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DELUXE CORP

Form 10-Q

May 03, 2019

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2019-01-01 2019-03-31 0000027996 dlx:MarketingsolutionsandotherservicesMember
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us-gaap:OperatingSegmentsMember dlx:DatadrivenmarketingsolutionsMember dlx:DirectChecksMember 2018-01-01
2018-03-31 dlx:disposal_groups iso4217:USD xbrli:shares dlx:Employees dlx:business xbrli:shares iso4217:USD
xbrli:pure

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, 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)

Minnesota

(State or other jurisdiction of incorporation or organization)

3680 Victoria St. N., Shoreview, Minnesota

(Address of principal executive offices)

41-0216800

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

55126-2966

(Zip Code)

(651) 483-7111

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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

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

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	DLX	New York Stock Exchange

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, as of April 23, 2019 was 43,638,328.

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.****DELUXE CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share par value)

(Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$61,529	\$ 59,740
Trade accounts receivable, net of allowances for uncollectible accounts	156,840	173,862
Inventories and supplies	45,052	46,441
Funds held for customers	92,954	100,982
Revenue in excess of billings	33,911	30,458
Other current assets	40,862	38,563
Total current assets	431,148	450,046
Deferred income taxes	4,102	2,886
Long-term investments	44,422	43,773
Property, plant and equipment (net of accumulated depreciation of \$371,323 and \$367,205, respectively)	89,926	90,342
Operating lease assets	48,494	—
Intangibles (net of accumulated amortization of \$563,511 and \$535,627, respectively)	339,639	359,965
Goodwill	1,160,821	1,160,626
Assets held for sale	1,350	1,350
Other non-current assets	202,509	196,108
Total assets	\$2,322,411	\$ 2,305,096
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$91,781	\$ 106,978
Accrued liabilities	264,668	284,281
Long-term debt due within one year	—	791
Total current liabilities	356,449	392,050
Long-term debt	946,000	911,073
Operating lease liabilities	36,087	—
Deferred income taxes	49,567	46,680
Other non-current liabilities	36,745	39,880
Commitments and contingencies (Notes 13 and 14)		
Shareholders' equity:		
Common shares \$1 par value (authorized: 500,000 shares; outstanding: March 31, 2019 – 43,638; December 31, 2018 – 44,647)	43,638	44,647
Retained earnings	908,614	927,345
Accumulated other comprehensive loss	(54,689) (56,579)
Total shareholders' equity	897,563	915,413
Total liabilities and shareholders' equity	\$2,322,411	\$ 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	
	March 31,	
	2019	2018
Product revenue	\$350,519	\$363,407
Service revenue	148,546	128,507
Total revenue	499,065	491,914
Cost of products	(131,263)	(133,371)
Cost of services	(68,360)	(55,387)
Total cost of revenue	(199,623)	(188,758)
Gross profit	299,442	303,156
Selling, general and administrative expense	(230,177)	(211,154)
Restructuring and integration expense	(5,492)	(2,145)
Asset impairment charges	—	(2,149)
Operating income	63,773	87,708
Interest expense	(9,301)	(5,579)
Other income	1,766	1,289
Income before income taxes	56,238	83,418
Income tax provision	(15,048)	(20,082)
Net income	\$41,190	\$63,336
Comprehensive income	\$43,080	\$61,565
Basic earnings per share	0.93	1.32
Diluted earnings per share	0.93	1.31

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, December 31, 2018	44,647	\$44,647	\$ —	\$927,345	\$ (56,579)	\$915,413
Net income	—	—	—	41,190	—	41,190
Cash dividends (\$0.30 per share)	—	—	—	(13,170)	—	(13,170)
Common shares issued	86	86	1,862	—	—	1,948
Common shares repurchased	(1,038)	(1,038)	(2,478)	(46,484)	—	(50,000)
Other common shares retired	(57)	(57)	(2,615)	—	—	(2,672)
Employee share-based compensation	—	—	3,231	—	—	3,231
Adoption of Accounting Standards Update No. 2016-02 (Note 2)	—	—	—	(267)	—	(267)
Other comprehensive income	—	—	—	—	1,890	1,890
Balance, March 31, 2019	43,638	\$43,638	\$ —	\$908,614	\$ (54,689)	\$897,563

	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	—	—	—	63,336	—	63,336
Cash dividends (\$0.30 per share)	—	—	—	(14,417)	—	(14,417)
Common shares issued	249	249	7,457	—	—	7,706
Common shares repurchased	(278)	(278)	(4,373)	(15,345)	—	(19,996)
Other common shares retired	(83)	(83)	(6,046)	—	—	(6,129)
Employee share-based compensation	—	—	2,962	—	—	2,962
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	—	—	—	—	(1,771)	(1,771)
Balance, March 31, 2018	47,841	\$47,841	\$ —	\$1,050,064	\$ (46,235)	\$1,051,670

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

Quarter Ended

March 31,

2019 2018

Cash		
flows		
from		
operating		
activities:		
Net		
income	\$41,190	\$63,336
Adjustments		
to		
reconcile		
net		
income		
to		
net		
cash		
provided		
by		
operating		
activities:		
Depreciation	3,675	3,745
Amortization		
of	18,174	27,466
intangibles		
Amortization		
of	4,630	—
leasing		
lease		
assets		
Asset		
impairment	2,149	
charges		
Amortization		
of	1,757	5,408
prepaid		
product		
discounts		
Deferred		
income	640	(233)
taxes		
Employee		
share-based		
compensation	3,760	2,962
expense		

Loss	
(gain)	
on	
sales	
of	(7,228)
businesses	
and	
customer	
lists	
Other	
non-cash	1,361
items,	
net	
Changes	
in	
assets	
and	
liabilities,	
net	
of	
effect	
of	
acquisitions:	
Trade	
receivables	12,763
Inventories	
and	(189)
supplies	
Other	
assets	(3,536)
Non-current	
assets	(2,444)
Accounts	
payable	(3,789)
Prepaid	
product	
discount	(5,364)
payments	
Other	
accrued	
liabilities	(15,549)
Net	
cash	
provided	80,788
by	
operating	
activities	

Cash
 flows
 from
 investing
 activities:
 Purchases
 of
 (14,619) (14,034)
 capital
 assets
 Payments
 for
 acquisitions,
 net
 (44) (52,369)
 of
 cash
 acquired
 Purchases
 of
 customer
 (42) (46)
 funds
 marketable
 securities
 Proceeds
 from
 customer
 42 46
 funds
 marketable
 securities
 Other
 (36) (450)
 Net
 cash
 used
 (14,827) (66,853)
 by
 investing
 activities
 Cash
 flows
 from
 financing
 activities:
 Proceeds
 from
 issuing
 82,500 824,625
 long-term
 debt
 Payments
 on
 (46,500) (792,200)
 long-term
 debt
 Net
 (908) 10,293
 change

in
 customer
 funds
 obligations
 Proceeds
 from
 issuing
~~shares~~ 5,169
 under
 employee
 plans
 Employee
 taxes
 paid
 (2,672) (4,557)
 for
 shares
 withheld
 Payments
 for
~~(50,000)~~ (19,996)
 shares
 repurchased
 Cash
 dividends
 paid, 1,118) (14,393)
 to
 shareholders
~~Other~~ (257) (3,205)
 Net
 cash
 (used)
~~(39,407)~~ (6,759) 5,736
 by
 financing
 activities
 Effect
 of
 exchange
 rate
 change
 on
 cash,
~~2,076~~ (2,011)
 equivalents,
 restricted
 cash
 and
 restricted
 cash
 equivalents
 (6,759) 17,660

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

Note 1: Consolidated financial statements

The consolidated balance sheet as of March 31, 2019, the consolidated statements of comprehensive income for the quarters ended March 31, 2019 and 2018, the consolidated statements of shareholders' equity for the quarters ended March 31, 2019 and 2018, and the consolidated statements of cash flows for the quarters ended March 31, 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 quarter ended March 31, 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 quarter ended March 31, 2018 was as follows:

(in thousands)	Previously reported	Adjustment	Revised
Purchases of customer funds marketable securities	\$—	\$ (46)	\$(46)

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Proceeds from customer funds marketable securities	—	46	46
Net cash used by investing activities	(66,853)	—	(66,853)
Net change in customer funds obligations	—	10,293	10,293
Net cash (used) provided by financing activities	(4,557)	10,293	5,736
Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted cash equivalents	(890)	(1,121)	(2,011)
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	8,488	9,172	17,660
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	\$ 67,728	\$ 78,751	\$ 146,479

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

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 ASU No. 2016-02: ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which amends narrow aspects of the guidance in ASU No. 2016-02, and ASU No. 2018-11, *Targeted Improvements*, which provides 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 addresses 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 have to 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 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 in our consolidated balance sheet. Finance leases are included in property, plant and equipment, accrued liabilities and other non-current liabilities in 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. 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. 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.

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

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 separately, 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 quarters ended March 31, 2019 and 2018 were as follows:

	Quarter Ended	
	March 31,	
(in thousands)	2019	2018
Balance, beginning of year	\$3,639	\$2,884
Bad debt expense	1,248	875
Write-offs, net of recoveries	(423)	(905)
Balance, end of period	\$4,464	\$2,854

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

	March 31, December 31,	
(in thousands)	2019	2018
Raw materials	\$ 7,818	\$ 7,543
Semi-finished goods	7,496	7,273
Finished goods	25,767	27,608
Supplies	3,971	4,017
Inventories and supplies	\$ 45,052	\$ 46,441

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

	March 31, 2019			
(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	8,711	—	(219)	8,492
Canadian guaranteed investment certificates	7,491	—	—	7,491
Available-for-sale debt securities	\$32,202	\$ —	—\$ (219)	\$31,983

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⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of March 31, 2019, also included cash of \$60,971.

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(in thousands)	December 31, 2018			
	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 March 31, 2019 were as follows:

(in thousands)	Fair value
Due in one year or less	\$25,614
Due in two to five years	4,102
Due in six to ten years	2,267
Available-for-sale debt securities	\$31,983

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)	March 31, 2019	December 31, 2018
Conditional right to receive consideration	\$20,364	\$ 19,705
Unconditional right to receive consideration	13,547	10,753
Revenue in excess of billings	\$33,911	\$ 30,458

Assets held for sale – During the quarter ended March 31, 2018, we sold the assets of 2 small business distributors. We determined that these businesses would be better positioned for long-term growth if they were managed by independent distributors. Subsequent to the sales, the businesses 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 \$7,228 for the quarter ended March 31, 2018.

Assets held for sale as of March 31, 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.

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Intangibles – Intangibles were comprised of the following:

(in thousands)	March 31, 2019			December 31, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangibles:						
Internal-use software	\$ 397,667	\$ (318,273)	\$ 79,394	\$ 388,477	\$ (308,313)	\$ 80,164
Customer lists/relationships	377,877	(184,144)	193,733	379,570	(170,973)	208,597
Trade names	50,706	(27,923)	22,783	50,645	(26,204)	24,441
Technology-based intangibles	39,300	(15,984)	23,316	39,300	(14,007)	25,293
Software to be sold	36,900	(16,487)	20,413	36,900	(15,430)	21,470
Other	700	(700)	—	700	(700)	—
Intangibles	\$ 903,150	\$ (563,511)	\$ 339,639	\$ 895,592	\$ (535,627)	\$ 359,965

During the quarter ended March 31, 2019, we purchased internal-use software of \$9,018, with a weighted-average amortization period of 3 years. Amortization of intangibles was \$28,174 for the quarter ended March 31, 2019 and \$27,466 for the quarter ended March 31, 2018. Based on the intangibles in service as of March 31, 2019, estimated future amortization expense is as follows:

(in thousands)	Estimated amortization expense
Remainder of 2019	\$ 64,770
2020	73,171
2021	56,320
2022	40,094
2023	29,628

Goodwill – Changes in goodwill during the quarter ended March 31, 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
Currency translation adjustment	195	—	—	195
Balance, March 31, 2019:				
Goodwill, gross	765,461	373,421	148,506	1,287,388
Accumulated impairment charges	(126,567)	—	—	(126,567)
Goodwill, net of accumulated impairment charges	\$ 638,894	\$ 373,421	\$ 148,506	\$ 1,160,821

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

(in thousands)	March 31, December 31,	
	2019	2018
Loans and notes receivable from Safeguard distributors	\$ 79,191	\$ 78,693
Prepaid product discounts	58,237	54,642
Postretirement benefit plan asset	43,165	41,259
Deferred sales commissions ⁽¹⁾	7,454	6,482
Deferred advertising costs	5,009	5,746
Other	9,453	9,286
Other non-current assets	\$ 202,509	\$ 196,108

⁽¹⁾ Amortization of deferred sales commissions was \$697 for the quarter ended March 31, 2019 and \$694 for the quarter ended March 31, 2018.

Changes in prepaid product discounts during the quarters ended March 31, 2019 and 2018 were as follows:

(in thousands)	Quarter Ended	
	March 31,	
	2019	2018
Balance, beginning of year	\$54,642	\$63,895
Additions ⁽¹⁾	9,553	7,492
Amortization	(5,757)	(5,408)
Other	(201)	(25)
Balance, end of period	\$58,237	\$65,954

⁽¹⁾ Prepaid product discounts are generally accrued upon contract execution. Cash payments for prepaid product discounts were \$9,189 for the quarter ended March 31, 2019 and \$5,364 for the quarter ended March 31, 2018.

Accrued liabilities – Accrued liabilities were comprised of the following:

(in thousands)	March 31, December 31,	
	2019	2018
Funds held for customers	\$ 91,552	\$ 99,818
Deferred revenue ⁽¹⁾	49,428	54,313
Employee profit sharing/cash bonus	14,442	31,286
Operating lease liabilities	13,008	—
Prepaid product discounts due within one year	12,244	10,926
Customer rebates	8,725	9,555
Restructuring and integration (Note 8)	3,687	3,320
Other	71,582	75,063
Accrued liabilities	\$ 264,668	\$ 284,281

⁽¹⁾ \$23,225 of the December 31, 2018 amount was recognized as revenue during the quarter ended March 31, 2019.

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

(in thousands)	March 31, December 31,	
	2019	2018
Prepaid product discounts	\$ 11,358	\$ 12,513
Other	25,387	27,367

Other non-current liabilities \$ 36,745 \$ 39,880

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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)	March 31,	March 31,
	2019	2018
Cash and cash equivalents	\$ 61,529	\$ 67,728
Restricted cash and restricted cash equivalents included in funds held for customers	76,971	78,751
Total cash, cash equivalents, restricted cash and restricted cash equivalents	\$ 138,500	\$ 146,479

Note 4: Earnings per share

The following table reflects the calculation of basic and diluted earnings per share. During each period, certain stock options, as noted below, were excluded from the calculation of diluted earnings per share because their effect would have been antidilutive.

(in thousands, except per share amounts)	Quarter Ended	
	March 31,	
	2019	2018
Earnings per share – basic:		
Net income	\$41,190	\$63,336
Income allocated to participating securities	(110)	(286)
Income available to common shareholders	\$41,080	\$63,050
Weighted-average shares outstanding	43,965	47,755
Earnings per share – basic	\$0.93	\$1.32
Earnings per share – diluted:		
Net income	\$41,190	\$63,336
Income allocated to participating securities	(65)	(285)
Re-measurement of share-based awards classified as liabilities	—	(85)
Income available to common shareholders	\$41,125	\$62,966
Weighted-average shares outstanding	43,965	47,755
Dilutive impact of potential common shares	100	262
Weighted-average shares and potential common shares outstanding	44,065	48,017
Earnings per share – diluted	\$0.93	\$1.31
Antidilutive options excluded from calculation	1,097	521

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Note 5: Other comprehensive income

Reclassification adjustments – Information regarding amounts reclassified from accumulated other comprehensive loss to net income was as follows:

Accumulated other comprehensive loss components	Amounts reclassified from accumulated other comprehensive loss Quarter Ended March 31,		Affected line item in consolidated statements of comprehensive income
(in thousands)	2019	2018	
Amortization of postretirement benefit plan items:			
Prior service credit	\$ 355	\$ 355	Other income
Net actuarial loss	(806)	(721)	Other income
Total amortization	(451)	(366)	Other income
Tax benefit	70	356	Income tax provision
Total reclassifications, net of tax	\$(381)	\$(10)	Net income

Accumulated other comprehensive loss – Changes in the components of accumulated other comprehensive loss during the quarter ended March 31, 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	—	107	1,402	1,509
Amounts reclassified from accumulated other comprehensive loss	381	—	—	381
Net current-period other comprehensive income	381	107	1,402	1,890
Balance, March 31, 2019	\$ (36,148)	\$ (216)	\$ (18,325)	\$ (54,689)

⁽¹⁾ Other comprehensive income before reclassifications is net of income tax expense of \$37.

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Note 6: Acquisitions

We periodically complete business combinations that align with our business strategy. The assets and liabilities acquired are recorded at their estimated fair values, and the results of operations of each acquired business are included in our consolidated statements of comprehensive income from their acquisition dates. Transaction costs related to acquisitions are expensed as incurred and are included in SG&A expense in the consolidated statements of comprehensive income. Transaction costs were not significant to our consolidated statements of comprehensive income for the quarters ended March 31, 2019 and 2018.

We did not complete any acquisitions during the quarter ended March 31, 2019. Payments for acquisitions, net of cash acquired, for the quarter ended March 31, 2019 were \$444 and related to holdback payments for prior year acquisitions. During the quarter ended March 31, 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 also acquired the operations of 2 small business distributors. Payments for acquisitions, net of cash acquired, for the quarter ended March 31, 2018, included payments of \$51,815 for these acquisitions and \$554 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 March 31, 2019, purchase accounting for the 2018 acquisitions of Velocity Servers, Inc., REMITCO LLC and My Corporation Business Services, Inc. was not finalized. We expect to finalize purchase accounting for Velocity Servers, Inc. and REMITCO LLC by mid-2019 when our valuation of the acquired intangible assets of Velocity Servers, Inc. is complete and the purchase price for REMITCO LLC is finalized. We expect to finalize purchase accounting for My Corporation Business Services, Inc. by the end of 2019, when our valuation of the acquired intangible assets and various other assets and liabilities is complete. No significant measurement-period adjustments related to these acquisitions were recorded during the quarter ended March 31, 2019.

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 in the consolidated statements of comprehensive income and were not significant for the quarters ended March 31, 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 in the consolidated statements of comprehensive income. Changes in fair value resulting from accretion for the passage of time are included in interest expense in the consolidated statements of comprehensive income.

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Changes in accrued contingent consideration during the quarter ended March 31, 2019 were as follows:

(in thousands)	Quarter Ended March 31, 2019
Balance, December 31, 2018	\$2,396
Change in fair value	128
Payments	(1,284)
Balance, March 31, 2019	\$1,240

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

(in thousands)	March 31, 2019		Fair value measurements using Quoted prices in Significant active markets for inputs identical assets (Level 1) (Level 2) (Level 3)	
	Carrying value	Fair value	other observable inputs	Significant unobservable inputs
Measured at fair value through net income:				
Accrued contingent consideration	\$(1,240)	\$(1,240)	\$—	—\$ (1,240)
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)	15,983	15,983	— 15,983	—
Amortized cost:				
Cash	61,529	61,529	61,529	—
Cash (funds held for customers)	60,971	60,971	60,971	—
Loans and notes receivable from Safeguard distributors	82,382	64,382	—	64,382
Long-term debt	946,000	946,000	— 946,000	—

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	December 31, 2018		Fair value measurements using Quoted prices in Significant markets for identical assets (Level 1) Other observable inputs (Level 2) Significant unobservable inputs (Level 3)	
(in thousands)	Carrying value	Fair value	(Level 1)	(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 for each period consisted of the following components:

	Quarter Ended March 31,	
(in thousands, except number of employees)	2019	2018
Severance accruals	\$2,233	\$844
Severance reversals	(169)	(135)
Net accruals	2,064	709
Other costs	4,219	1,613
Restructuring and integration expense	\$6,283	\$2,322
Number of employees included in severance accruals	50	25

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

	Quarter Ended March 31,	
(in thousands)	2019	2018
Total cost of revenue	\$791	\$177
Operating expenses	5,492	2,145
Restructuring and integration expense	\$6,283	\$2,322

During the quarters ended March 31, 2019 and 2018, the net accruals included severance charges related to employee reductions across functional areas as we continued to reduce costs, primarily within our sales, marketing and fulfillment functions, as well as employee reductions related to our integration initiatives. These charges were reduced by the reversal of accruals recorded in previous periods when fewer employees received severance benefits than originally estimated. Other

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restructuring and integration costs, which were expensed as incurred, included items such as information technology costs, labor costs, employee and equipment moves, training and travel. During 2019, these costs related primarily to the integration of acquired businesses and the consolidation of information technology systems.

Restructuring and integration accruals of \$3,687 as of March 31, 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 employee reductions are expected to be completed by mid-2019, and we expect most of the related severance payments to be paid by the end of 2019, utilizing cash from operations. As of March 31, 2019, approximately 35 employees had not yet started to receive severance benefits.

Restructuring and integration accruals, summarized by year, were as follows:

(in thousands)	2019	2018	2017	Total
	initiatives	initiatives	initiatives	
Balance, December 31, 2018	\$ —	\$ 3,448	\$ 13	\$3,461
Charges	2,227	6	—	2,233
Reversals	—	(156)	(13)	(169)
Payments	(122)	(1,434)	—	(1,556)
Adoption of ASU No. 2016-02 ⁽¹⁾	—	(282)	—	(282)
Balance, March 31, 2019	\$ 2,105	\$ 1,582	\$ —	\$3,687
Cumulative amounts:				
Charges	\$ 2,227	\$ 8,142	\$ 7,355	\$17,724
Reversals	—	(1,568)	(726)	(2,294)
Payments	(122)	(4,710)	(6,629)	(11,461)
Adoption of ASU No. 2016-02 ⁽¹⁾	—	(282)	—	(282)
Balance, March 31, 2019	\$ 2,105	\$ 1,582	\$ —	\$3,687

⁽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.

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

(in thousands)	Employee severance benefits				Operating lease obligations		Total
	Small Business Services	Financial Services	Direct Checks	Corporate ⁽¹⁾	Small Business Services	Financial Services	
Balance, December 31, 2018	\$1,326	\$1,397	\$ —	\$ 456	\$282	\$ —	\$3,461
Charges	187	1,269	50	727	—	—	2,233
Reversals	(16)	(70)	—	(83)	—	—	(169)
Payments	(704)	(726)	—	(126)	—	—	(1,556)
Adoption of ASU No. 2016-02 ⁽²⁾	—	—	—	—	(282)	—	(282)
Balance, March 31, 2019	\$793	\$1,870	\$ 50	\$ 974	\$—	\$ —	\$3,687
Cumulative amounts: ⁽³⁾							
Charges	\$4,726	\$7,435	\$ 193	\$ 4,750	\$329	\$ 291	\$17,724
Reversals	(620)	(1,277)	(5)	(321)	—	(71)	(2,294)
Payments	(3,313)	(4,288)	(138)	(3,455)	(47)	(220)	(11,461)
Adoption of ASU No. 2016-02 ⁽²⁾	—	—	—	—	(282)	—	(282)
Balance, March 31, 2019	\$793	\$1,870	\$ 50	\$ 974	\$—	\$ —	\$3,687

⁽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 the retention expense, we incurred certain other costs related to the CEO transition process during the quarter ended March 31, 2019, including consulting fees related to the evaluation of our strategic plan. CEO transition costs of \$5,488 are included in SG&A expense in the consolidated statement of comprehensive income for the quarter ended March 31, 2019. Accruals for CEO transition costs of \$3,939 as of March 31, 2019 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.

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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:

	Quarter		Year	
	Ended		Ended	
	March		December	
	31,		31, 2018	
	2019			
Income tax at federal statutory rate	21.0	%	21.0	%
Goodwill impairment charge	—		7.1	%
State income tax, net of federal income tax benefit	3.4	%	3.0	%
Net tax impact of share-based compensation	1.6	%	(0.8)	%
Impact of Tax Cuts and Jobs Act	—		(0.8)	%
Other	0.8	%	0.1	%
Effective tax rate	26.8	%	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	
	March 31,	
	2019	2018
(in thousands)		
Interest cost	\$682	\$656
Expected return on plan assets	(1,740)	(1,934)
Amortization of prior service credit	(355)	(355)
Amortization of net actuarial losses	806	721
Net periodic benefit income	\$(607)	\$(912)

Note 12: Debt

Debt outstanding was comprised of the following:

	March 31, December 31,	
	2019	2018
(in thousands)		
Amount drawn on revolving credit facility	\$ 946,000	\$ 910,000
Capital lease obligations ⁽¹⁾	—	1,864
Long-term debt, principal amount	946,000	911,864
Less current portion of long-term debt	—	(791)

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Long-term debt	946,000	911,073
Current portion of capital lease obligations ⁽¹⁾	—	791
Long-term debt due within one year	—	791
Total debt	\$ 946,000	\$ 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.

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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 3.78% as of March 31, 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)	Quarter Ended March 31, 2019	Year Ended December 31, 2018
Revolving credit facility:		
Daily average amount outstanding	\$936,583	\$731,110
Weighted-average interest rate	3.76	% 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 March 31, 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	(946,000)
Outstanding letters of credit ⁽¹⁾	(5,868)
Net available for borrowing as of March 31, 2019	\$198,132

⁽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 10.5 years, with a weighted-average remaining term of 5.6 years as of March 31, 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 \$1,530 as of March 31, 2019 and the related lease liabilities were \$1,942. The lease obligations are due

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

Information regarding our operating leases was as follows:

(in thousands)	Quarter Ended March 31, 2019
Lease expense	\$4,465
Operating cash outflows	4,119
Lease assets obtained during the period in exchange for lease obligations	1,738
	March 31, 2019
Operating lease assets	\$48,494
Accrued liabilities	13,008
Operating lease liabilities	36,087
Total operating lease liabilities	\$49,095
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	\$ 11,030
2020	13,275
2021	9,438
2022	6,208
2023	3,628
Thereafter	11,328
Total lease payments	54,907
Less imputed interest	(5,812)
Present value of lease payments	\$ 49,095

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.

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Accruals for environmental matters were \$2,607 as of March 31, 2019 and \$2,755 as of December 31, 2018. These accruals are included in accrued liabilities and other non-current liabilities in the consolidated balance sheets. Accrued costs consist of direct costs of the remediation activities, primarily fees that will be paid to outside engineering and consulting firms. Although recorded accruals include our best estimates, our total costs cannot be predicted with certainty due to various factors, such as the extent of corrective action that may be required, evolving environmental laws and regulations and advances in environmental technology. Where the available information is sufficient to estimate the amount of the liability, that estimate is used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range is recorded. We do not believe that the range of possible outcomes could have a material effect on our financial condition, results of operations or liquidity. Environmental expense was not significant for the quarters ended March 31, 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 \$7,312 as of March 31, 2019 and \$6,627 as of December 31, 2018. These accruals are included in accrued liabilities and other non-current liabilities in 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 March 31, 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 ended March 31, 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, and 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 quarter ended March 31, 2019, we repurchased 1.0 million shares for \$50,000. As of March 31, 2019, \$370,000 remained available for repurchase under the current authorization.

Note 16: Business segment information

We currently operate 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

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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 financial 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.

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

(in thousands)	Quarter Ended March 31, 2019			
	Small Business Services	Financial Services	Direct Checks	Consolidated
Marketing solutions and other services:				
Small business marketing solutions	\$66,621	\$—	\$—	\$ 66,621
Treasury management solutions	—	45,471	—	45,471
Web services	43,604	—	—	43,604
Data-driven marketing solutions	—	36,784	—	36,784
Fraud, security, risk management and operational services	6,111	12,285	3,524	21,920
Total MOS	116,336	94,540	3,524	214,400
Checks	118,423	56,186	26,542	201,151
Forms, accessories and other products	78,299	3,634	1,581	83,514
Total revenue	\$313,058	\$154,360	\$31,647	\$ 499,065

(in thousands)	Quarter Ended March 31, 2018			
	Small Business Services	Financial Services	Direct Checks	Consolidated
Marketing solutions and other services:				
Small business marketing solutions	\$66,762	\$—	\$—	\$ 66,762
Treasury management solutions	—	29,200	—	29,200
Web services	37,376	—	—	37,376
Data-driven marketing solutions	—	37,140	—	37,140
Fraud, security, risk management and operational services	6,516	12,307	3,857	22,680
Total MOS	110,654	78,647	3,857	193,158
Checks	122,932	58,051	29,355	210,338
Forms, accessories and other products	82,727	3,943	1,748	88,418
Total revenue	\$316,313	\$140,641	\$34,960	\$ 491,914

Product revenue is recognized at a point in time. Total MOS revenue included product revenue of \$65,854 and service revenue of \$148,546 for the quarter ended March 31, 2019 and product revenue of \$64,651 and service revenue of \$128,507 for the quarter ended March 31, 2018. The majority of our service revenue is recognized over time as services are provided.

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 March 31, 2019:				
United States	\$288,208	\$150,050	\$31,647	\$469,905
Foreign, primarily Canada and Australia	24,850	4,310	—	29,160
Total revenue	\$313,058	\$154,360	\$31,647	