

DELUXE CORP
Form 10-Q
May 01, 2015

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2015

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

For the transition period from _____ to _____

Commission file number: 1-7945

DELUXE CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0216800

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

3680 Victoria St. N., Shoreview, Minnesota

55126-2966

(Address of principal executive offices)

(Zip Code)

(651) 483-7111

(Registrant's telephone number, including area code)

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

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at April 20, 2015 was 49,930,204.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

DELUXE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share par value)

(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$58,319	\$61,541
Trade accounts receivable (net of allowances for uncollectible accounts of \$4,508 and \$4,335, respectively)	94,361	113,656
Inventories and supplies	38,100	39,411
Deferred income taxes	10,295	10,159
Funds held for customers	50,038	43,604
Other current assets	43,831	50,519
Total current assets	294,944	318,890
Deferred income taxes	1,291	1,411
Long-term investments (including \$2,144 and \$2,384 of investments at fair value, respectively)	46,137	46,451
Property, plant and equipment (net of accumulated depreciation of \$346,279 and \$348,530, respectively)	85,258	87,623
Assets held for sale	26,916	26,819
Intangibles (net of accumulated amortization of \$397,142 and \$388,308, respectively)	210,255	207,180
Goodwill	879,258	868,376
Other non-current assets	121,581	131,641
Total assets	\$1,665,640	\$1,688,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$75,227	\$87,216
Accrued liabilities	220,889	219,121
Short-term borrowings	318,000	160,000
Long-term debt due within one year	1,013	911
Total current liabilities	615,129	467,248
Long-term debt	196,434	393,401
Deferred income taxes	94,836	95,838
Other non-current liabilities	79,495	84,407
Commitments and contingencies (Notes 12 and 13)		
Shareholders' equity:		
Common shares \$1 par value (authorized: 500,000 shares; outstanding: 2015 – 49,929; 2014 – 49,742)	49,929	49,742
Additional paid-in capital	11,648	4,758
Retained earnings	660,264	629,335
Accumulated other comprehensive loss	(42,095) (36,338
Total shareholders' equity	679,746	647,497
Total liabilities and shareholders' equity	\$1,665,640	\$1,688,391

See Condensed Notes to Unaudited Consolidated Financial Statements

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

	Quarter Ended	
	March 31,	
	2015	2014
Product revenue	\$355,013	\$345,664
Service revenue	78,604	61,291
Total revenue	433,617	406,955
Cost of products	(123,739)	(118,386)
Cost of services	(28,942)	(26,542)
Total cost of revenue	(152,681)	(144,928)
Gross profit	280,936	262,027
Selling, general and administrative expense	(195,378)	(177,931)
Net restructuring charges	(267)	(3,300)
Operating income	85,291	80,796
Loss on early debt extinguishment	(8,917)	—
Interest expense	(6,515)	(9,567)
Other income	430	131
Income before income taxes	70,289	71,360
Income tax provision	(24,349)	(24,036)
Net income	\$45,940	\$47,324
Comprehensive income	\$40,183	\$45,455
Basic earnings per share	0.92	0.94
Diluted earnings per share	0.91	0.93
Cash dividends per share	0.30	0.25

See Condensed Notes to Unaudited Consolidated Financial Statements

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

	Common shares	Common shares par value	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2014	49,742	\$49,742	\$4,758	\$629,335	\$(36,338)) \$647,497
Net income	—	—	—	45,940	—	45,940
Cash dividends	—	—	—	(15,011)	—	(15,011)
Common shares issued	204	204	4,032	—	—	4,236
Tax impact of share-based awards	—	—	1,096	—	—	1,096
Common shares retired	(17)	(17)	(1,093)	—	—	(1,110)
Fair value of share-based compensation	—	—	2,855	—	—	2,855
Other comprehensive loss	—	—	—	—	(5,757)	(5,757)
Balance, March 31, 2015	49,929	\$49,929	\$11,648	\$660,264	\$(42,095)) \$679,746

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Quarter Ended	
	March 31,	2014
	2015	
Cash flows from operating activities:		
Net income	\$45,940	\$47,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,933	4,241
Amortization of intangibles	13,750	12,024
Amortization of contract acquisition costs	4,831	4,261
Deferred income taxes	(1,215)	(594)
Employee share-based compensation expense	3,155	1,908
Loss on early debt extinguishment	8,917	—
Other non-cash items, net	808	2,336
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	16,395	8,926
Inventories and supplies	1,409	(585)
Other current assets	5,082	(1,703)
Non-current assets	1,215	(860)
Accounts payable	(10,851)	(2,169)
Contract acquisition payments	(2,947)	(1,355)
Other accrued and non-current liabilities	(12,719)	(415)
Net cash provided by operating activities	77,703	73,339
Cash flows from investing activities:		
Purchases of capital assets	(9,512)	(10,950)
Payments for acquisitions, net of cash acquired	(7,584)	(2,866)
Other	463	806
Net cash used by investing activities	(16,633)	(13,010)
Cash flows from financing activities:		
Net proceeds (payments) from short-term borrowings	158,000	(125)
Payments on long-term debt, including costs of debt reacquisition	(207,242)	(203)
Payments for debt issue costs	(97)	(939)
Proceeds from issuing shares under employee plans	3,389	5,376
Excess tax benefit from share-based employee awards	1,260	1,401
Payments for common shares repurchased	—	(31,930)
Cash dividends paid to shareholders	(15,011)	(12,644)
Other	(150)	—
Net cash used by financing activities	(59,851)	(39,064)
Effect of exchange rate change on cash	(4,441)	(1,739)
Net change in cash and cash equivalents	(3,222)	19,526
Cash and cash equivalents, beginning of year	61,541	121,089
Cash and cash equivalents, end of period	\$58,319	\$140,615

See Condensed Notes to Unaudited Consolidated Financial Statements

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

Note 1: Consolidated financial statements

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

Note 2: New accounting pronouncements

Recently adopted accounting pronouncements – In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard changes the criteria for determining which disposals should be presented as discontinued operations and modifies the related disclosure requirements. We adopted the new guidance on January 1, 2015, and it is applied prospectively. As such, we will apply this standard to any new disposals or new classifications of disposal groups as held for sale which occur on or after January 1, 2015.

Accounting pronouncements not yet adopted – In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The new standard provides revenue recognition guidance for any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other accounting standards. The new standard also expands the required financial statement disclosures regarding revenue recognition. The new guidance is effective for us on January 1, 2017, although the FASB has voted to propose a deferral of the effective date of the standard for one year. We are currently assessing the impact of this new standard on our consolidated financial statements, as well as the method of transition that we will use in adopting the new standard.

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

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

sheet as a direct reduction from the carrying amount of the debt liability. The new guidance is effective for us on January 1, 2016. As of March 31, 2015, we had debt issuance costs of \$2,593 related to long-term debt and \$1,804 related to short-term borrowings.

Note 3: Supplemental balance sheet information

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

(in thousands)	March 31, 2015	December 31, 2014
Raw materials	\$5,674	\$5,899
Semi-finished goods	8,535	8,990
Finished goods	20,627	21,298
Supplies	3,264	3,224
Inventories and supplies	\$38,100	\$39,411

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

(in thousands)	March 31, 2015			Fair value
	Cost	Gross unrealized gains	Gross unrealized losses	
Canadian and provincial government securities	\$8,526	\$21	\$—	\$8,547
Canadian guaranteed investment certificate	7,883	—	—	7,883
Available-for-sale securities (funds held for customers) ⁽¹⁾	16,409	21	—	