisitions and consolidating and standardizing our technology platforms will enable us to operate as one Deluxe, selling all of our products and services to any customer. We plan to invest between $35.0 million and $40.0 million in 2019 and between $30.0 million and $60.0 million in 2020 to build out our technology platforms, including sales technology that will enable a single view of our customer, providing for deeper cross-sell opportunities. We also plan to invest in our human capital management and financial management and planning systems to enable integration and replacement of duplicative and aging collaboration tools and platforms. Strategically, we believe these enhancements will make it easier for us to quickly integrate any future acquisitions. These investments will consist of capital and expense items, which we plan to fund from structural cost savings and free cash flow. However, we expect that timing differences will impact our ability to fully self-fund through efficiency savings alone.

As we move forward, we intend to focus on growth businesses with recurring revenue streams, scalable business models, attractive cost structures, data-rich business models and strong price-to-earnings ratios. We will first focus on accelerating revenue growth organically and then supplement growth with selective, strategic acquisitions. While we will continue to sell to enterprise, small business, financial services and individual customers, our business will not be organized by customer type in the future. Instead, we intend to focus our efforts on 4 primary business areas: Payments, Cloud, Promotional Products and Checks. We expect to reinvest free cash flow into the 2 areas we view as our primary platforms for growth: Payments and Cloud. Our intent is to realign our business segments and have the capability to report our operating results under the new structure, both internally and externally, in 2019. However, this process may not be complete until early 2020. During the transition period, we plan to implement our new strategy while delivering on our annual plan and consistently paying a dividend to shareholders.

**Outlook for 2019**

We anticipate that consolidated revenue will be between $2.005 billion and $2.045 billion for 2019, compared to $1.998 billion for 2018. We expect that continued secular declines in personal and business checks and forms and continued pricing allowances in Financial Services will be more than offset by incremental revenue from acquisitions we completed in 2018 and modest growth in data-driven marketing revenue. We expect that 2019 diluted EPS will be between $3.45 and $3.75, compared to $3.16 for 2018, and we expect that 2019 adjusted diluted EPS will be between $6.65 and $6.95, compared to $6.88 for 2018.

We anticipate that net cash provided by operating activities will be between $270.0 million and $285.0 million in 2019, compared to $339.3 million in 2018, driven primarily by increased restructuring and integration activities in support of our growth strategies and to increase our efficiency, the continuing secular decline in check and forms usage, the payment of certain legal-related expenses, including $12.5 million accrued in the prior year and paid in the first quarter of 2019, and higher interest payments, partially offset by benefits from our cost savings initiatives and lower income tax payments. We believe that cash generated by operating activities, along with availability under our revolving credit facility, will be sufficient to support our operations for the next 12 months, including capital expenditures of approximately $75.0 million, dividend payments, required interest payments, and periodic share repurchases, as well as possible acquisitions. As of June 30, 2019, $193.3 million was available for borrowing under our revolving credit facility. We expect to maintain a disciplined approach to capital deployment that focuses on our need to continue investing in initiatives to drive revenue growth, both organically and through acquisitions. 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. To the extent we generate excess cash, we expect to opportunistically repurchase common shares and/or reduce the amount outstanding under our credit facility.

## CONSOLIDATED RESULTS OF OPERATIONS

### Consolidated Revenue

| (in thousands, except per order amounts) | Quarter Ended June 30, 2019 | Quarter Ended June 30, 2018 | Change | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 | Change |
|---|---|---|---|---|---|---|
| Total revenue | $ 493,986 | $ 488,244 | 1.2% | $ 993,051 | $ 980,158 | 1.3% |
| Orders[(1)] | 11,645 | 11,951 | (2.6%) | 23,369 | 23,960 | (2.5%) |
| Revenue per order | $ 42.42 | $ 40.85 | 3.8% | $ 42.49 | $ 40.91 | 3.9% |

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

The increase in total revenue for the second quarter of 2019, as compared to the second quarter of 2018, was driven primarily by incremental revenue of approximately $23.1 million from businesses acquired in 2018, as well as Small Business Services price increases. Information regarding our acquisitions can be found under the caption "Note 6: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K. These increases in revenue were partially offset by the continuing decline in order volume for both personal and business checks, as well as forms and accessories sold by Small Business Services. In addition, treasury management and web services revenue, excluding incremental revenue from businesses acquired in 2018, declined approximately $2.5 million and $2.3 million, respectively. Revenue was also negatively impacted during the second quarter of 2019 by continued check pricing allowances within Financial Services.

The increase in total revenue for the first half of 2019, as compared to the first half of 2018, was driven primarily by incremental revenue of approximately $51.7 million from businesses acquired in 2018, as well as Small Business Services price increases. Information regarding our acquisitions can be found under the caption "Note 6: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K. These increases in revenue were partially offset by the continuing decline in order volume for both personal and business checks, as well as forms and accessories sold by Small Business Services, including a decrease of approximately $5.0 million due to 1 fewer business day in the first quarter of 2019. In addition, treasury management and web services revenue, excluding incremental revenue from businesses acquired in 2018, declined approximately $5.5 million and $4.2 million, respectively. Revenue was also negatively impacted during the first half of 2019 by continued check pricing allowances within Financial Services.

Service revenue represented 29.8% of total revenue for the first half of 2019 and 26.2% for the first half of 2018. 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 June 30, 2019 | Quarter Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Marketing solutions and other services (MOS): | | | | |
| Small business marketing solutions | 13.8% | 14.2% | 13.6% | 13.9% |
| Treasury management solutions | 9.2% | 5.9% | 9.2% | 5.9% |
| Web services | 8.4% | 8.4% | 8.5% | 8.0% |
| Data-driven marketing solutions | 7.8% | 7.6% | 7.6% | 7.6% |
| Fraud, security, risk management and operational services | 4.4% | 4.6% | 4.4% | 4.6% |
| Total MOS | 43.6% | 40.7% | 43.3% | 40.0% |
| Checks | 39.8% | 41.7% | 40.0% | 42.2% |
| Forms, accessories and other products | 16.6% | 17.6% | 16.7% | 17.8% |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |

The number of orders decreased for the second quarter and first half of 2019, as compared to the same periods in 2018, due primarily to the continuing secular decline in check and forms usage, partially offset by growth in MOS, including the impact of our 2018 acquisitions. For the first half of 2019, the number of orders also decreased due to the impact of 1 fewer business day in the first quarter of 2019. Revenue per order increased for the second quarter and first half of 2019, as compared to the same periods in 2018, primarily due to the benefit of Small Business Services price increases and favorable product and service mix, partially offset by the impact of continued check pricing allowances in Financial Services.

**Consolidated Cost of Revenue**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Total cost of revenue | $ 202,528 | $ 190,201 | 6.5% | $ 402,151 | $ 378,959 | 6.1% |
| Total cost of revenue as a percentage of total revenue | 41.0% | 39.0% | 2.0 pts. | 40.5% | 38.7% | 1.8 pts. |

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

The increases in total cost of revenue for the second quarter and first half of 2019, as compared to the same periods in 2018, were primarily attributable to incremental costs of businesses acquired in 2018 of $11.6 million for the second quarter of 2019 and $25.9 million for the first half of 2019, as well as increased shipping rates and higher material and medical costs in 2019. Partially offsetting these increases in total cost of revenue was the impact of the lower order volume for both personal and business checks, as well as forms and accessories sold by Small Business Services. In addition, manufacturing efficiencies and other benefits resulting from our continued cost reduction initiatives resulted in a reduction in total cost of revenue of approximately $2.0 million for the second quarter of 2019 and $5.0 million for the first half of 2019. Total cost of revenue as a percentage of total revenue increased as compared to 2018, in large part due to the increase in service revenues, including the impact of our 2018 acquisitions, partially offset by Small Business Services price increases.

**Consolidated Selling, General & Administrative (SG&A) Expense**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| SG&A expense | $ 222,292 | $ 209,585 | 6.1% | $ 452,469 | $ 420,739 | 7.5% |
| SG&A expense as a percentage of total revenue | 45.0% | 42.9% | 2.1 pts. | 45.6% | 42.9% | 2.7 pts. |

The increase in SG&A expense for the second quarter of 2019, as compared to the second quarter of 2018, was driven by incremental costs of $9.3 million from businesses acquired in 2018, including acquisition amortization. In addition, legal-related expenses increased approximately $5.0 million, share-based compensation expense increased approximately $3.0 million, driven by an increase in the level of equity awards in 2019, medical costs increased and information technology costs related to infrastructure investments also increased. Also, during the second quarter of 2018, we recognized gains from sales of businesses and customer lists within Small Business Services of $3.9 million. Further information regarding these asset sales can be found under the caption "Note 3: Supplemental balance sheet and cash flow information" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. These increases in SG&A expense were partially offset by various expense reduction initiatives of approximately $9.0 million, primarily within our sales and marketing organizations. Also, amortization expense related to acquisitions prior to 2018 decreased $2.7 million for the second quarter of 2019 compared to the second quarter of 2018.

The increase in SG&A expense for the first half of 2019, as compared to the first half of 2018, was driven by incremental costs of $21.2 million from businesses acquired in 2018, including acquisition amortization, an increase in CEO transition costs of $5.9 million, an increase in the average Small Business Services commission rate, and an increase in legal-related expenses of approximately $5.0 million. In addition, medical costs increased approximately $5.0 million and share-based compensation expense increased approximately $3.0 million, driven by an increase in the level of equity awards in 2019. Also, during the first half of 2018, we recognized gains from sales of businesses and customer lists within Small Business Services of $11.1 million. Further information regarding these asset sales can be found under the caption "Note 3: Supplemental balance sheet and cash flow information" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. These increases in SG&A expense were partially offset by various expense reduction initiatives of approximately $17.0 million, primarily within our sales and marketing organizations. Also, amortization expense related to acquisitions prior to 2018 decreased $4.9 million for the first half of 2019 compared to the first half of 2018.

**Restructuring and Integration Expense**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Restructuring and integration expense | $ 17,342 | $ 5,635 | $ 11,707 | $ 22,834 | $ 7,780 | $ 15,054 |

Restructuring and integration expense increased for the second quarter and first half of 2019, as compared to the same periods in 2018, as we are currently pursuing several initiatives designed to focus our business behind our growth strategies and to increase our efficiency. Further information can be found under *Restructuring and Integration Costs*.

**Asset Impairment Charges**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Asset impairment charges | $ — | $ — | $ — | $ — | $ 2,149 | $ (2,149) |

During the first quarter of 2018, we recorded a pre-tax asset impairment charge of $2.1 million related to a Small Business Services customer list intangible asset. Based on changes in the customer base of an acquired small business distributor, we determined that the customer list asset was fully impaired as of March 31, 2018.

**Interest Expense**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Interest expense | $ 9,239 | $ 6,130 | 50.7% | $ 18,540 | $ 11,708 | 58.4% |
| Weighted-average debt outstanding | 934,187 | 746,875 | 25.1% | 935,378 | 729,378 | 28.2% |
| Weighted-average interest rate | 3.8% | 3.0% | 0.8 pts. | 3.8% | 3.0% | 0.8 pts. |

The increases in interest expense for the second quarter and first half of 2019, as compared to the same periods in 2018, were primarily driven by our higher weighted-average interest rate during 2019, as well as the higher weighted-average debt level arising, in part, from our share repurchase activity and acquisitions completed throughout 2018.

**Income Tax Provision**

| (in thousands) | Quarter Ended June 30, 2019 | 2018 | Change | Six Months Ended June 30, 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Income tax provision | $ 12,171 | $ 18,922 | (35.7%) | $ 27,219 | $ 39,003 | (30.2%) |
| Effective income tax rate | 27.2% | 23.9% | 3.3pts. | 27.0% | 24.0% | 3.0pts. |

The increases in our effective income tax rate for the second quarter and first half of 2019, as compared to the same periods in 2018, were primarily due to an unfavorable impact from share-based compensation of $2.0 million for the second quarter of 2019 and $3.5 million for the first half of 2019, an increase in nondeductible officer compensation resulting from CEO transition costs, and the impact of foreign income taxes. We estimate that our annual effective tax rate for 2019 will be approximately 25.5%, compared to our 2018 rate of 29.6%, which included 7.1 points related to a goodwill impairment charge.

**Diluted EPS**

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change | 2019 | 2018 | Change |
| GAAP diluted EPS | $ 0.75 | $ 1.25 | (40.0%) | $ 1.68 | $ 2.56 | (34.4%) |
| Adjusted diluted EPS | 1.64 | 1.67 | (1.8%) | 3.18 | 3.27 | (2.8%) |

The decrease in GAAP diluted EPS for the second quarter of 2019, as compared to the second quarter of 2018, was driven primarily by an $11.1 million increase in restructuring and integration expense in support of our growth strategies and to increase our efficiency, the continuing decline in checks, forms and accessories, an increase of approximately $5.0 million in legal-related expenses and the gain on sales of Small Business Services businesses and customer lists of $3.9 million in 2018. In addition, interest expense increased $3.1 million in 2019 and share-based compensation increased approximately $3.0 million, driven by an increase in the level of equity awards in 2019. These decreases in GAAP diluted EPS were partially offset by lower shares outstanding in 2019 and benefits from our cost reduction initiatives and Small Business Services price increases.

The decrease in GAAP diluted EPS for the first half of 2019, as compared to the first half of 2018, was driven primarily by the continuing decline in checks, forms and accessories, including the impact of 1 fewer business day in the first quarter of 2019, a $15.1 million increase in restructuring and integration expense in support of our growth strategies and to increase our efficiency, the gain on sales of Small Business Services businesses and customer lists of $11.1 million in 2018, an increase of approximately $7.0 million in medical costs, an increase of $6.8 million in interest expense, lower organic treasury management and web services revenue, a $5.9 million increase in CEO transition costs, a higher average Small Business Services commission rate, an increase of approximately $5.0 million in legal-related expenses, and continued check pricing allowances within Financial Services. These decreases in GAAP diluted EPS were partially offset by lower shares outstanding in 2019, benefits from our cost reduction initiatives of approximately $22.0 million, and the benefit of Small Business Services price increases.

The decrease in adjusted diluted EPS for the second quarter and first half of 2019, as compared to the same periods in 2018, was primarily driven by the continuing decline in checks, forms and accessories, increased medical costs and interest expense, lower organic treasury management and web services revenue, a higher average Small Business Services commission rate and increased material and shipping rates. These decreases in adjusted diluted EPS were partially offset by lower shares outstanding in 2019, benefits from our cost reduction initiatives, incremental earnings from businesses acquired in 2018 and Small Business Services price increases.

**Non-GAAP Financial Measure**

We believe that adjusted diluted EPS provides useful comparable information for investors by excluding the impact of items that we believe are not indicative of ongoing operations. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized will vary significantly.

GAAP diluted EPS reconciles to adjusted diluted EPS as follows:

| | Quarter Ended June 30, | | Six Months Ended June 30, | | Year Ending December 31, | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 (Guidance) | 2018 |
| GAAP diluted EPS | $ 0.75 | $ 1.25 | $ 1.68 | $ 2.56 | $3.45 to $3.75 | $ 3.16 |
| Asset impairment charges | — | — | — | 0.03 | — | 1.96 |
| Acquisition amortization | 0.33 | 0.29 | 0.65 | 0.56 | 1.29 | 1.23 |
| Restructuring, integration and other costs | 0.31 | 0.10 | 0.42 | 0.14 | 1.26 | 0.34 |
| CEO transition costs | 0.03 | 0.03 | 0.13 | 0.03 | 0.16 | 0.11 |
| Share-based compensation | 0.12 | 0.05 | 0.19 | 0.11 | 0.38 | 0.21 |
| Certain legal-related expense | 0.10 | — | 0.11 | — | 0.11 | 0.15 |
| Acquisition transaction costs | — | 0.01 | — | 0.02 | — | 0.02 |
| Gain on sales of businesses and customer lists | — | (0.07) | — | (0.19) | — | (0.27) |
| Loss on debt retirement | — | — | — | 0.01 | — | 0.01 |
| Impact of federal tax reform | — | 0.01 | — | — | — | (0.04) |
| Adjusted diluted EPS | $ 1.64 | $ 1.67 | $ 3.18 | $ 3.27 | $6.65 to $6.95 | $ 6.88 |

**RESTRUCTURING AND INTEGRATION COSTS**

Restructuring and integration expense consisted of costs related to the integration of acquired businesses into our systems and processes. It also includes costs related to the consolidation and migration of certain applications and processes, including our human resources management system and certain of our sales systems. These costs primarily consisted of information technology consulting and project management services, internal labor, training and travel. In addition, we recorded employee severance costs related to these initiatives, as well as our ongoing cost reduction initiatives, primarily within our sales, marketing and fulfillment functions. Our restructuring and integration activities have increased in 2019, as we are currently pursuing several initiatives designed to focus our business behind our growth strategies and to increase our efficiency. Further information regarding restructuring and integration expense can be found under the caption "Note 8: Restructuring and integration expense" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

The majority of the employee reductions included in our restructuring accruals are expected to be completed in 2019, and we expect most of the related severance payments to be paid by mid-2020. As a result of our employee reductions, we expect to realize cost savings of approximately $2.0 million in total cost of revenue and $13.0 million in SG&A expense in 2019, in comparison to our 2018 results of operations, which represents a portion of the total net cost reductions we expect to realize in 2019.

**CEO TRANSITION COSTS**

In April 2018, we announced the retirement of Lee Schram, our former CEO. Mr. Schram remained employed under the terms of a transition agreement through March 1, 2019. Under the terms of this agreement, we provided certain benefits to Mr. Schram, including a transition bonus in the amount of $2.0 million that was paid in March 2019. In addition, modifications were made to certain of his share-based payment awards. In conjunction with the CEO transition, we offered retention agreements to certain members of our management team under which each employee is entitled to receive a cash bonus equal to his or her annual base salary or up to 1.5 times his or her annual base salary if he or she remains employed during the retention period, generally from July 1, 2018 to December 31, 2019, and complies with certain covenants. In addition to these expenses, we incurred certain other costs related to the CEO transition process, including executive search, legal, travel and board of directors fees in 2018. During 2019, we incurred consulting fees related to the evaluation of our strategic plan and we expensed the majority of the current CEO's signing bonus in 2019. CEO transition costs are included in SG&A expense and were $1.9 million for the second quarter of 2019, $7.4 million for the first half of 2019, and $1.5 million for the second quarter and first half of 2018. We estimate that these costs will total approximately $9.0 million for 2019, compared to $7.2 million for

2018. We anticipate that the remaining management retention bonuses will be paid in the first quarter of 2020. Accruals for CEO transition costs were included within accrued liabilities and were $4.3 million as of June 30, 2019.

## SEGMENT RESULTS

Additional financial information regarding our business segments appears under the caption “Note 16: Business segment information” in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

### Small Business Services

Results for our Small Business Services segment were as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Total revenue | $ 308,502 | $ 317,742 | (2.9%) | $ 621,560 | $ 634,056 | (2.0%) |
| Operating income | 34,706 | 58,642 | (40.8%) | 79,388 | 117,541 | (32.5%) |
| Operating margin | 11.2% | 18.5% | (7.3) pts. | 12.8% | 18.5% | (5.7) pts. |

The decrease in total revenue for the second quarter of 2019, as compared to the second quarter of 2018, was driven by lower order volume, primarily related to checks, forms and accessories, as secular check and forms usage continues to decline. In addition, web services revenue decreased approximately $2.3 million, excluding the effect of our 2018 acquisitions, due to a reduction in search and email marketing volume. In addition, revenue was negatively impacted $1.4 million by foreign currency exchange rate changes. These decreases in revenue were partially offset by the benefit of price increases and incremental revenue of approximately $3.7 million from businesses acquired in 2018. Information about our acquisitions can be found under the caption "Note 6: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

The decrease in total revenue for the first half of 2019, as compared to the first half quarter of 2018, was driven by lower order volume, primarily related to checks, forms and accessories, as secular check and forms usage continues to decline, along with a decrease of approximately $4.0 million due to 1 fewer business day in the first quarter of 2019. Web services revenue also decreased approximately $4.2 million, excluding the effect of our 2018 acquisitions, due in part to the loss of 1 customer and a reduction in search and email marketing volume. In addition, revenue was negatively impacted $3.2 million by foreign currency exchange rate changes. These decreases in revenue were partially offset by incremental revenue of approximately $13.0 million from businesses acquired in 2018, as well as the benefit of price increases. Information about our acquisitions can be found under the caption "Note 6: Acquisitions" in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

The decreases in operating income and operating margin for the second quarter of 2019, as compared to the second quarter of 2018, were driven primarily by the lower order volume for checks, forms and accessories, as well as a $9.9 million increase in restructuring and integration expense in support of our growth strategies and to increase our efficiency. In addition, share-based compensation expense increased, driven by an increase in the level of equity awards in 2019, and medical costs and material and shipping rates increased in 2019. Also, during the second quarter of 2018, we recognized gains from sales of businesses and customer lists of $3.9 million. Partially offsetting these decreases in operating income and operating margin were price increases and benefits of our cost reduction initiatives.

The decreases in operating income and operating margin for the first half of 2019, as compared to the first half of 2018, were driven primarily by the lower order volume for checks, forms and accessories, as well as an $11.2 million increase in restructuring and integration expense in support of our growth strategies and to increase our efficiency. In addition, share-based compensation expense increased, driven by an increase in the level of equity awards in 2019, CEO transition costs allocated to this segment increased $3.2 million, and the average commission rate, medical costs, and material and shipping rates all increased in 2019. Also, during the first half of 2018, we recognized gains from sales of businesses and customer lists of $11.1 million. Partially offsetting these decreases in operating income and operating margin were price increases, benefits of our cost reduction initiatives and an asset impairment charge of $2.1 million in 2018 related to a customer list intangible asset.

**Financial Services**

Results for our Financial Services segment were as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Total revenue | $ 156,127 | $ 139,315 | 12.1% | $ 310,486 | $ 279,956 | 10.9% |
| Operating income | 9,306 | 13,980 | (33.4%) | 19,557 | 31,954 | (38.8%) |
| Operating margin | 6.0% | 10.0% | (4.0) pts. | 6.3% | 11.4% | (5.1) pts. |

The increase in total revenue for the second quarter and first half of 2019, as compared to the same periods in 2018, was driven by incremental treasury management revenue from the acquisition of REMITCO LLC in August 2018 of $19.4 million for the second quarter of 2019 and $38.7 million for the first half of 2019. Partially offsetting this increase in revenue were reductions in treasury management revenue, excluding the incremental revenue from this acquisition, of approximately $2.5 million for the second quarter of 2019 and $5.5 million for the first half of 2019, due to a customer electing to bring its services in-house, as well as a reduction in software maintenance revenue. In addition, revenue was negatively impacted by lower check order volume due primarily to the continued secular decline in check usage and continued check pricing allowances.

The decreases in operating income and operating margin for the second quarter of 2019, as compared to the second quarter of 2018, were primarily due to a $5.0 million increase in legal-related expenses in 2019, the impact of the decline in treasury management revenue described above, the lower check order volume, and continued check pricing allowances. In addition, share-based compensation expense increased, driven by an increase in the level of equity awards in 2019, and medical costs and material and shipping rates increased in 2019. Partially offsetting these decreases in operating income and operating margin were benefits of our continuing cost reduction initiatives and a contribution of $2.3 million from the REMITCO LLC acquisition, including acquisition amortization.

The decreases in operating income and operating margin for the first half of 2019, as compared to the first half of 2018, were primarily due to a $5.0 million increase in legal-related expenses in 2019, the impact of the decline in treasury management revenue described above, lower check order volume and continued check pricing allowances. In addition, share-based compensation expense increased, driven by an increase in the level of equity awards in 2019, and medical costs and material and shipping rates increased in 2019. Restructuring and integration expense increased $2.9 million in support of our growth strategies and to increase our efficiency, and CEO transition costs allocated to this segment increased $2.5 million in 2019. Partially offsetting these decreases in operating income and operating margin were benefits of our continuing cost reduction initiatives and a contribution of $4.2 million from the REMITCO LLC acquisition, including acquisition amortization.

**Direct Checks**

Results for the Direct Checks segment were as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Total revenue | $ 29,357 | $ 31,187 | (5.9%) | $ 61,005 | $ 66,146 | (7.8%) |
| Operating income | 7,812 | 10,201 | (23.4%) | 16,652 | 21,036 | (20.8%) |
| Operating margin | 26.6% | 32.7% | (6.1) pts. | 27.3% | 31.8% | (4.5) pts. |

The decrease in revenue for the second quarter and first half of 2019, as compared to the same periods in 2018, was primarily due to the reduction in orders stemming from the continued secular decline in check usage. In addition, revenue per order was slightly lower in each period driven by unfavorable order channel mix and lower fraud services revenue.

The decreases in operating income and operating margin for the second quarter and first half of 2019, as compared to the same periods in 2018, were due primarily to the revenue decline, increased medical costs, and increased material and shipping rates in 2019. In addition, restructuring and integration expense increased $0.9 million for the second quarter of 2019 and $1.1 million for the first half of 2019 in support of our growth strategies and to increase our efficiency. These decreases in operating income and operating margin were partially offset by benefits from our cost reduction initiatives, including lower advertising expense driven by advertising print reduction initiatives.

**CASH FLOWS AND LIQUIDITY**

As of June 30, 2019, we held cash and cash equivalents of $66.7 million, as well as restricted cash and restricted cash equivalents included in funds held for customers of $77.3 million. The following table shows our cash flow activity for the six months ended June 30, 2019 and 2018, and should be read in conjunction with the consolidated statements of cash flows appearing in Item 1 of this report.

| | Six Months Ended June 30, | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change |
| Net cash provided by operating activities | $ 105,104 | $ 146,936 | $ (41,832) |
| Net cash used by investing activities | (32,800) | (117,563) | 84,763 |
| Net cash used by financing activities | (77,501) | (8,982) | (68,519) |
| Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted cash equivalents | 3,996 | (3,907) | 7,903 |
| Net change in cash, cash equivalents, restricted cash and restricted cash equivalents | $ (1,201) | $ 16,484 | $ (17,685) |

The $41.8 million decrease in net cash provided by operating activities for the first half of 2019, as compared to the first half of 2018, was due primarily to the continuing secular decline in check and forms usage, the payment of certain legal-related expenses, including $12.5 million accrued in the prior year and paid in the first quarter of 2019, the timing of accounts payable payments, increased restructuring and integration activities in support of our growth strategies and to increase our efficiency, increased medical costs, a $6.9 million increase in interest payments, a $2.9 million increase in prepaid product discount payments and payment of a $2.0 million transition bonus to our former CEO. These decreases in operating cash flow were partially offset by a $25.5 million reduction in income tax payments in 2019, as well as benefits of our cost reduction initiatives and Small Business Services price increases.

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

| | Six Months Ended June 30, | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change |
| Income tax payments | $ 38,204 | $ 63,655 | $ (25,451) |
| Performance-based compensation payments[1] | 23,363 | 21,717 | 1,646 |
| Interest payments | 17,916 | 11,057 | 6,859 |
| Prepaid product discount payments | 16,182 | 13,282 | 2,900 |
| Severance payments | 3,655 | 4,108 | (453) |

[1] Amounts reflect compensation based on total company performance.

Net cash used by investing activities for the first half of 2019 was $84.8 million lower than the first half of 2018, driven primarily by a decrease of $88.6 million in payments for acquisitions. We did not complete any acquisitions during the first half of 2019. Information about our 2018 acquisitions can be found under the caption “Note 6: Acquisitions” in the Notes to Consolidated Financial Statements appearing in the 2018 Form 10-K.

Net cash used by financing activities for the first half of 2019 was $68.5 million higher than the first half of 2018, due primarily to an increase in payments for common shares repurchased of $38.9 million, a net change in customer funds obligations of $20.0 million and a net decrease in borrowings on long-term debt of $15.6 million. These increases in cash used by financing activities were partially offset by a decrease of $5.1 million in employee taxes paid for shares withheld, as fewer stock options were exercised and fewer restricted stock unit awards vested in 2019.

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

| | Six Months Ended June 30, | | |
|---|---|---|---|
| (in thousands) | 2019 | 2018 | Change |
| Payments for acquisitions, net of cash acquired | $ (1,566) | $ (90,205) | $ 88,639 |
| Payments for common shares repurchased | (78,896) | (39,996) | (38,900) |
| Purchases of capital assets | (32,344) | (28,040) | (4,304) |
| Cash dividends paid to shareholders | (26,253) | (28,762) | 2,509 |
| Net change in customer funds obligations | (10,677) | 9,287 | (19,964) |
| Employee taxes paid for shares withheld | (2,872) | (7,947) | 5,075 |
| Net change in debt | 41,000 | 56,590 | (15,590) |
| Proceeds from issuing shares under employee plans | 1,637 | 5,767 | (4,130) |

We anticipate that net cash provided by operating activities will be between $270.0 million and $285.0 million in 2019, compared to $339.3 million in 2018, driven primarily by increased restructuring and integration activities in support of our growth strategies and to increase our efficiency, the continuing secular decline in check and forms usage, the payment of certain legal-related expenses, including $12.5 million accrued in the prior year and paid in the first quarter of 2019, and higher interest payments, partially offset by benefits from our cost savings initiatives and lower income tax payments. We expect that net cash provided by operating activities in 2019, along with availability under our revolving credit facility, will be utilized for capital expenditures of approximately $75.0 million, dividend payments, required interest payments and periodic share repurchases, as well as possible acquisitions. We intend to focus our capital spending on key revenue growth initiatives and investments in sales technology and information technology infrastructure. As of June 30, 2019, $193.3 million was available for borrowing under our revolving credit facility. To the extent we generate excess cash, we expect to opportunistically repurchase common shares and/or reduce the amount outstanding under our credit facility agreement.

As of June 30, 2019, our foreign subsidiaries held cash and cash equivalents of $57.8 million. Deferred income taxes have not been recognized on unremitted earnings of our foreign subsidiaries, as these amounts are intended to be reinvested indefinitely in the operations of those subsidiaries. If we were to repatriate all of our foreign cash and cash equivalents into the United States at one time, we estimate we would incur a withholding tax liability of approximately $3.0 million.

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

## CAPITAL RESOURCES

Our total debt was $951.0 million as of June 30, 2019, an increase of $39.1 million from December 31, 2018. Further information concerning our outstanding debt can be found under the caption “Note 12: Debt” in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

Our capital structure for each period was as follows:

| | June 30, 2019 | | December 31, 2018 | | |
|---|---|---|---|---|---|
| (in thousands) | Amount | Weighted-average interest rate | Amount | Weighted-average interest rate | Change |
| Fixed interest rate[1] | $ — | — | $ 1,864 | 2.0% | $ (1,864) |
| Floating interest rate | 951,000 | 3.8% | 910,000 | 3.8% | 41,000 |
| Total debt | 951,000 | 3.8% | 911,864 | 3.8% | 39,136 |
| Shareholders’ equity | 894,149 | | 915,413 | | (21,264) |
| Total capital | $ 1,845,149 | | $ 1,827,277 | | $ 17,872 |

[1] Upon adoption of Accounting Standards Update (ASU) No. 2016-02, *Leasing*, on January 1, 2019, we reclassified our capital lease obligations, now known as finance lease obligations, to accrued liabilities and other non-current liabilities on the consolidated balance sheet.

In May 2016, our board of directors authorized the repurchase of up to $300.0 million of our common stock. In October 2018, the board increased our share repurchase authorization to $500.0 million, inclusive of the remaining amount outstanding under the prior authorization. This authorization has no expiration date. During the first half of 2019, we repurchased 1.8 million shares for $78.9 million. As of June 30, 2019, $341.1 million remained available for repurchase under the current authorization. Information regarding changes in shareholders' equity can be found in the consolidated statements of shareholders' equity appearing in Item 1 of this report.

As of December 31, 2018, we had a revolving credit facility in the amount of $950.0 million. In January 2019, we increased the credit facility by $200.0 million, bringing the total availability to $1.15 billion, subject to increase under the credit agreement to an aggregate amount not exceeding $1.425 billion. The credit facility matures in March 2023. Our quarterly commitment fee ranges from 0.175% to 0.35%, based on our leverage ratio.

Borrowings under our credit agreement are collateralized by substantially all of our personal and intangible property. The credit agreement governing the 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 requires us to maintain certain financial ratios, including a maximum leverage ratio of 3.5 and a minimum ratio of consolidated earnings before interest and taxes to consolidated interest expense, as defined in the credit agreement, of 3.0. We were in compliance with all debt covenants as of June 30, 2019, and we expect to remain in compliance with all debt covenants throughout the next 12 months.

As of June 30, 2019, amounts were available for borrowing under our revolving credit facility as follows:

| (in thousands) | | **Total available** |
|---|---|---|
| Revolving credit facility commitment | $ | 1,150,000 |
| Amount drawn on revolving credit facility | | (951,000) |
| Outstanding letters of credit[1] | | (5,716) |
| Net available for borrowing as of June 30, 2019 | $ | 193,284 |

[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.

**OTHER FINANCIAL POSITION INFORMATION**

Information concerning items comprising selected captions on our consolidated balance sheets can be found under the caption "Note 3: Supplemental balance sheet and cash flow information" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

*Operating lease assets and liabilities* – On January 1, 2019, we adopted ASU No. 2016-02, *Leasing*, and related amendments. Adoption of these standards had a material impact on our consolidated balance sheet, but did not have a significant impact on our consolidated statement of comprehensive income or our consolidated statement of cash flows. The most significant impact was the recognition of operating lease assets of $50.8 million, current operating lease liabilities of $13.6 million and non-current operating lease liabilities of $37.4 million as of January 1, 2019. Prior periods were not restated upon adoption of these standards. Further information can be found under the caption "Note 2: New accounting pronouncements" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

*Prepaid product discounts* – Other non-current assets include prepaid product discounts of our Financial Services segment. These costs are recorded as non-current assets upon contract execution and are generally amortized on the straight-line basis as reductions of revenue over the related contract term. Changes in prepaid product discounts during the six months ended June 30, 2019 and 2018 can be found under the caption "Note 3: Supplemental balance sheet and cash flow information" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report. Cash payments for prepaid product discounts were $16.2 million for the first half of 2019 and $13.3 million for the first half of 2018.

The number of checks being written has been declining, which has contributed to increased competitive pressure when attempting to retain or acquire clients. Both the number of financial institution clients requesting prepaid product discount payments and the amount of the payments has fluctuated from year to year. Although we anticipate that we will selectively continue to make these payments, we cannot quantify future amounts with certainty. The amount paid depends on numerous

factors, such as the number and timing of contract executions and renewals, competitors' actions, overall product discount levels and the structure of up-front product discount payments versus providing higher discount levels throughout the term of the contract.

Liabilities for prepaid product discounts are recorded upon contract execution. These obligations are monitored for each contract and are adjusted as payments are made. Prepaid product discount payments due within the next year are included in accrued liabilities on our consolidated balance sheets. These accruals were $10.5 million as of June 30, 2019 and $10.9 million as of December 31, 2018. Accruals for prepaid product discount payments included in other non-current liabilities on our consolidated balance sheets were $8.8 million as of June 30, 2019 and $12.5 million as of December 31, 2018.

**OFF-BALANCE SHEET ARRANGEMENTS, GUARANTEES AND CONTRACTUAL OBLIGATIONS**

It is not our general business practice to enter into off-balance sheet arrangements or to guarantee the performance of third parties. In the normal course of business, we periodically enter into agreements that incorporate general indemnification language. These indemnification provisions generally 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 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 matters related to periods prior to disposition. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we do not believe that any liability under these indemnities would have a material adverse effect on our financial position, annual results of operations or annual cash flows. We have recorded liabilities for known indemnifications related to environmental matters. Further information regarding our environmental liabilities, as well as liabilities related to self-insurance and litigation, can be found under the caption "Note 14: Other commitments and contingencies" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in the Item 1 of this report.

We are not engaged in any transactions, arrangements or other relationships with unconsolidated entities or other third parties that are reasonably likely to have a material effect on our liquidity or on our access to, or requirements for, capital resources. In addition, we have not established any special purpose entities nor did we enter into any material related party transactions during the first half of 2019 or during 2018.

A table of our contractual obligations was provided in the MD&A section of the 2018 Form 10-K. During the first half of 2019, we entered into certain software-as-a-service contracts. These contracts require minimum payments of $49.8 million, with $5.6 million payable in 2019 and a total of $33.6 million payable in 2020 and 2021. The remainder is payable through 2024.

**CRITICAL ACCOUNTING POLICIES**

A description of our critical accounting policies was provided in the MD&A section of the 2018 Form 10-K. There were no changes in these policies during the first half of 2019.

*New accounting pronouncements* – Information regarding the accounting pronouncement adopted during the first quarter of 2019 and those not yet adopted can be found under the caption "Note 2: New accounting pronouncements" in the Condensed Notes to Unaudited Consolidated Financial Statements appearing in Item 1 of this report.

Item 3.  Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to changes in interest rates primarily as a result of the borrowing activities used to support our capital structure, maintain liquidity and fund business operations. We do not enter into financial instruments for speculative or trading purposes. The nature and amount of debt outstanding can be expected to vary as a result of future business requirements, market conditions and other factors. As of June 30, 2019, our total debt was comprised of $951.0 million drawn under our revolving credit facility at a weighted-average interest rate of 3.8%. The carrying amount reported in the consolidated balance sheets for amounts drawn under our revolving credit facility approximates fair value because our interest rates are variable and reflect current market rates. Amounts drawn on our revolving credit facility mature in March 2023.

Based on the daily average amount of outstanding debt, a one percentage point change in our weighted-average interest rates would have resulted in a $4.7 million change in interest expense for the first half of 2019.

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

Item 4.  Controls and Procedures.

(a)  *Disclosure Controls and Procedures* – As of the end of the period covered by this report, June 30, 2019 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) *Internal Control Over Financial Reporting* – There were no changes in our internal control over financial reporting identified in connection with our evaluation during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A.  Risk Factors.

Our risk factors are outlined in Item 1A of the 2018 Form 10-K. There have been no significant changes to these risk factors since we filed the 2018 Form 10-K. Due to the announcement of our "New Deluxe" strategy, as discussed in the *Executive Overview* section of Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Part I, Item 2 of this report, we have identified additional risk factors that should be considered when investing in our common stock.

*Our recently announced strategic plan to implement a new go-to-market strategy and more integrated operations, transforming us into a Trusted, Tech-Enabled Solutions Company™, is dependent upon our ability to successfully implement our strategic and tactical initiatives. If we are unsuccessful in achieving this transformation in a timely manner, our financial results could be adversely affected.*

Our recently announced strategic plan contemplates that our strategic and tactical initiatives will result in, among other things, sustained organic revenue growth and strong adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) margins. We plan to achieve these results through a variety of initiatives, including greater integration of operations, a more streamlined sales process, more targeted cross-selling into our existing customer base, growing that customer base and reducing our cost structure. Our ability to achieve this strategic plan depends upon a variety of factors, including a number of factors that are beyond our control. If we are unable to successfully implement and execute the strategic and tactical initiatives underlying our strategic plan in a timely manner, our results of operations, financial condition, cash flows and/or liquidity could be adversely affected.

*We plan to realign our existing businesses into four new primary focus areas: Payments, Cloud, Promotional Products and Checks. If we are unable to achieve this realignment in a timely and cost-effective manner, our results of operations could be adversely affected.*

As we have previously announced, we believe that we can achieve greater operational synergies and reduced overall costs if we realign our existing operations to focus our efforts in four primary areas that we believe are critical to meeting our customers' needs going forward: Payments, Cloud, Promotional Products and Checks. This realignment will take time, considerable senior management effort, material "buy-in" from our employees, and significant investment. If we are not able to achieve this realignment in a timely and cost-effective manner, our results of operations could be adversely affected.

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

The following table shows purchases of our own common stock, based on trade date, that were completed during the second quarter of 2019:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum approximate dollar value of shares that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| April 1, 2019 – April 30, 2019 | — | $ — | — | $ 370,000,004 |
| May 1, 2019 – May 31, 2019 | 62,100 | 37.02 | 62,100 | 367,701,372 |
| June 1, 2019 – June 30, 2019 | 656,119 | 40.54 | 656,119 | 341,103,728 |
| Total | 718,219 | 40.23 | 718,219 | 341,103,728 |

In May 2016, our board of directors approved an authorization for the repurchase of up to $300.0 million of our common stock. In October 2018, the board increased our share repurchase authorization to $500.0 million, inclusive of the remaining amount outstanding under the prior authorization. This authorization has no expiration date.

While not considered repurchases of shares, we do at times withhold shares that would otherwise be issued under equity-based awards to cover the withholding taxes due as a result of the exercising or vesting of such awards. During the second quarter of 2019, we withheld 4,733 shares in conjunction with the vesting and exercise of equity-based awards.

## Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Description |
| --- | --- |
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010) |
| 3.2 | Bylaws, as amended and restated on October 23, 2018 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2018) |
| 4.1 | Indenture, dated as of April 30, 2003, by and between us and Wells Fargo Bank Minnesota, N.A., as trustee (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 (Registration No. 333-104858) filed with the Commission on April 30, 2003) |
| 10.1 | Separation and release agreement between us and Malcolm McRoberts* |
| 31.1 | CEO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | CFO Certification of Periodic Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | CEO and CFO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished) |
| 101.INS | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Denotes compensatory plan or management contract

## SIGNATURES

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

DELUXE CORPORATION
(Registrant)

Date: July 26, 2019

/s/ Barry C. McCarthy

Barry C. McCarthy
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 26, 2019

/s/ Keith A. Bush

Keith A. Bush
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

# SEPARATION AND RELEASE AGREEMENT

This SEPARATION AND RELEASE AGREEMENT ("Separation Agreement") is made and entered into by and between Malcolm McRoberts ("McRoberts") and Deluxe Corporation ("Deluxe").

WHEREAS, McRoberts has been employed by Deluxe, most recently as Deluxe's Senior Vice President, Small Business Services;

WHEREAS, McRoberts and Deluxe entered into a Confidentiality Agreement dated April 18, 2008 (the "Confidentiality Agreement"); a Severance Agreement dated May 19, 2008 (the "Severance Agreement"), an Executive Retention Agreement dated May 19, 2008 (and an addendum to the Executive Retention Agreement dated December 8, 2008) (collectively the "Executive Retention Agreement"), a Non-Competition, Non-Solicitation and Confidentiality Agreement dated March 1, 2011 (the "Non-Competition, Non-Solicitation and Confidentiality Agreement"), and a letter agreement dated April 30, 2018 (the "Letter Retention Agreement");

WHEREAS, McRoberts's employment with Deluxe as Senior Vice President, Small Business Services will terminate effective as of the close of business on June 17, 2019;

WHEREAS, McRoberts's employment with Deluxe will terminate effective as of the close of business on December 31, 2019 (the "Separation Date");

WHEREAS, McRoberts and Deluxe wish to fully and finally settle all issues, differences, and claims, whether potential or actual, between McRoberts and Deluxe, including, but not limited to, any claims that might arise out of McRoberts's employment with Deluxe or the termination of McRoberts's employment with Deluxe;

WHEREAS, based on the foregoing, Deluxe and McRoberts desire to enter into this Separation Agreement to effect the termination of McRoberts's employment with Deluxe on the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. Continued Employment and Separation Date. Provided McRoberts signs and does not revoke or rescind this Separation Agreement, as described in Section 6, and does not revoke or rescind the Second Release, his last day of employment will be the Separation Date. Except as provided in this Separation Agreement, all benefits and privileges of McRoberts's employment with Deluxe will end as of close of business on the Separation Date.

2. Consideration by McRoberts. As consideration for Deluxe's promises and obligations under this Separation Agreement, McRoberts agrees to the following:

   a. First Release of Claims. On or within 21 days after June 17, 2019, McRoberts will sign this Separation Agreement containing the release of claims in Section 4.

b. Second Release of Claims. On or within 21 days after the end of the Transition Period, as defined in Section 3f below, McRoberts will sign a second release in the form attached to this Separation Agreement as **Exhibit A** (the "Second Release").

3. Consideration by Deluxe. As consideration for McRoberts's promises and obligations under this Separation Agreement, and pursuant to the Severance Agreement and the Letter Retention Agreement, Deluxe will provide McRoberts with the following benefits to which McRoberts is not otherwise entitled, provided McRoberts signs and does not revoke or rescind this Separation Agreement, as described in Section 6, and does not revoke or rescind the Second Release.

a. Severance. Deluxe will pay McRoberts an amount equal to twelve (12) months of his base salary as of June 17, 2019, less applicable deductions and withholdings, to be paid in accordance with Deluxe's regular payroll schedule, beginning on the first regular pay date following the end of the 15-day rescission period of the Second Release.

b. Additional Payments. For a period of six (6) months commencing on the first anniversary of the initial payment in Section 2a, Deluxe will pay McRoberts each month an amount equal to the amount, if any, that McRoberts's base salary as of the Separation Date exceeds his monthly employment compensation during that month. Deluxe will pay McRoberts each of the six (6) such monthly payments within thirty (30) days of McRoberts providing Deluxe with documentation of his employment income for the month or a written statement that he was not employed during that month.

c. Outplacement. Deluxe will pay for executive-level outplacement and support services for McRoberts, for a period up to twelve (12) months, to be provided through Deluxe's regular providers for such services, beginning after the end of the 15-day rescission period of the Second Release.

d. One-Time Payment. Deluxe will pay McRoberts a one-time lump sum payment of Thirteen Thousand Dollars ($13,000), to be paid within thirty (30) days of the end of the 15-day rescission period of the Second Release.

e. Retention Bonus. Deluxe will pay McRoberts a one-time lump sum amount of $720,000, equal to eighteen (18) months of his base salary as of April 30, 2018, to be paid within fifteen (15) days of the end of the 15-day rescission period of the Second Release.

f. Transition Services. McRoberts will be provided the opportunity to provide transition services from June 17, 2019 through December 31, 2019 (the "Transition Period"). During the Transition Period, McRoberts will not enter into any agreements on behalf of Deluxe or act as a member of Deluxe's Executive Leadership Team. During the Transition Period, McRoberts's compensation and benefits will continue as in effect as of June 17, 2019 and he will perform the job duties of Special Advisor to the CEO, as reasonably requested by the CEO.

4. Release of Claims. As an inducement to Deluxe to enter into this Separation Agreement and in exchange for the consideration provided for in this Separation Agreement, McRoberts hereby settles any and all claims that he has or may have against Deluxe and its predecessors, successors, assigns, parents, affiliates, subsidiaries and related companies, and its and their officers, employees, agents, assigns, insurers, representatives, counsel, administrators, successors, shareholders, directors and/or other representatives

(collectively, the "Released Parties") as a result of Deluxe's hiring of McRoberts, McRoberts's employment with Deluxe, the cessation of McRoberts's employment with Deluxe, or any act, occurrence, or omission occurring prior to the date of this Separation Agreement.

For the consideration expressed herein, McRoberts, on behalf of himself and his heirs, successors, representatives and assigns, hereby releases and discharges the Released Parties from any and all claims, causes of action, liabilities, damages, and right to relief of any kind that McRoberts has or ever had against the Released Parties, known or unknown, by reason of any matter or fact giving rise to this Separation Agreement. McRoberts's release of claims is intended to extend to and includes, among other things, claims of any kind arising under or based upon the Age Discrimination in Employment Act, 29 U.S.C. §§ 621, *et seq.*, as amended by the Older Workers Benefit Protection Act; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101 *et seq.*; Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e *et seq*.; the Americans with Disabilities Act, 42 U.S.C. § 12101 *et seq*.; the Family and Medical Leave Act, 29 U.S.C. § 2601 *et seq*.; the Employment Retirement Income Security Act, 29 U.S.C. § 1001 *et seq.*; the Minnesota Human Rights Act; the Women's Economic Security Act; the Minnesota Equal Pay for Equal Work Law, Minn. Stat. §§ 181.66-181.71; Minn. Stat. § 181.81; Minn. Stat. § 176.82; Minn. Stat. §§ 181.931, 181.932, 181.935; Minn. Stat. §§ 181.940-181.944; Minn. Stat. §§ 181.950-181.957; Minn. Stat. §§ 181.961-181.966, and any other federal, state, or local law, rule, or regulation prohibiting employment discrimination or otherwise relating to employment; and any claims based upon any other theory, whether legal or equitable, arising from or related to any matter or fact arising out the events giving rise to this Separation Agreement.

McRoberts also agrees and understands that he is giving up any and all other claims, whether grounded in contract or tort theories, including, but not limited to: wrongful discharge; breach of contract (including, without limitation, any claims for unpaid compensation); tortious interference with contractual relations; promissory estoppel; detrimental reliance; breach of the implied covenant of good faith and fair dealing; breach of express or implied promise; breach of manuals or other policies; breach of fiduciary duty; assault; battery; fraud; false imprisonment; invasion of privacy; intentional or negligent misrepresentation; defamation, including libel, slander, discharge defamation and self-publication defamation; discharge in violation of public policy; whistleblower; intentional or negligent infliction of emotional distress; and claims for punitive damages or attorneys' fees or any other theory, whether legal or equitable.

Additionally, nothing in this Separation Agreement purports to release or waive claims that may not be released or waived as a matter of law; claims based on events, occurrences, or omissions that occur after the date of the Separation Agreement; or claims related to any already vested benefits under the terms of any of Deluxe's benefit plans. Similarly, nothing in this Separation Agreement prevents McRoberts from challenging the validity of this agreement or from filing any non-legally waivable claim with the Equal Employment Opportunity Commission ("EEOC"), National Labor Relations Board ("NLRB") or comparable state or local agency or participating in any investigation or proceeding conducted by the EEOC, NLRB, or comparable state or local agency; however, McRoberts agrees and understands that the Separation Agreement waives all claims and rights to monetary or other recovery for any legal claims to the fullest extent permitted by law.

This Release of Claims does not prohibit McRoberts from reporting possible violations of federal law or regulation to any governmental agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission ("SEC"), Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. Nothing in this Separation Agreement requires McRoberts to seek prior authorization of Deluxe to make any

such reports or disclosures and McRoberts does not need and is not required to notify Deluxe that he has made any such reports or disclosures. This Separation Agreement is not intended to and does not restrict McRoberts from seeking or obtaining an SEC whistleblower award.

Finally, McRoberts understands that under the U.S. Defend Trade Secrets Act of 2016, he will not be held criminally or civilly liable under any U.S. federal or state trade secret law for the disclosure of a trade secret that is made in confidence to government officials, either directly or indirectly, or to an attorney, in each case solely for the purpose of reporting or investigating a suspected violation of law, or in a complaint or other document filed in a lawsuit or other proceeding, provided such filing is made under seal. McRoberts hereby represents that he is not aware of any violation of law as outlined in this Section 4.

5. Consideration Period and Advice to Consult with Counsel. McRoberts is hereby informed that the terms of this Separation Agreement shall be open for acceptance and execution by McRoberts for a period of twenty-one (21) days from McRoberts's date of receipt, during which time McRoberts may consult with an attorney and consider whether to accept this Separation Agreement. Changes to this Separation Agreement, whether material or immaterial, will not restart the running of this twenty-one (21) day acceptance period. During this time, Deluxe advises and encourages McRoberts to consult with an attorney of his choice. To receive the consideration provided for in this Separation Agreement, McRoberts must return a signed and dated original copy of this Separation Agreement to: Jeffrey L. Cotter, Chief Administrative Officer, General Counsel and Senior Vice President, Deluxe Corporation, 3680 Victoria Street North, Shoreview, MN 55126.

6. Right to Revoke and Rescind. McRoberts is hereby informed of his right to revoke this Separation Agreement as far as it extends to potential claims under the Age Discrimination in Employment Act ("ADEA"), 29 U.S.C. § 621 *et seq.*, by written notice to Deluxe within seven (7) calendar days following McRoberts's execution of this Separation Agreement. McRoberts is also informed of his right to rescind his release of claims, insofar as it extends to potential claims under the Minnesota Human Rights Act ("MHRA"), by informing Deluxe of McRoberts's intent to do so within fifteen (15) calendar days following his signing of this Separation Agreement. Any such revocation or rescission must be made in writing and delivered by hand or by certified mail, return receipt requested, postmarked on or before the last day of the applicable revocation or rescission period to the representative identified in Section 5.

If McRoberts exercises his right to revoke or rescind his release of claims under the MHRA or ADEA, Deluxe may, at its option, either nullify this Separation Agreement in its entirety, or keep it in effect in all respects other than as to that portion of the release of claims that McRoberts has revoked or rescinded. McRoberts agrees and understands that if Deluxe chooses to nullify the Separation Agreement in its entirety, Deluxe will have no obligations under this Separation Agreement, the Severance Agreement, or the Letter Retention Agreement.

7. Confidentiality of this Separation Agreement. McRoberts, on behalf of himself and his heirs, successors, representatives and assigns, and his legal counsel agree not to disclose (in whole or in part) the existence of this Separation Agreement or any of the terms or provisions hereof. Further, McRoberts, on behalf of himself and his heirs, successors, representatives and assigns, and his legal counsel hereby agrees not to characterize any of the terms or provisions of this Separation Agreement or disclose any of the negotiations leading to the making of this Separation Agreement, to any other person or entity, other than McRoberts's spouse, attorneys, accountants, or tax advisors. Notwithstanding this Section 7, nothing in this Separation Agreement prevents McRoberts from participating in any investigation or proceeding conducted by the EEOC, NLRB, SEC or comparable state or local agency.

8. Continuation of Benefits. Beginning on the Separation Date, provided McRoberts qualifies for COBRA continuation coverage, McRoberts may elect to continue medical and dental insurance benefits under COBRA at McRoberts's own expense by paying the premium for such coverage. If McRoberts does not elect or is not eligible for COBRA continuation coverage, McRoberts's group health plan coverage will cease as of the Separation Date. Except as provided in this Separation Agreement, McRoberts will cease to be and will cease to be treated as an employee of Deluxe for all purposes under all employee retirement and welfare benefit plans and all other plans, programs, policies, and arrangements maintained for employees of Deluxe as of the Separation Date.

9. Continuing Restrictions and Obligations. McRoberts acknowledges and agrees that the post-employment restrictions contained in the Confidentiality Agreement, the Severance Agreement, the Executive Retention Agreement, the Non-Competition, Non-Solicitation and Confidentiality Agreement, and the Letter Retention Agreement, each between McRoberts and Deluxe and attached hereto as **Exhibit B** (collectively the "Post-Employment Restrictions"), are reasonable and shall remain in full force and effect according to their terms.

10. Claims Warranties. McRoberts represents and warrants that he is not aware of any facts that would establish, tend to establish or in any way support an allegation that any of the Released Parties has engaged in conduct that McRoberts believes could violate (1) any provision of federal law relating to fraud, including, but not limited to, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and/or any state or local counterpart; (2) any rule or regulation of the SEC; (3) the federal False Claims Act and/or any state or local or municipal qui tam counterpart (which prohibit the presentation by Deluxe or any affiliate of false claims and statements or the creation of false records or statements in order to obtain payment of federal, state, county or municipal funds, or to avoid refunds of such government funds); and (4) any other federal, state or local law.

11. Representations and Warranties Regarding the FMLA and FLSA. McRoberts represents and warrants that he is not aware of any facts or circumstances that might justify a claim against the Released Parties for any violation of the Family and Medical Leave Act ("FMLA") or the Fair Labor Standards Act ("FLSA") or comparable state statutes. McRoberts further represents and warrants that he has received any and all wages and/or commissions for work performed and any and all FMLA leave to which McRoberts may have been entitled.

12. Non-Disparagement. Except in the context of a proceeding with the EEOC, NLRB, SEC, or other comparable state or local government agency; in compelled sworn testimony; or as otherwise may be required by law, McRoberts agrees that he will not disparage or defame the Released Parties of any of the Released Parties' current or former employees, directors, officers, agents, or contractors, or Deluxe's management or services. Deluxe agrees to instruct the members of its Executive Leadership Team as of the end of the Transition Period not to disparage or defame McRoberts, subject to an exception for communications with any federal, state or local government or administrative agency; in connection with communications undertaken for a legitimate legal reason; or otherwise as required by law.

13. Cooperation. McRoberts agrees to cooperate with Deluxe with respect to any claims or lawsuits brought or threatened to be brought against the Released Parties, which relate to or involve McRoberts's employment with Deluxe or any transactions, decisions, or actions of Deluxe in which McRoberts was involved or had knowledge of while a Deluxe employee (the "Covered Subjects"). As part of McRoberts's agreement to cooperate, McRoberts agrees to be available upon reasonable notice at mutually-agreeable times to discuss with Deluxe and its counsel issues related to litigation or potential litigation exposure with respect to the Covered Subjects. McRoberts also agrees to appear without subpoena for

deposition or testimony at the request of Deluxe in connection with claims or lawsuits relating to Covered Subjects. Deluxe will reimburse McRoberts for all reasonable and customary expenses he incurs while cooperating with Deluxe pursuant to this Section 13, in accordance with Deluxe's regular expense reimbursement practices.

14. Return of Information and Property. McRoberts affirms that he will return all originals and all copies of Deluxe's records, correspondence and documents, and all other property and assets of Deluxe, created or obtained by McRoberts as a result of or in the course of or in connection with his employment with Deluxe which are in his possession or control, whether confidential or not, including, but not limited to, any notes, diaries, computer files or other documents containing information regarding McRoberts's experiences or knowledge of Deluxe business or employee matters, prior to the end of the Transition Period.

15. Passwords and Password-Protected Documents. McRoberts agrees that, prior to the end of the Transition Period, he will deliver to Deluxe all passwords in use by McRoberts at the time of his termination, a list of any documents that McRoberts has created or of which McRoberts is otherwise aware are password-protected, and the password(s) necessary to access such password-protected documents.

16. Non-Assignability. McRoberts understands and agrees that this Separation Agreement is personal to him. The duties, rights, and obligations set forth herein may not be delegated or assigned by McRoberts to any other person without prior written consent of Deluxe. Deluxe's rights and obligations hereunder may be assigned to any successor following a sale of Deluxe or of Deluxe's assets, or any other transaction involving a change in control.

17. Governing Law; Severability. This Separation Agreement shall be governed by the laws of the State of Minnesota without regard to the choice of law provisions of any jurisdiction. If any part of this Separation Agreement is construed to be invalid and/or unenforceable, such part shall be modified to achieve the objective of the parties to the fullest extent permitted and the balance of this Separation Agreement shall remain in full force and effect. The language of all parts of this Separation Agreement shall be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

18. Choice of Venue. The parties agree that any and all legal actions or proceedings brought to interpret or enforce this Separation Agreement or in any other way arising out of or in relation to this Separation Agreement shall be brought exclusively in the state or federal courts of the State of Minnesota and hereby consent to the jurisdiction of such courts for any such action and further waive any objection to the convenience of the forum or venue.

19. Entire Agreement. This Separation Agreement, the documents referenced herein or attached hereto, and the award and similar agreements entered into between McRoberts and Deluxe with respect to various equity, bonus and similar compensation contain the entire agreement between McRoberts and Deluxe with respect to McRoberts's employment and separation from employment and there are no promises or understandings outside of this Separation Agreement and the documents referenced herein with respect to McRoberts's employment or separation from employment with Deluxe. Any modification of or addition to this Separation Agreement must be in a writing signed by McRoberts and an appropriate representative of Deluxe.

20. Waiver. The waiver by either party of a breach by the other party of any provision of this Separation Agreement shall not operate or be construed as a waiver of any subsequent breach.

21. Section 409A Compliance. The right to a series of payments under this Separation Agreement will be treated as a right to a series of separate payments. Each payment under this Separation Agreement that is made within 2-1/2 months following the end of the year that contains the end of the Transition Period is intended to be exempt from Section 409A of the Internal Revenue Code ("Section 409A") as a short-term deferral within the meaning of the final regulations under Section 409A. Each payment under this Separation Agreement that is made later than 2-1/2 months following the end of the year that contains the end of the Transition Period is intended to be exempt from Section 409A under the two-times exception of Treasury Reg. § 1.409A-1(b)(9)(iii), up to the limitation on the availability of that exception specified in the regulation. If the timing of any payment subject to Section 409A could occur in one or more tax years depending on McRoberts's employment-related actions, such as the signing of a release, then such payment will be made as soon as possible in the later tax year.

22. Enforcement. The remedies below are in addition to any other rights and remedies that Deluxe may have at law or in equity.

a. Injunctive Relief and Other Damages. McRoberts acknowledges and agrees that the Post-Employment Restrictions are reasonable and necessary in order to protect and maintain the legitimate business interests of Deluxe, and that their enforcement would not prevent him from earning a livelihood. McRoberts recognizes that his of breach of Sections 7, 13, 14, or 15 of this Separation Agreement or the Post-Employment Restrictions, would result in irreparable injury to Deluxe, that in the event of their breach, Deluxe's remedy at law for damages will be inadequate, and that Deluxe shall be entitled to seek an injunction to restrain the continuing breach by McRoberts, McRoberts's partners, agents, servants, or employees, or any other persons or entities acting for or with McRoberts as provided by law and/or equity. Deluxe may further be entitled to damages in connection with the enforcement of this Separation Agreement as provided by law and/or equity and including the recovery of any profits and revenues obtained by McRoberts while engaging in violations of the Post-Employment Restrictions or Sections 7, 13, 14, or 15 of this Separation Agreement. McRoberts agrees that if he violates the Post-Employment Restrictions or the terms of this Separation Agreement, he will reimburse the Released Parties for any attorneys' fees, costs, or other damages arising from his breach, other than McRoberts challenging his waiver of claims under the Age Discrimination in Employment Act.

b. Liquidated Damages. In addition to, and without limiting, Deluxe's right to other damages, if McRoberts violates Sections 7 of this Separation Agreement or his confidentiality obligations pursuant to the Post-Employment Restrictions, Deluxe will be entitled to liquidated damages in the amount of Ten Thousand dollars ($10,000) per occurrence and Deluxe's attorney's fees and costs in enforcing this Section. In any claim under this Section, both parties waive their right to a jury trial.

23. Counterparts and Electronic Signatures. This Separation Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed an original, and the counterparts together shall constitute one and the same agreement. A copied, scanned, or faxed signature shall be treated the same as an original.

24. McRoberts Representation. MCROBERTS AFFIRMS THAT HE HAS READ THIS SEPARATION AGREEMENT. MCROBERTS ACKNOWLEDGES THAT HE WAS PROVIDED WITH A REASONABLE AND SUFFICIENT PERIOD OF TIME TO CONSIDER WHETHER TO ACCEPT THIS SEPARATION AGREEMENT PRIOR TO SIGNING IT. MCROBERTS AGREES THAT THE

PROVISIONS OF THIS SEPARATION AGREEMENT ARE UNDERSTANDABLE TO HIM, THAT HE HAS ENTERED INTO THIS SEPARATION AGREEMENT FREELY AND VOLUNTARILY, AND THAT HE HEREBY WAS ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS SEPARATION AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Separation Agreement by their signatures below.

***Do not sign before the Separation Date.***

Dated: June 20, 2019 /s/ Malcolm McRoberts
Malcolm McRoberts

Dated: June 21, 2019 Deluxe Corporation

By /s/ Jeffrey L. Cotter
Its General Counsel

**EXHIBIT A**

**SECOND RELEASE OF CLAIMS**

WHEREAS, on _______, Malcolm McRoberts ("McRoberts") and Deluxe Corporation ("Deluxe") entered into a Separation and Release Agreement to effect the termination of McRoberts's employment with Deluxe (the "Separation Agreement");

WHEREAS, as consideration for Deluxe's promises and obligations under the Separation Agreement, McRoberts agreed to sign a second release of claims on or after he finishes providing transitional services to Deluxe pursuant to the Separation Agreement (the "Second Release");

NOW, THEREFORE, McRoberts agrees as follows:

1. Release of Claims. As an inducement to Deluxe to enter into the Separation Agreement, and in exchange for the consideration provided for in the Separation Agreement, McRoberts hereby settles any and all claims that he has or may have against Deluxe and its predecessors, successors, assigns, parents, affiliates, subsidiaries and related companies, and its and their officers, employees, agents, assigns, insurers, representatives, counsel, administrators, successors, shareholders, directors and/or other representatives (collectively, the "Released Parties") as a result of Deluxe's hiring of McRoberts, McRoberts's employment with Deluxe, the cessation of McRoberts's employment with Deluxe, or any act, occurrence, or omission occurring prior to the date of this Second Release.

For the consideration expressed in the Separation Agreement, McRoberts, on behalf of himself and his heirs, successors, representatives and assigns, hereby releases and discharges the Released Parties from any and all claims, causes of action, liabilities, damages, and right to relief of any kind that McRoberts has or ever had against the Released Parties, known or unknown, by reason of any matter or fact giving rise to this Second Release. McRoberts's release of claims is intended to extend to and includes, among other things, claims of any kind arising under or based upon the Age Discrimination in Employment Act, 29 U.S.C. §§ 621, *et seq.*, as amended by the Older Workers Benefit Protection Act; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101 *et seq.*; Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e *et seq*.; the Americans with Disabilities Act, 42 U.S.C. § 12101 *et seq*.; the Family and Medical Leave Act, 29 U.S.C. § 2601 *et seq.*; the Employment Retirement Income Security Act, 29 U.S.C. § 1001 *et seq.*; the Minnesota Human Rights Act; the Women's Economic Security Act; the Minnesota Equal Pay for Equal Work Law, Minn. Stat. §§ 181.66-181.71; Minn. Stat. § 181.81; Minn. Stat. § 176.82; Minn. Stat. §§ 181.931, 181.932, 181.935; Minn. Stat. §§ 181.940-181.944; Minn. Stat. §§ 181.950-181.957; Minn. Stat. §§ 181.961-181.966, and any other federal, state, or local law, rule, or regulation prohibiting employment discrimination or otherwise relating to employment; and any claims based upon any other theory, whether legal or equitable, arising from or related to any matter or fact arising out the events giving rise to this Second Release.

McRoberts also agrees and understands that he is giving up any and all other claims, whether grounded in contract or tort theories, including, but not limited to: wrongful discharge; breach of contract (including, without limitation, any claims for unpaid compensation); tortious interference with contractual relations; promissory estoppel; detrimental reliance; breach of the implied covenant of good faith and fair dealing; breach of express or implied promise; breach of manuals or other policies; breach of fiduciary duty; assault; battery; fraud; false imprisonment; invasion of privacy; intentional or negligent misrepresentation; defamation, including libel, slander, discharge defamation and self-publication defamation; discharge in violation of public policy; whistleblower; intentional or negligent infliction of emotional distress; and claims for punitive damages or attorneys' fees or any other theory, whether legal or equitable.

Additionally, nothing in this Second Release purports to release or waive claims that may not be released or waived as a matter of law; claims based on events, occurrences, or omissions that occur after the date of the Second Release; or claims related to any already vested benefits under the terms of any of Deluxe's benefit plans. Similarly, nothing in this Second Release prevents McRoberts from challenging the validity of this agreement or from filing any non-legally waivable claim with the Equal Employment Opportunity Commission ("EEOC"), National Labor Relations Board ("NLRB") or comparable state or local agency or participating in any investigation or proceeding conducted by the EEOC, NLRB, or comparable state or local agency; however, McRoberts agrees and understands that the Second Release waives all claims and rights to monetary or other recovery for any legal claims to the fullest extent permitted by law.

This Second Release does not prohibit McRoberts from reporting possible violations of federal law or regulation to any governmental agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission ("SEC"), the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. Nothing in this Second Release requires McRoberts to seek prior authorization of Deluxe to make any such reports or disclosures and McRoberts does not need and is not required to notify Deluxe that he has made any such reports or disclosures. This Second Release is not intended to and does not restrict McRoberts from seeking or obtaining an SEC whistleblower award.

Finally, McRoberts understands that under the U.S. Defend Trade Secrets Act of 2016, he will not be held criminally or civilly liable under any U.S. federal or state trade secret law for the disclosure of a trade secret that is made in confidence to government officials, either directly or indirectly, or to an attorney, in each case solely for the purpose of reporting or investigating a suspected violation of law, or in a complaint or other document filed in a lawsuit or other proceeding, provided such filing is made under seal. McRoberts hereby represents that he is not aware of any violation of law as outlined in this Section.

2. Consideration Period and Advice to Consult with Counsel. McRoberts is hereby informed that he has a period of twenty-one (21) days from McRoberts's date of receipt to sign this Second Release, during which time McRoberts may consult with an attorney and consider whether to sign Second Release. Changes to this Second Release, whether material or immaterial, will not restart the running of this twenty-one (21) day acceptance period. During this time, Deluxe advises and encourages McRoberts to consult with an attorney of his choice. To receive the consideration provided for in the Separation Agreement, McRoberts must return a signed and dated original copy of this Second Release to: Jeffrey L. Cotter, Chief Administrative Officer, General Counsel and Senior Vice President, Deluxe Corporation, 3680 Victoria Street North, Shoreview, MN 55126.

3. Right to Revoke and Rescind. McRoberts is hereby informed of his right to revoke this Second Release as far as it extends to potential claims under the Age Discrimination in Employment Act ("ADEA"), 29 U.S.C. §§ 621 *et seq.*, by written notice to Deluxe within seven (7) calendar days following McRoberts's execution of this Second Release. McRoberts is also informed of his right to rescind his release of claims, insofar as it extends to potential claims under the Minnesota Human Rights Act ("MHRA"), by informing Deluxe of McRoberts's intent to do so within fifteen (15) calendar days following his signing of this Second Release. Any such revocation or rescission must be made in writing and delivered by hand or by certified mail, return receipt requested, postmarked on or before the last day of the applicable revocation or rescission period to the representative identified in Section 2.

If McRoberts exercises his right to revoke or rescind his release of claims under the MHRA or ADEA, Deluxe may, at its option, either nullify the Separation Agreement in its entirety, or keep it in effect in all

respects other than as to that portion of the release of claims that McRoberts has revoked or rescinded. McRoberts agrees and understands that if Deluxe chooses to nullify the Separation Agreement in its entirety, Deluxe will have no obligations under the Separation Agreement, Severance Agreement between McRoberts and Deluxe dated May 19, 2008, or the letter agreement between McRoberts and Deluxe dated April 30, 2018.

4. McRoberts Representation. MCROBERTS AFFIRMS THAT HE HAS READ THIS SECOND RELEASE. MCROBERTS ACKNOWLEDGES THAT HE WAS PROVIDED WITH A REASONABLE AND SUFFICIENT PERIOD OF TIME TO CONSIDER WHETHER TO SIGN THIS SECOND RELEASE PRIOR TO SIGNING IT. MCROBERTS AGREES THAT THE PROVISIONS OF THIS SECOND RELEASE ARE UNDERSTANDABLE TO HIM, THAT HE HAS ENTERED INTO THIS SECOND RELEASE FREELY AND VOLUNTARILY, AND THAT HE HEREBY WAS ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS SECOND RELEASE.

***Do not sign before December 31, 2019.***

Dated: _________

_________________________________

Malcolm McRoberts

**EXHIBIT B**

Exhibit 31.1

**CEO CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry C. McCarthy, President and Chief Executive Officer of Deluxe Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Deluxe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2019

/s/ Barry C. McCarthy

Barry C. McCarthy
President and Chief Executive Officer

Exhibit 31.2

**CFO CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Keith A. Bush, Chief Financial Officer of Deluxe Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Deluxe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2019

/s/ Keith A. Bush

Keith A. Bush
Senior Vice President, Chief Financial Officer

Exhibit 32.1

**CEO AND CFO CERTIFICATION OF PERIODIC REPORT**

We, Barry C. McCarthy, President and Chief Executive Officer of Deluxe Corporation (the "Company"), and Keith A. Bush, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2019

/s/ Barry C. McCarthy

Barry C. McCarthy
President and Chief Executive Officer

/s/ Keith A. Bush

Keith A. Bush
Senior Vice President, Chief Financial Officer