HEARTLAND PAYMENT SYSTEMS INC
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File No. 001-32594

HEARTLAND PAYMENT SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3755714 (I.R.S. Employer Identification Number)

90 Nassau Street, Princeton, New Jersey 08542
(Address of principal executive offices) (Zip Code)
(609) 683-3831
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES o 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 for such shorter period that the registrant was required to submit and post such files). x YES o 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of November 3, 2014, there were 36,220,616 shares of the registrant's Common Stock, $0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Condensed Financial Statements
Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$94,577	$71,932
Funds held for customers	122,311	127,375
Receivables, net	220,936	200,040
Investments	4,110	4,101
Inventory	11,445	11,087
Prepaid expenses	19,451	15,284
Current tax assets	5,139	10,426
Current deferred tax assets, net	7,725	9,548
Total current assets	485,694	449,793
Capitalized customer acquisition costs, net	68,967	61,027
Property and equipment, net	162,707	147,388
Goodwill	424,270	190,978
Intangible assets, net	193,790	49,857
Deposits and other assets, net	1,336	1,262
Total assets	$1,336,764	$900,305
Liabilities and Equity		
Current liabilities:		
Due to sponsor banks	$41,183	$19,109
Accounts payable	60,729	70,814
Customer fund deposits	122,311	127,375
Processing liabilities	104,856	130,871
Current portion of accrued buyout liability	14,457	13,943
Current portion of borrowings	18,750	—
Current portion of unearned revenue	40,551	18,172
Accrued expenses and other liabilities	25,928	31,689
Total current liabilities	428,765	411,973
Deferred tax liabilities, net	45,039	40,600
Reserve for unrecognized tax benefits	6,769	5,633
Long-term borrowings	553,750	150,000
Long-term portion of accrued buyout liability	30,500	25,436
Long-term portion of unearned revenue	2,104	—
Total liabilities	1,066,927	633,642
Commitments and contingencies (Note 11)		
Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 36,179,147 and 37,485,486 shares issued at September 30, 2014 and December 31, 2013; 36,179,147	36	37

and 36,950,886 outstanding at September 30, 2014 and December 31, 2013		
Additional paid-in capital	252,127	245,055
Accumulated other comprehensive loss	(112)	(88)
Retained earnings	17,786	35,960
Treasury stock, at cost (534,600 shares at December 31, 2013)	—	(20,489)
Total stockholders’ equity	269,837	260,475
Noncontrolling interests	—	6,188
Total equity	269,837	266,663
Total liabilities and equity	$1,336,764	$900,305

See accompanying notes to condensed consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30	
	2014	2013	2014	2013
Total revenues	$600,626	$557,129	$1,706,768	$1,604,992
Costs of services:				
Interchange	373,372	350,734	1,059,241	1,003,039
Dues, assessments and fees	57,864	53,165	163,218	152,146
Processing and servicing	69,328	60,195	204,985	177,968
Customer acquisition costs	12,289	10,838	34,907	31,554
Depreciation and amortization	7,981	5,454	20,472	14,066
Total costs of services	520,834	480,386	1,482,823	1,378,773
General and administrative	49,381	41,871	137,241	131,242
Total expenses	570,215	522,257	1,620,064	1,510,015
Income from operations	30,411	34,872	86,704	94,977
Other income (expense):				
Interest income	33	29	95	95
Interest expense	(2,142)	(1,243)	(4,450)	(3,746)
Other, net	3,581	90	3,869	(70)
Total other income (expense)	1,472	(1,124)	(486)	(3,721)
Income from continuing operations before income taxes	31,883	33,748	86,218	91,256
Provision for income taxes	11,727	11,857	34,579	34,039
Net income from continuing operations	20,156	21,891	51,639	57,217
Income from discontinued operations, net of income tax of $—, $—, $— and $2,135	—	—	—	3,970
Net income	20,156	21,891	51,639	61,187
Less: Net (loss) income attributable to noncontrolling interests				
Continuing operations	(302)	(90)	(2,011)	(90)
Discontinued operations	—	—	—	56
Net income attributable to Heartland	$20,458	$21,981	$53,650	$61,221
Amounts attributable to Heartland:				
Net income from continuing operations	20,458	21,981	53,650	57,307
Income from discontinued operations, net of income tax and noncontrolling interests	—	—	—	3,914
Net income attributable to Heartland	20,458	21,981	53,650	61,221
Basic earnings per share:				
Income from continuing operations	$0.57	$0.60	$1.47	$1.56
Income from discontinued operations	—	—	—	0.11
Basic earnings per share	$0.57	$0.60	$1.47	$1.67
Diluted earnings per share:				

Income from continuing operations	$0.56	$0.58	$1.44	$1.50
Income from discontinued operations	—	—	—	0.10
Diluted earnings per share	$0.56	$0.58	$1.44	$1.60
Weighted average number of common shares outstanding:				
Basic	36,069	36,857	36,388	36,752
Diluted	36,850	38,020	37,249	38,079
Dividends declared per share	$0.085	$0.07	$0.255	$0.21

See accompanying notes to condensed consolidated financial statements.

Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income	$20,156	$21,891	$51,639	$61,187
Other comprehensive (loss) income:				
Reclassification of gains on investments, net of income tax of $5, $—, $108 and $—	(6)	—	(170)	—
Unrealized (losses) gains on investments, net of income tax of $5, $—, $5 and $4	(8)	—	6	4
Unrealized gains on derivative financial instruments, net of income tax of $28, $25, $83 and $121	45	152	140	315
Foreign currency translation adjustment	—	—	—	(54)
Comprehensive income	20,187	22,043	51,615	61,452
Less: Comprehensive loss attributable to noncontrolling interests	(302)	(90)	(2,011)	(50)
Comprehensive income attributable to Heartland	$20,489	$22,133	$53,626	$61,502

See accompanying notes to condensed consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity
(In thousands)
(unaudited)

	Heartland Stockholders' Equity							
	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interests	Total Equity
Nine Months Ended September 30, 2013								
Balance, January 1, 2013	36,856	$38	$222,705	$ (399)	$7,629	$(20,187)	$ 1,375	$211,161
Issuance of common stock– options exercised	982	1	10,724	—	—	—	—	10,725
Issuance of common stock – RSU's vested	265	—	(4,866)	—	—	—	—	(4,866)
Excess tax benefit on employee share-based compensation	—	—	8,382	—	—	—	—	8,382
Repurchase of common stock	(1,250)	—	—	—	—	(40,221)	—	(40,221)
Retirement of treasury stock	—	(2)	(10,024)	—	(39,974)	50,000	—	—
Share-based compensation	—	—	9,763	—	—	—	—	9,763
Changes in equity from sale of discontinued operation	—	—	—	83	—	—	(1,415)	(1,332)
Other comprehensive income (loss)	—	—	—	281	—	—	(16)	265
Noncontrolling interest in subsidiary acquired	—	—	—	—	—	—	6,798	6,798
Dividends on common stock	—	—	—	—	(7,735)	—	—	(7,735)
Net income (loss) for the period	—	—	—	—	61,221	—	(34)	61,187
Balance, September 30, 2013	36,853	$37	$236,684	$ (35)	$21,141	$(10,408)	$ 6,708	$254,127
Nine Months Ended September 30, 2014								
Balance, January 1, 2014	36,951	$37	$245,055	$ (88)	$35,960	$(20,489)	$ 6,188	$266,663
Issuance of common stock–	346	—	4,482	—	—	—	—	4,482

options exercised								
Issuance of common stock – RSU’s vested	230	—	(5,225)	—	—	—	—	(5,225)
Excess tax benefit on employee share-based compensation	—	—	5,670	—	—	—	—	5,670
Repurchase of common stock	(1,348)	—	—	—	—	(54,455)	—	(54,455)
Retirement of treasury stock	—	(1)	(12,368)	—	(62,575)	74,944	—	—
Share-based compensation	—	—	10,936	—	—	—	—	10,936
Acquisition of noncontrolling interest	—	—	3,577	—	—	—	(4,177)	(600)
Other comprehensive loss	—	—	—	(24)	—	—	—	(24)
Dividends on common stock	—	—	—	—	(9,249)	—	—	(9,249)
Net income (loss) for the period		—	—	—	53,650	—	(2,011)	51,639
Balance, September 30, 2014	36,179	$36	$252,127	$ (112)	$17,786	$—	$ —	$269,837

See accompanying notes to condensed consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net income	$51,639	$61,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of capitalized customer acquisition costs	38,056	33,936
Other depreciation and amortization	33,516	26,070
Addition to loss reserves	3,000	2,510
Provision (recoveries) for doubtful receivables	3,010	(1)
Deferred taxes	8,361	5,632
Share-based compensation	10,936	9,763
Gain on sale of assets	(258)	(3,786)
Write off of fixed assets and other	(3,057)	386
Changes in operating assets and liabilities:		
Increase in receivables	(11,339)	(15,135)
Increase in inventory	(287)	(524)
Payment of signing bonuses, net	(27,647)	(19,546)
Increase in capitalized customer acquisition costs	(18,349)	(15,676)
Decrease (increase) in prepaid expenses	132	(2,361)
Increase in current tax assets	(2,957)	(1,515)
Increase in deposits and other assets	(103)	(296)
Excess tax benefits on employee share-based compensation	(5,670)	(8,382)
Increase in reserve for unrecognized tax benefits	1,136	1,198
Increase in due to sponsor banks	22,074	5,048
Decrease in accounts payable	(12,509)	(1,830)
(Decrease) increase in unearned revenue	(2,414)	3,820
Decrease in accrued expenses and other liabilities	(12,304)	(4,856)
(Decrease) increase in processing liabilities	(29,016)	10,310
Payouts of accrued buyout liability	(9,621)	(11,842)
Increase in accrued buyout liability	15,199	13,294
Net cash provided by operating activities	51,528	87,404
Cash flows from investing activities		
Purchase of investments	(31,017)	(5,241)
Sales of investments	17,215	—
Maturities of investments	—	1,430
Decrease in funds held for customers	18,849	19,519
Decrease in customer fund deposits	(5,064)	(19,510)
Proceeds from sale of business	—	19,343
Acquisitions of businesses, net of cash acquired	(355,066)	(15,182)
Capital expenditures	(39,140)	(36,929)
Net cash used in investing activities	(394,223)	(36,570)
Cash flows from financing activities		
Proceeds from borrowings, net	436,392	9,000
Principal payments on borrowings	(17,500)	(15,000)

Proceeds from exercise of stock options	4,482	10,725
Excess tax benefits on employee share-based compensation	5,670	8,382
Repurchases of common stock	(54,455)	(39,632)
Dividends paid on common stock	(9,249)	(7,735)
Net cash provided by (used in) financing activities	365,340	(34,260)
Net increase in cash	22,645	16,574
Effect of exchange rates on cash	—	1
Cash at beginning of year	71,932	50,581
Cash at end of period	$94,577	$67,156
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$3,559	$3,173
Income taxes	28,038	28,917

See accompanying notes to condensed consolidated financial statements.

Heartland Payment Systems, Inc. and Subsidiaries
Notes To Condensed Consolidated Financial Statements
(unaudited)
1. Organization and Operations
Basis of Financial Statement Presentation— The accompanying condensed consolidated financial statements include those of Heartland Payment Systems, Inc. (the "Company," “we,” “us,” or “our”) and its wholly-owned subsidiaries, Heartland Ovation Payroll, Inc. (“Ovation”), Heartland Payment Solutions, Heartland Acquisition LLC (“Network Services”), TouchNet Information Systems, Inc. (“TouchNet”) as of September 4, 2014, Leaf Acquisition, LLC ("Leaf") as of September 11, 2013, and until January 31, 2013, its previously 70% owned subsidiary Collective POS Solutions Ltd. (“CPOS”).

The Company entered into an agreement during the fourth quarter of 2012 to sell CPOS. The transaction was settled on January 31, 2013 and the Company recorded a gain on the sale in the first quarter of 2013. The Company presents CPOS as a discontinued operation in the accompanying condensed consolidated financial statements. See Note 15, Discontinued Operations for more detail.

On August 6, 2014, the Company entered into a Stock Purchase Agreement with the noncontrolling shareholders of Leaf under which it acquired all shares of Leaf common stock held by the noncontrolling shareholders. Prior to August 6, 2014, the Company owned 66.67% of the outstanding capital stock of Leaf. As a result of this transaction, Leaf became a wholly-owned subsidiary of the Company. Also as a result of this transaction, the Company was released from any liabilities to the noncontrolling shareholders including a contingent earn-out liability that was provided to those noncontrolling shareholders under the original partial acquisition. See Note 2, Summary of Significant Accounting Policies, Other Income (Expense) for more detail.

On July 29, 2014, the Company and TouchNet, entered into an Agreement and Plan of Merger (the “Agreement”), under which the Company would acquire all of the shares of common stock of TouchNet (the "Acquisition”) for a cash payment of $375 million plus or minus the net working capital of TouchNet on the closing date. The Acquisition closed as of September 4, 2014. TouchNet is an integrated commerce solutions provider to higher-education institutions. TouchNet became a part of the Company's Campus Solutions business segment. See Note 3, Acquisitions for further detail on this acquisition.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany balances and transactions with the Company's subsidiaries have been eliminated upon consolidation.

The accompanying condensed consolidated financial statements are unaudited. In the opinion of the Company's management, the unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the Company's financial position at September 30, 2014, and its results of operations, changes in equity and cash flows for the nine months ended September 30, 2014 and 2013. Results of operations reported for interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013. The December 31, 2013 Condensed Consolidated Balance Sheet was derived from the audited 2013 consolidated financial statements.

Out of Period Adjustments—In the second quarter of 2014, the Company recorded out-of-period adjustments decreasing its revenue and increasing bad debt expense (included in Processing and Servicing in its Condensed Consolidated Statements of Income) by $1.4 million and $0.9 million, respectively. These adjustments related to immaterial errors

that originated in the prior year in our Heartland School Solutions business. These adjustments included revenue which was incorrectly recorded in prior periods and a reassessment of the collectability of certain customer accounts receivable. These out-of-period adjustments reduced earnings before income taxes and net income in the nine months ended September 30, 2014 by $2.3 million and $1.4 million, respectively, and reduced diluted earnings per share by $0.04. The Company considered existing guidance in evaluating whether a restatement of prior financial statements was required as a result of these misstatements. The guidance requires corrections of errors to be recorded by restatement of prior periods, if material. The Company has quantitatively and qualitatively assessed the materiality of the errors and concluded that the errors were not material to its earnings for the year ended December 31, 2013 and to its forecast of earnings for the year ending December 31, 2014, and accordingly, no restatement of prior period financial statements was warranted.

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Heartland Payment Systems, Inc. and Subsidiaries
Notes To Condensed Consolidated Financial Statements—(Continued)
(unaudited)

Business Description—The Company’s primary business is to provide card payment processing services to merchants throughout the United States, and until January 31, 2013 in Canada (See Note 15, Discontinued Operations for more detail). This involves providing end-to-end electronic payment processing services to merchants by facilitating the exchange of information and funds between them and cardholders' financial institutions. To accomplish this, the Company undertakes merchant set-up and training, transaction authorization and electronic draft capture, clearing and settlement, merchant accounting, merchant assistance and support, and risk management. Card payment processing services also includes selling and renting point-of-sale devices. The Company also provides additional services, including those provided through subsidiaries, such as:

- School nutrition, point-of-sale solutions, and associated payment solutions, including online prepayment solutions to kindergarten through 12th grade ("K to 12") schools throughout the United States provided by Heartland School Solutions,
- Full-service payroll processing and related tax filing services throughout the United States provided by Heartland Ovation Payroll,
- Payment processing, integrated commerce solutions, higher education loan services and open- and closed-loop payment solutions to colleges and universities throughout the United States and Canada provided by Campus Solutions, and
- Prepaid Card and Other including stored-value card solutions throughout the United States and Canada provided by Micropayments, and marketing solutions including loyalty and gift cards throughout the United States, provided through Heartland Marketing Solutions.

Over 74% of the Company's revenue is derived from processing and settling bankcard transactions, primarily related to the Visa and MasterCard networks, for its merchant customers. Because the Company is not a "member bank" as defined by Visa and MasterCard, in order to process and settle these bankcard transactions for its merchants, the Company has entered into sponsorship agreements with member banks. Visa and MasterCard rules restrict the Company from performing funds settlement or accessing merchant settlement funds and require that these funds be in the possession of the member bank until the merchant is funded. A sponsorship agreement with a member bank permits the Company to route Visa and MasterCard bankcard transactions under the member bank's control and identification numbers to clear credit and signature debit bankcard transactions through Visa and MasterCard. A sponsorship agreement also enables the Company to settle funds between cardholders and merchants by delivering funding files to the member bank, which in turn transfers settlement funds to the merchants' bank accounts. These restrictions place the settlement assets and obligations under the control of the member bank.
The sponsorship agreements with the member banks require, among other things, that the Company abide by the bylaws and regulations of the Visa and MasterCard networks, and certain sponsor banks require a cash balance in a deposit account. If the Company were to breach a sponsorship agreement and under certain other circumstances, the sponsor banks may terminate the agreement and, under the terms of the agreement, the Company would have 180 days to identify an alternative sponsor bank. The Company is generally dependent on its sponsor banks, Visa and MasterCard for notification of any compliance breaches. As of September 30, 2014, the Company has not been notified of any such issues by its sponsor banks, Visa or MasterCard.

At September 30, 2014, the Company is party to three bank sponsorship agreements.

- On February 8, 2012, the Company entered into a sponsorship agreement with Wells Fargo Bank, N.A. ("WFB"). The WFB sponsorship agreement will be in effect until February 8, 2016 and will automatically renew

for successive three-year periods unless either party provides six months written notice of non-renewal to the other party. Processing for small and mid-sized merchants (referred to as "Small and Midsized Enterprises," or “SME merchants”) under the WFB sponsorship commenced in August 2012, when that activity was transferred from its

previous sponsor, KeyBank, National Association.

- In November 2009, the Company entered into a sponsorship agreement with The Bancorp Bank ("TBB") to sponsor processing for the Company's Network Services merchants. The agreement with TBB expires in February 2015 and will automatically renew for successive one-year periods unless either party provides six months written notice of non-renewal to the other party. As of September 30, 2014, neither party has provided written notice of non-renewal of the sponsorship agreement.

On October 1, 2013, the Company transferred sponsorship and processing for a portfolio of SME merchants from Heartland Bank to TBB. The Company was party to a prior sponsorship agreement with Heartland Bank,

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Heartland Payment Systems, Inc. and Subsidiaries
Notes To Condensed Consolidated Financial Statements—(Continued)
(unaudited)

an unrelated third party, to sponsor SME merchant processing. In March 2013, the Company notified Heartland Bank of its intention to terminate the sponsorship agreement and made arrangements for continuing sponsorship with TBB under the terms of the November 2009 sponsorship agreement.

- On March 24, 2011, the Company entered into a sponsorship agreement with Barclays Bank Delaware to sponsor processing for certain of the Company's large national merchants. The agreement with Barclays Bank Delaware expires in March 2016 and will automatically renew for successive one-year periods unless either party provides six months written notice of non-renewal to the other party.

The following is a breakout of the Company’s total Visa and MasterCard settled card processing volume for the month ending September 30, 2014 by percentage processed under its individual bank sponsorship agreements:

Sponsor Bank	% of September 2014 Bankcard Processing Volume
Wells Fargo Bank, N.A.	64%
The Bancorp Bank	24%
Barclays Bank Delaware	12%

The Company also provides card transaction processing for DFS Services, LLC ("Discover") and is designated as an acquirer by Discover. The agreement with Discover allows the Company to acquire, process and fund transactions directly
through Discover's network without the need of a bank sponsor. The Company processes Discover transactions similarly to
how it processes Visa and MasterCard transactions. The Company must comply with Discover acquirer operating regulations
and uses its sponsor banks to assist in funding its merchants' Discover transactions.

Under a prior sales and servicing program agreement with American Express Travel Related Services Company, Inc. ("American Express") the Company: (a) provided solicitation services by signing new-to-American Express merchants directly
with American Express; (b) provided transactional support services on behalf of American Express to the Company's American
Express accepting merchants; and (c) provided processing, settlement, customer support and reporting to merchants, similar to
the services provided for the merchants' Visa, MasterCard and Discover transactions. In May 2014, the Company began offering a new American Express Card Acceptance Program (referred to as "OptBlue") to new merchants and existing merchants who previously were not American Express accepting merchants. The Company converted a majority of its existing merchants who were processing under the prior sales and servicing agreement with American Express to OptBlue during the third quarter of 2014. As a participant in OptBlue the Company will acquire, contract, and establish pricing, as well as provide customer service to merchants, similar to the transaction processing services the Company provides through Discover, Visa and MasterCard.

2. Summary of Significant Accounting Policies
Use of Estimates— The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the condensed

consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates include, among other things, the accrued buyout liability, capitalized customer acquisition costs, goodwill, loss reserves, certain accounts payable and accrued expenses and certain tax assets and liabilities as well as the related valuation allowances, if any. Actual results could differ from those estimates.

Cash and Cash Equivalents— At September 30, 2014, cash included approximately $16.3 million of processing-related cash in transit and collateral, compared to approximately $32.1 million of processing-related cash in transit and collateral at December 31, 2013. Processing-related cash in transit and collateral includes funds in transit associated with timing differences arising between the amounts the Company's sponsor banks receive from the bankcard networks and the amounts funded by the Company's merchants. Processing-related cash in transit and collateral also includes merchant deposits, collateral deposits, and funds in transit relating to timing differences for the Company's non-card payment processing businesses.

Receivables— The Company's primary receivables are from its bankcard processing merchants. In addition to receivables for transaction fees the Company charges its merchants for processing transactions, these receivables include amounts resulting from the Company's practice of advancing interchange fees to most of its SME merchants during the month

and collecting those fees at the beginning of the following month. The Company does not advance interchange fees to its Network Services merchants. Network Services merchants are invoiced monthly, on payment terms of 30 days net from date of invoicing. Receivables from merchants also include receivables from the sale of point of sale terminal equipment.
The timing for presentment of transaction funding files to the bankcard networks results in the Company's sponsor banks receiving settlement cash one day before payment is made to merchants, thereby increasing funding obligations to its SME merchants, which are carried in processing liabilities. The Company funds interchange advances/receivables to SME merchants first from this settlement cash received from bankcard networks, then from the Company's available cash or by incurring a liability to its sponsor banks. The Company did not fund any merchant advances from available cash at September 30, 2014 and December 31, 2013. The amount due to sponsor banks for funding merchant advances was $36.8 million at September 30, 2014 and $17.8 million at December 31, 2013. The Company pays its sponsor banks the prime rate on these payables. The liability to sponsor banks is repaid at the beginning of the following month out of the fees the Company collects from its merchants.

Receivables also include amounts due from Discover and American Express for merchant bankcard transactions. These amounts are recovered the next business day following the date of processing the transaction.

Receivables also include amounts resulting from the sale, installation, training and repair of payment system hardware and software for Campus Solutions, Heartland School Solutions and Prepaid Card and Other. These receivables are mostly invoiced on terms of 30 days net from date of invoicing.

Receivables are stated net of allowance for doubtful accounts. The Company estimates its allowance based on experience with its merchants, customers, and sales force and its judgment as to the likelihood of their ultimate payment. The Company also considers collection experience and makes estimates regarding collectability based on trends in the aging. Historically, the Company has not experienced significant charge offs for its merchant and customer receivables.

Investments and Funds Held for Customers— Investments, including those carried on the Condensed Consolidated Balance Sheets as Funds held for customers, consist primarily of equity investments, bond funds, tax-exempt bonds and certificates of deposit. Funds held for customers also include overnight bank deposits. The majority of investments carried in Funds held for customers are available-for-sale and recorded at fair value based on quoted market prices. Certificates of deposit are classified as held to maturity and recorded at cost. In the event of a sale, cost is determined on a specific identification basis. At September 30, 2014, funds held for customers included cash and cash equivalents of $100.9 million and investments available for sale of $21.4 million.

The asset funds held for customers and the liability customer fund deposits include: (1) amounts collected from customers prior to funding their payroll liabilities, as well as related tax and fiduciary liabilities for those customers, and (2) amounts collected by Campus Solutions in its capacity as loan servicer, which will be remitted to the customer/owner of the student loans the following month.

Capitalized Customer Acquisition Costs, net— Capitalized customer acquisition costs consist of (1) up-front signing bonus payments made to Relationship Managers and sales managers (the Company's sales force, which are referred to as "salespersons") for the establishment of new merchant relationships, and (2) a deferred acquisition cost representing the estimated cost of buying out the residual commissions of vested salespersons. Capitalized customer acquisition costs represent incremental, direct customer acquisition costs that are recoverable through gross margins associated with merchant contracts. The capitalized customer acquisition costs are amortized using a method which approximates

a proportional revenue approach over the initial three-year term of the merchant contract.

The up-front signing bonus paid for new SME bankcard, payroll and loyalty marketing accounts is based on the estimated gross margin for the first year of the merchant contract. The signing bonus, amount capitalized, and related amortization are adjusted after the first year to reflect the actual gross margin generated by the merchant contract during that year. The deferred customer acquisition cost asset is accrued over the first year of SME bankcard, payroll and loyalty marketing merchant processing, consistent with the build-up in the accrued buyout liability, as described below.

Management evaluates the capitalized customer acquisition costs for impairment on an annual basis by comparing, on a pooled basis by vintage month of origination, the expected future net cash flows from underlying merchant relationships to the carrying amount of the capitalized customer acquisition costs. If the estimated future net cash flows are lower than the

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recorded carrying amount, indicating an impairment of the value of the capitalized customer acquisition costs, the impairment loss will be charged to operations. The Company believes that no impairment has occurred as of September 30, 2014.

Unearned revenue— Unearned revenue of $42.7 million and $18.2 million at September 30, 2014 and December 31, 2013, respectively, is primarily related to the Company's Heartland School Solutions and Campus Solutions businesses for both periods, and its Payroll business for December 31, 2013. Included in the Campus Solutions business is unearned revenue from TouchNet, which the Company acquired on September 4, 2014. The Company added $26.1 million of unearned revenue as part of that acquisition. Unearned revenue is derived primarily from the sale and subscription of e-commerce solutions and integration to host computer systems as well as from support and maintenance contracts and professional services. Unearned revenue represents contractual obligations of the Company to provide software, services and support to customers in the future.

Accrued Expenses and Other Liabilities— Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets include the allocation of purchase price to an unfavorable contract of $2.0 million and $3.4 million at September 30, 2014 and December 31, 2013, respectively, associated with the September 30, 2011 acquisition of School-Link Technologies, Inc in the Company's Heartland School Solutions business. During the nine months ended September 30, 2014 and 2013, the Company amortized $1.4 million and $1.5 million, respectively, of this accrued liability against the cash processing costs paid under that contract. During the nine months ended September 30, 2013, the Company recorded an adjustment to the carrying value of this unfavorable processing contract of $1.6 million to adjust the liability to reflect the latest estimate of the expected cash processing costs to be paid over the remainder of the contract. The amortization for the nine months ended September 30, 2014 and 2013 and adjustment to the carrying value were included in cost of services in our Condensed Consolidated Statements of Income.

Processing Liabilities— Processing liabilities result primarily from the Company's card processing activities. Processing liabilities primarily reflect funds in transit associated with differences arising between the amounts the Company's sponsor banks receive from the bankcard networks and the amounts funded to the Company's merchants. Such differences arise from timing differences, interchange expense, merchant advances, merchant reserves and chargeback processing. These differences result in payables or receivables. If the settlement received from the bankcard networks precedes the funding obligation to the merchant, the Company records a processing liability. Conversely, if funding to the merchant precedes the settlement from the bankcard networks, the Company records a receivable from the bankcard network. The amounts are generally collected or paid the following business day.

Chargebacks arise due to disputes between a cardholder and a merchant resulting from the cardholder's dissatisfaction with merchandise quality or the merchant's service, and the disputes may not always be resolved in the merchant's favor. In some of these cases, the transaction is "charged back" to the merchant and the purchase price is refunded to the cardholder by the credit card-issuing institution. If the merchant is unable to fund the refund, the Company is liable for the full amount of the transaction. The Company's obligation to stand ready to perform is minimal. The Company maintains a deposit or the pledge of a letter of credit from certain merchants as an offset to potential contingent liabilities that are the responsibility of such merchants. The Company evaluates its ultimate risk and records an estimate of potential loss for chargebacks based upon an assessment of actual historical loss rates compared to recent bankcard processing volume levels. The Company believes that the liability recorded as loss reserves approximates fair value.

Accrued Buyout Liability— The Company's Relationship Managers and sales managers are paid residual commissions based on the gross margin generated by monthly SME merchant processing activity. The Company has the right, but

not the obligation, to buy out some or all of these commissions, and intends to do so periodically. Such purchases of the commissions are at a fixed multiple of the last twelve months' commissions. Because of the Company's intent and ability to execute purchases of the residual commissions, and the mutual understanding between the Company and the Relationship Managers and sales managers, the Company has accounted for this deferred compensation arrangement pursuant to the substantive nature of the plan. The Company therefore records the amount that it would have to pay (the "settlement cost") to buy out non-servicing related commissions in their entirety from vested Relationship Managers and sales managers, and an accrual, based on their progress towards vesting, for those unvested Relationship Managers and sales managers who are expected to vest in the future. As noted above, as the liability increases over the first year of a SME merchant contract, the Company also records a related deferred acquisition cost asset for currently vested Relationship Managers and sales managers. The accrued buyout liability associated with unvested Relationship Managers and sales managers is not included in the deferred acquisition cost asset since future services are required in order to vest. Subsequent changes in the estimated accrued buyout liability due to merchant attrition, same-store sales growth or contraction and changes in gross margin are included in the same income statement caption as customer acquisition costs expense.

Relationship Managers and sales managers earn portfolio equity on their newly installed payroll and loyalty marketing merchant accounts based on the residual commissions they earn on those accounts. The accrued buyout liability and deferred acquisition cost asset are accrued in the same manner as the SME merchant portfolio equity.

The accrued buyout liability is based on merchants under contract at the balance sheet date, the gross margin generated by those merchants over the prior twelve months, and the contractual buyout multiple. The liability related to a new merchant is therefore zero when the merchant is installed, and increases over the twelve months following the installation date. The same procedure is applied to unvested commissions over the expected vesting period, but is further adjusted to reflect the Company's estimate that 31% of unvested Relationship Managers and sales managers become vested, which represents the Company's historical vesting rate.

The classification of the accrued buyout liability between current and non-current liabilities on the Condensed Consolidated Balance Sheets is based upon the Company's estimate of the amount of the accrued buyout liability that it reasonably expects to pay over the next twelve months. This estimate is developed by calculating the cumulative annual average percentage that total historical buyout payments represent of the accrued buyout liability. That percentage is applied to the period-end accrued buyout liability to determine the current portion.

Revenue— The Company classifies its revenues into five categories: (i) Card Payment Processing, (ii) Heartland School Solutions, (iii) Heartland Ovation Payroll, (iv) Campus Solutions and (v) Prepaid Card and Other. The Company recognizes revenue when (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been performed; (3) the price is fixed or determinable; and (4) collectability is reasonably assured. The Company also evaluates its contractual arrangements for indications that multiple element arrangements may exist including instances where more-than-incidental software deliverables are included. The following revenue recognition policies define the manner in which the Company accounts for sales transactions by revenue category.

Card Payment Processing revenue primarily consists of discount, per-transaction and periodic (primarily monthly) fees from the processing of Visa, MasterCard, American Express and Discover transactions for SME merchants and per-transaction fees for the authorization and settlement of transactions for Network Services merchants. Also included in this category are American Express servicing fees, merchant service fees, fees for processing chargebacks, termination fees on terminated contracts and fees from selling, renting and deploying point-of-sale devices.

Interchange fees, which are the Company’s most significant expense, are set by the card networks and paid to the card issuing banks. For the majority of SME card processing revenue, the Company does not offset processing revenues and interchange fees because its business practice is to advance the interchange fees to most SME merchants when settling their daily transactions (thus paying the full amount of the transaction to the merchant), and then to collect the full discount fees from merchants on the first business day of the next month. The Company has merchant portability, credit risk, and the ultimate responsibility to the merchant and, as such, revenue is reported at the time of settlement on a gross basis. Payment processing services are transaction based and priced either as a fixed fee per transaction or as a percentage of the transaction value. The fees are charged for the processing services provided and do not include the gross sales price paid by the ultimate buyer to the merchant. For SME merchants to whom the Company does not advance interchange, it records card processing revenues net of interchange fees. As Network Services does not advance interchange fees to its merchants, the Company records its card processing revenues net of interchange fees. The company records Card Payment Processing revenue at the time services are provided and at the time of shipment as it relates to deployment of point-of-sale devices.

Heartland Ovation Payroll revenue includes fees charged for payroll processing services, including check printing, direct deposit, related federal, state and local tax deposits and providing accounting documentation and interest income earned on funds held for customers. Revenues are recorded at the time service is provided.

Heartland School Solutions' revenues include fees from sales and maintenance of cafeteria point-of-sale solutions and associated payment solutions, including online prepayment solutions, back office management and hardware and technical support.
Campus Solutions revenue includes fees associated with providing integrated commerce solutions to support administrative services for higher education, as well as, student loan payment processing, delinquency and default services, refund management, tuition payment plans, electronic billing and payment, tax document services and business outsourcing. Campus Solutions revenue also includes fees from the sale and maintenance of open- and closed-loop payment hardware and software solutions for college or university campuses to process small value electronic transactions.

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Both Campus Solutions and Heartland School Solutions have arrangements that contain multiple elements, such as hardware, software products, including perpetual licenses and Software-as-a-Service ("SaaS") services, maintenance, and professional installation and training services. The Company allocates revenue to each element based on the selling price hierarchy. The selling price for a deliverable is based on vendor specific objective evidence ("VSOE") of selling price, if available, or estimated selling price ("ESP") if VSOE of selling price is not available. The Company establishes ESP, based on management judgment, considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. In arrangements with multiple elements, the Company determines allocation of the transaction price at inception of the arrangement based on the relative selling price of each unit of accounting.

In multiple element arrangements where more-than-incidental software deliverables are included, the Company has applied the residual method to determine the amount of software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration recognized upon delivery of the software license or services arrangement. The Company allocates the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by VSOE, with any remaining amount allocated to the software license. If evidence of the fair value cannot be established for the undelivered elements of a software arrangement then the entire amount of revenue under the arrangement is deferred until these elements have been delivered or objective evidence can be established. The Company recognizes software revenue over the subscription or contract term and maintenance revenue over the maintenance period.

Prepaid Card and Other revenues include Micropayments' fees from selling hardware and software for unattended online wireless credit card based payment systems, and unattended value top up systems for off-line closed-loop smart (chip) card based payment systems. Also included in this category are Heartland Marketing Solutions fees from selling mobile and card-based marketing services, gift cards and rewards services. Revenues are recorded at the time of shipment or at the time services are provided.

Loss Contingencies and Legal Expenses—The Company records a liability for loss contingencies when the liability is probable and the amount is reasonably estimable. Legal fees associated with loss contingencies are recorded when the legal fees are incurred.

The Company records recoveries from its insurance providers when cash is received from the provider.

Other Income (Expense)— Other income (expense) consists of interest income on cash and investments, the interest cost on the Company's borrowings, the gains or losses on the disposal of assets and other non-operating income or expense items.

As a result of the Stock Purchase Agreement that the Company entered into on August 6, 2014 with the noncontrolling shareholders of Leaf, the Company was released from a contingent earn-out liability to those noncontrolling shareholders and recognized a pre- and after-tax gain of $3.6 million in the three and nine months ended September 30, 2014. The non-cash impact of the gain associated with the release of the contingent earn-out liability is recorded in "Other, net" in the condensed consolidated statements of income and "Write-off of fixed assets and other" in the condensed consolidated statement of cash flows.

Other income (expense) also includes the pretax charges or recoveries related to the provision for Processing System Intrusion costs. See Note 11, Commitments and Contingencies for information on the Processing System Intrusion.

Income Taxes—The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under

this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter the Company updates its estimate of the annual effective tax rate, and if the Company's estimated tax rate changes, it makes a cumulative adjustment in that period.

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(unaudited)

The provision for income taxes for the three and nine months ended September 30, 2014 and 2013 and the resulting effective tax rates were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Provision for income taxes	$11,727	$11,857	$34,579	$34,039
Effective tax rate	36.8 %	35.1 %	40.1 %	37.3 %

The effective tax rate for the three months ended September 30, 2013 benefited from the recognition of research and development credits. On January 2, 2013, the American Taxpayer Relief Act of 2012 ("ATR Act") was enacted which included an extension of the federal research and development credit retroactively to 2012 and prospectively through 2013. The Company recognized the effects of the research and development credits in the three months ended September 30, 2013 in conjunction with filing our 2012 tax return.

The increase in the Company's effective tax rate for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, reflects the impact of providing a valuation allowance against deferred tax assets resulting from operating losses recorded by Leaf during our 66.67% ownership period from January 1 to August 5, 2014. On August 6, 2014, the Company acquired all shares of Leaf common stock held by noncontrolling shareholders. As a result of this acquisition, the Company will utilize the losses generated by Leaf against consolidated taxable income for periods after August 5, 2014. See “Note 3, Acquisitions" for further details on our investments in Leaf. Additionally, the effective tax rate for the nine months ended September 30, 2014 benefited from the permanent non-taxable status of the gain recognized on the release of a contingent earn-out liability to the former noncontrolling shareholders of Leaf.

The Company regularly evaluates its tax positions for additional unrecognized tax benefits and associated interest and penalties, if applicable. There are many factors that are considered when evaluating these tax positions including: interpretation of tax laws, recent tax litigation on a position, past audit or examination history, and subjective estimates and assumptions, which have been deemed reasonable by management. However, if management's estimates are not representative of actual outcomes, the Company's results could be materially impacted. The Company does not expect any material changes to unrecognized tax benefits in the next twelve months. At September 30, 2014, the reserve for unrecognized tax benefits related to uncertain tax positions was $6.8 million, of which $4.4 million would, if recognized, impact the effective tax rate. At December 31, 2013, the reserve for unrecognized tax benefits related to uncertain tax positions was $5.6 million, of which $3.8 million would, if recognized, impact the effective tax rate.

Share–Based Compensation— In the fourth quarters of 2012 and 2013, the Company's Board of Directors approved grants of performance-based Restricted Share Units with grant-specific vesting and performance target terms as shown in the following table:

	Performance Awards by Grant Date	
	4th Quarter 2012	4th Quarter 2013
RSU's Granted	60,507	115,223
Vesting during 2014	—	—
Vesting during 2015	50%	—
Vesting during 2016	50%	—
Vesting during 2017	—	50%
Vesting during 2018	—	50%

Grant Performance Target	(a)	(b)

(a) These Restricted Share Units would vest only if the Company achieves a Pro Forma diluted earnings per share compound annual growth rate ("CAGR") of fifteen percent (15%) for the two-year period ending December 31, 2014. For each 1% that the CAGR actually achieved for the two year period ending on December 31, 2014 is above the 15% target, the number of shares underlying the Restricted Share Units awarded would be increased by 2.08%; provided, however, that the maximum increase in the number of shares that may be awarded is 125%. Likewise, for each 1% that the CAGR actually achieved for the two-year period ending on December 31, 2014 is below the 15% target, the number of shares underlying the Restricted Share Units awarded would be decreased by 1.31%. If the target CAGR is

missed by 67% or more, then the number of shares awarded is zero. The Company records expense on these Restricted Share Units based on achieving the 15% target.

(b) These Restricted Share Units will vest only if the Company achieves a pro forma diluted earnings per share growth rate of forty percent (40%) over the three-year period ending December 31, 2016. For each 1% that the growth rate actually achieved for the three-year period ending on December 31, 2016 is above the 40% target, the number of shares underlying the Restricted Share Units awarded would be increased by 1.20%; provided, however, that the maximum increase in the number of shares that may be awarded is 150%. Likewise, for each 1% that the growth rate actually achieved for the three-year period ending on December 31, 2016 is below the 40% target, the number of shares underlying the Restricted Share Units awarded would be decreased by 1.50%. If the target growth rate is missed by 50% or more, then the number of shares awarded is zero. The Company has recorded expense on these Restricted Share Units based on achieving the 40% target.

Pro Forma diluted earnings per share for (a) and (b) performance targets will be calculated excluding non-operating gains and losses, if any, and excluding the after-tax impact of share-based compensation expense. The closing price of the Company's common stock on the grant date equals the grant date fair value of these nonvested Restricted Share Units awards and will be recognized as compensation expense over their vesting periods.

In the fourth quarter of 2012, the Company's Board of Directors approved target grants of 60,793 Relative Total Shareholder Return Restricted Share Units (referred to as “TSRs”). These TSRs are nonvested share awards for which vesting percentages and ultimate number of units vesting will be calculated based on the total shareholder return of our common stock as compared to the total shareholder return of 86 peers. The payout schedule can produce vesting percentages ranging from 0% to 225%. Total shareholder return will be calculated based upon the average closing price for the 30 calendar day period ending December 9, 2015, divided by the closing price on December 10, 2012. The target number of units is based on achieving a total shareholder return equal to the 65th percentile of the peer group. The Company recorded expense on these TSRs based on achieving the target. A lattice valuation model was applied to measure the grant date fair value of these TSRs.

In the fourth quarter of 2013, the Company's Compensation Committee approved target grants of 57,598 Relative TSRs. These Relative TSRs are nonvested share awards for which vesting percentages and ultimate number of units vesting will be calculated based on the total shareholder return of the Company's common stock as compared to the total shareholder return of 91 peer companies. The payout schedule can produce vesting percentages ranging from 0% to 200%. Total shareholder return will be calculated based upon the average closing price for the 30 calendar day period ending December 6, 2016, divided by the closing price on December 6, 2013. The target number of units is based on achieving a total shareholder return equal to the 65th percentile of the peer group. The Company recorded expense on these TSRs based on achieving the target. A lattice valuation model was applied to measure the grant date fair value of these Relative TSRs.

In the fourth quarter of 2013, the Compensation Committee approved target grants of 59,533 Absolute Total Shareholder Return Restricted Share Units (referred to as “Absolute TSRs”). These Absolute TSRs are nonvested share awards
for which vesting percentages and ultimate number of units vesting will be calculated based on the Company's three or four
year total shareholder return of our common stock. The payout schedule can produce vesting percentages ranging from 0% to
200%. Total shareholder return will be calculated based upon the average closing price for the 30 calendar day period ending December 6, 2016 or December 6, 2017, divided by the closing price on December 6, 2013. The target number

of units is based on achieving a total shareholder return of 33% over three years or 46% over four years. The Company recorded expense on these Absolute TSRs based on achieving the target. A lattice valuation model was applied to measure the grant date fair value of these Absolute TSRs.

Earnings per Share— Basic earnings per share was computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share was computed based on the weighted average outstanding common shares plus equivalent shares assuming exercise of stock options and vesting of Restricted Share Units, where dilutive.

Common Stock Repurchases— On November 2, 2012, the Company's Board of Directors authorized the repurchase of up to $50 million of the Company's outstanding common stock. These repurchases were completed during the second quarter of 2013. On May 8, 2013, the Company's Board of Directors authorized the repurchase of up to $75 million of the Company's outstanding common stock. These repurchases were completed during the second quarter of 2014. On May 8, 2014, the Company's Board of Directors authorized the repurchase of up to $75 million of the Company's outstanding common stock. As of September 30, 2014, the Company has not repurchased any shares under the May 8, 2014 authorization.

Repurchases under these programs were made through the open market in accordance with applicable laws and regulations. The Company intends to fund any repurchases with cash flow from operations, existing cash on the balance sheet, and other sources including the Company's 2014 Revolving Credit Facility (as defined in Note 10 herein). The manner, timing and amount of repurchases, if any, will be determined by management and will depend on a variety of factors, including price, corporate and regulatory requirements, market conditions and other corporation liquidity requirements. The repurchase program may be modified or discontinued at any time.

	November 2012	May 2013	May 2014	Total
Activity For the Nine Months Ended September 30, 2014				
Shares repurchased	—	1,347,817	—	1,347,817
Cost of shares repurchased (in thousands)	—	$54,455	—	$54,455
Average cost per share	—	$40.40	—	$40.40
Remaining authorization (in thousands)	—	—	$75,000	$75,000
Activity For the Nine months Ended September 30, 2013				
Shares repurchased	952,183	297,900	—	1,250,083
Cost of shares repurchased (in thousands)	$29,813	$10,407	—	$40,220
Average cost per share	$31.31	$34.93	—	$32.17
Activity For the Year Ended December 31, 2013				
Shares repurchased	952,183	534,600	—	1,486,783
Cost of shares repurchased (in thousands)	$29,813	$20,488	—	$50,301
Average cost per share	$31.31	$38.32	—	$33.83

The Company's Board of Directors previously resolved to retire all common shares repurchased and include the retired shares in the authorized and unissued shares of the Company. At the time of share retirement, the excess of the purchase price of the treasury stock over the stated value is allocated between additional paid-in-capital and retained earnings. It is expected that future retirements of common shares repurchased will be recorded as repurchase authorizations are completed.

Derivative Financial Instruments—The Company utilizes derivative instruments to manage interest rate risk on certain borrowings under its Credit Agreement (as defined in Note 10 herein). The Company recognizes the fair value of derivative financial instruments in the Condensed Consolidated Balance Sheets in investments, or accrued expenses and other liabilities. Changes in fair value of derivative instruments are recognized immediately in earnings unless the derivative is designated and qualifies as a hedge of future cash flows. For derivatives that qualify as hedges of future cash flows, the effective portion of changes in fair value is recorded in other comprehensive income and reclassified into interest expense in the same periods during which the hedged item affects earnings. Any ineffectiveness of cash flow hedges would be recognized in other income (expense) in the Condensed Consolidated Statements of Income during the period of change.
The Company has entered into fixed-pay amortizing interest rate swaps as a hedge of future cash flows on certain variable rate debt outstanding under its credit facility. These interest rate swaps convert the related notional amount of variable rate debt to fixed rate. The following table summarizes the components of the interest rate swaps.

	September 30, 2014	December 31, 2013

	(In thousands)	
Notional value	$17,500	$25,000
Fair value (a)	(187)	(411)
Deferred tax benefit	76	153

(a) Recorded as a liability in accrued expenses and other liabilities

Noncontrolling Interests— Noncontrolling interests represent noncontrolling shareholders' share of the equity and after-tax net loss of Leaf until the Company's August 6, 2014 acquisition of Leaf noncontrolling interests, and the after-tax net income of CPOS until it was sold in a transaction settled on January 31, 2013. See Note 15, Discontinued Operations for more detail on CPOS.
Noncontrolling shareholders' share of after-tax net loss of Leaf is included in Net income (loss) attributable to noncontrolling interests from continuing operations in the Condensed Consolidated Statements of Income for the three and nine

months ended September 30, 2014. On August 6, 2014, the Company entered into a Stock Purchase Agreement with the noncontrolling shareholders of Leaf under which it acquired all shares of Leaf common stock held by the noncontrolling shareholders. Prior to August 6, 2014, the Company owned 66.67% of the outstanding capital stock of Leaf. As a result of this transaction, Leaf became a wholly-owned subsidiary of the Company and there is no noncontrolling interest on the Consolidated Balance Sheet as of September 30, 2014. The minority stockholders' interests included in noncontrolling interests in the December 31, 2013 Consolidated Balance Sheet was $6.2 million. This amount reflected the original investments by these minority stockholders' in Leaf, along with their proportionate share of Leaf's losses. Noncontrolling shareholders' share of after-tax net income of CPOS is included in Net income (loss) attributable to noncontrolling interests from discontinued operations in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2013.

Subsequent Events—The Company evaluated subsequent events with respect to the condensed consolidated financial statements as of and for the nine months ended September 30, 2014.

On October 31, 2014, the Company acquired the net assets of Xpient Solutions, LLC ("Xpient") for a cash payment of $30.0 million plus net working capital. The purchase price was funded from a combination of operating cash and financing under the 2014 Revolving Credit Facility. Xpient provides Point-of-Sale software solutions to customers primarily in the food service industry.

New Accounting Pronouncements— From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standards setting bodies that are adopted by us as of the specified effective date.

In July 2013, the FASB issued an accounting standard update which provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). This update is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The implementation of this update did not have a material effect on the Company's condensed consolidated financial statements.

In July 2013, the FASB issued an accounting standard update which provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this update are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this update are effective for fiscal years and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The amendments would be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The implementation of this update did not have a material effect on the Company's condensed consolidated financial statements.

In April 2014, the FASB issued updated guidance on reporting discontinued operations. Under this updated guidance, a discontinued operation will include a disposal of a major part of an entity's operations and financial results such as a separate major line of business or a separate major geographical area of operations. The guidance raises the threshold to be a major operation but no longer precludes discontinued operations presentation where there is significant continuing involvement or cash flows with a disposed component of an entity. The guidance expands disclosures to include cash flows where there is significant continuing involvement with a discontinued operation and the pre-tax profit or loss of disposal transactions not reported as discontinued operations. The updated guidance is effective

prospectively for interim and annual reporting periods beginning on or after December 15, 2014, with early application permitted. The effect on the Company’s condensed consolidated financial statements is still being evaluated and will depend on the nature of future disposal transactions, if any.

In May 2014, the FASB issued guidance on revenue from contracts with customers, which requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses in particular contracts with more than one performance obligation as well as the accounting for some costs to obtain or fulfill a contract with a customer and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. With respect to public entities, this update is effective for fiscal years, and interim periods within those years, beginning after

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December 15, 2016 and early adoption is not permitted. The effect on the Company’s condensed consolidated financial statements is still being evaluated.
In August 2014, the FASB issued guidance on presentation of going concern financial statements which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this guidance are expected to reduce diversity in the timing and content of footnote disclosures. The amendments in this guidance are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The effect on the Company’s condensed consolidated financial statements is still being evaluated.

3. Acquisitions

2014 Acquisitions:

TouchNet Information Systems, Inc.
On September 4, 2014, the Company completed the acquisition of TouchNet, for a cash payment of $375 million, less a net working capital deficit, for all outstanding common shares. The purchase was funded primarily through a new five-year $375 million term loan. See Note 10, Credit Facilities for further details.

The transaction was accounted for under the purchase method of accounting. Beginning September 4, 2014, TouchNet's results of operations are included in the Company's results of operations. The fair values of the TouchNet assets acquired and liabilities assumed were estimated as of their acquisition date. The excess of the purchase price over the net assets and liabilities, approximately $222.1 million, was recorded as goodwill, which is expected to be deductible for income tax reporting. The fair values are preliminary, based on estimates, and may be adjusted as the Company analyzes what was known and knowable at the acquisition, including the finalization of valuations. During the nine months ended September 30, 2014, acquisition-related costs of approximately $2.0 million for advisory, legal and regulatory costs incurred in connection with the TouchNet acquisition have been expensed in general and administrative expenses. For the quarter ended September 30, 2014 the Company recognized $4.3 million of revenue related to TouchNet operations since the September 4, 2014 acquisition.

The following table summarizes the preliminary purchase price allocation (in thousands):

Cash and cash equivalents	$38,342
Receivables, net	12,243
Inventory	66
Prepaid expenses	601
Property and equipment, net	3,360
Intangible assets, net	144,400
Goodwill	222,076
Total assets acquired	421,088
Accounts payable	6,002
Accrued expenses and other liabilities	2,871
Current portion of unearned revenue	24,014
Current tax liability	13,914
Long-term portion of unearned revenue	2,037
Net assets acquired	$372,250

The weighted average amortization life for the 2014 acquired finite lived intangible assets related to acquisition of TouchNet are as follows:

Weighted average amortization life	
	(In years)
Customer relationships	20.0
Trademark	5.0
Software	15.0
Non-compete agreements	5.0
Overall	18.1

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The following pro forma information shows the results of our operations for the three and nine months ended September 30, 2014 and 2013 as if the TouchNet acquisition had occurred on January 1, 2013. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of that date. The pro forma information is also not intended to be a projection of future results due to the integration of the acquired business.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Total revenues	$619,861	$574,540	$1,760,516	$1,646,605
Net income attributable to Heartland	19,205	21,754	55,538	59,524
Basic earnings per share	$0.53	$0.59	$1.53	$1.62
Diluted earnings per share	$0.52	$0.57	$1.49	$1.56

MCS Software

On April 1, 2014, the Company purchased the net assets of MCS Software for a $17.3 million cash payment. The cash purchase price was financed under the Company's Credit Facility and from operating cash flows. The acquisition further expands the Company's Heartland School Solutions business.

The transaction was accounted for under the purchase method of accounting. Beginning April 1, 2014, MCS Software's results of operations are included in the Company's results of operations. The allocation of the total purchase price was as follows: $11.1 million to goodwill, $6.4 million to intangible assets and $0.2 million to net tangible liabilities. The fair values of the MCS Software's assets acquired and liabilities assumed were estimated as of their acquisition date. The fair values are preliminary, based on estimates, and may be adjusted as the Company analyzes what was known and knowable at the acquisition, including the finalization of valuations. Pro forma results of operations have not been presented because the effect of this acquisition was not material. Goodwill is expected to be deductible for income tax reporting.

The weighted average amortization life for the 2014 acquired finite lived intangible assets related to acquisition of MCS Software are as follows:

Weighted average amortization life	
	(In years)
Customer relationships	14.0
Software	4.6
Non-compete agreements	5.0
Overall	10.9

Liquor Point of Sale

On February 14, 2014, the Company purchased the assets of Merchant Software Corporation (referred to as "Liquor POS") for a $3.3 million cash payment. The cash purchase price was financed from operating cash flows.

The transaction was accounted for under the purchase method of accounting. Beginning on February 15, 2014, Liquor POS results of operations are included in the Company's results of operations. The allocation of the total purchase

price was as follows: $2.2 million to goodwill, $1.2 million to intangible assets, and $0.1 million to net tangible liabilities. Pro forma results of operations have not been presented because the effect of this acquisition was not material. Goodwill is expected to be deductible for income tax reporting.

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The weighted average amortization life for the 2014 acquired finite lived intangible assets related to the acquisition of Liquor POS are as follows:

Weighted average amortization life	
	(In years)
Customer relationships	10.0
Software	7.0
Non-compete agreements	5.0
Patents	5.0
Overall	8.9

2013 Acquisition:

Leaf Holdings, Inc.
On September 11, 2013, the Company purchased 66.67% of the outstanding capital stock of Leaf for a $14.5 million cash payment. The cash purchase price was financed from operating cash flows.

The transaction was accounted for under the purchase method of accounting. Beginning on September 11, 2013, Leaf's results of operations are included in the Company's results of operations. The allocation of the total purchase price was as follows: $18.5 million to goodwill, $6.9 million to intangible assets, $4.1 million to net tangible liabilities and $6.8 million to noncontrolling interest. Pro forma results of operations have not been presented because the effect of this acquisition was not material. Goodwill is not expected to be deductible for income tax reporting.

On August 6, 2014, the Company entered into a Stock Purchase Agreement with the noncontrolling shareholders of Leaf under which it acquired all shares of Leaf common stock held by the noncontrolling shareholders. As a result of this transaction, Leaf became a wholly-owned subsidiary of the Company. The Company accounted for this transaction as additional paid-in capital on the Condensed Consolidated Balance Sheet as of September 30, 2014.
The weighted average amortization life for the 2013 acquired finite lived intangible assets related to the acquisition of Leaf is as follows:

Weighted average amortization life	
	(In years)
Software	7.0
Patents	5.0
Overall	6.9

4. Receivables
A summary of receivables by major class was as follows at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Accounts receivable from merchants and customers	$191,798	$172,147
Accounts receivable from bankcard networks	27,570	26,842
Accounts receivable from others	3,121	2,083
	222,489	201,072
Less allowance for doubtful accounts	(1,553)	(1,032)
Total receivables, net	$220,936	$200,040

Included in accounts receivable from others are amounts due from employees (predominantly salespersons) which were $1.8 million and $1.1 million at September 30, 2014 and December 31, 2013, respectively. Accounts receivable related to bankcard networks are primarily amounts due from Discover and American Express for merchant bankcard transactions.

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A summary of the activity in the allowance for doubtful accounts for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Beginning balance	$1,780	$915	$1,032	$1,438
Out-of-Period adjustment (a)	—	—	875	—
Additions (reductions) to allowance	1,007	186	2,135	(16)
Charges against allowance	(1,234)	(134)	(2,489)	(455)
Ending balance	$1,553	$967	$1,553	$967

(a) See Note 1, Organization and Operations for a discussion of an Out-of-Period Adjustment.

5. Funds Held for Customers and Investments

A summary of funds held for customers and investments, including the amortized cost, gross unrealized gains (losses) and estimated fair value for investments held to maturity and investments available-for-sale by major security type and class of security were as follows at September 30, 2014 and December 31, 2013:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
September 30, 2014				
Funds Held for Customers				
Conservative income bond fund - available for sale	$13,012	$—	$(3)	$13,009
Fixed income bonds - available for sale	8,442	1	—	8,443
Cash held for payroll customers	58,358	—	—	58,358
Cash held for Campus Solutions customers	42,501	—	—	42,501
Total funds held for customers	$122,313	$1	$(3)	$122,311
Investments:				
Investments held to maturity - Certificates of deposit (a)	$33	$—	$—	$33
Total investments	$33	$—	$—	$33

(a) Certificate of deposit has a remaining term of 23 months.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
December 31, 2013				
Funds Held for Customers				
Conservative income bond fund - available for sale	$12,000	$10	$—	$12,010
Fixed income bond fund - available for sale	968	254	—	1,222
Cash held for payroll customers	88,376	—	—	88,376
Cash held for Campus Solutions customers	25,767	—	—	25,767
Total funds held for customers	$127,111	$264	$—	$127,375
Investments:				

Investments held to maturity - Certificates of deposit	$33	$—	$—	$33
Total investments	$33	$—	$—	$33

Expected maturities of the Fixed income bond at September 30, 2014 are as follows:

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	Total	Less Than 1 Year	1 To 5 Years	5 To 10 Years
	(In thousands)			
September 30, 2014				
Funds Held for Customers				
Fixed income bond - available for sale cost	$8,442	$936	$5,352	$2,154
Fixed income bond - available for sale estimated fair value	$8,443	$936	$5,351	$2,156

Also included in Investments on the Consolidated Balance Sheet are other investments, at cost. As of September 30, 2014 and December 31, 2013, other investments, at cost, include a $4.0 million investment in the equity of ATX Innovation, Inc. ("Tabbedout").

During the nine months ended September 30, 2014 and during the twelve months ended December 31, 2013, the Company did not experience any other-than-temporary losses on its investments.

During the nine months ended September 30, 2014, the Company sold available for sale securities for $17.2 million and realized a gain on this sale of $0.3 million which was recognized in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2014.

6. Capitalized Customer Acquisition Costs, Net

A summary of net capitalized customer acquisition costs as of September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Capitalized signing bonuses	$94,971	$86,886
Less accumulated amortization	(46,569)	(43,775)
	48,402	43,111
Capitalized customer deferred acquisition costs	52,321	45,241
Less accumulated amortization	(31,756)	(27,325)
	20,565	17,916
Capitalized customer acquisition costs, net	$68,967	$61,027

A summary of the activity in capitalized customer acquisition costs, net for the three and nine month periods ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Balance at beginning of period	$66,433	$56,148	$61,027	$56,425
Plus additions to:				
Capitalized signing bonuses, net	9,468	7,466	27,647	19,546
Capitalized customer deferred acquisition costs	6,192	5,555	18,349	15,676
	15,660	13,021	45,996	35,222
Less amortization expense on:				
Capitalized signing bonuses, net	(7,703)	(6,852)	(22,357)	(20,747)
Capitalized customer deferred acquisition costs	(5,423)	(4,606)	(15,699)	(13,189)
	(13,126)	(11,458)	(38,056)	(33,936)

Balance at end of period	$68,967	$57,711	$68,967	$57,711

Net signing bonus adjustments from estimated amounts to actual were $(0.7) million and $(1.0) million, respectively, for the three months ended September 30, 2014 and 2013, and $(2.8) million and $(2.9) million, respectively, for the nine months ended September 30, 2014 and 2013. Net signing bonus adjustments are netted against additions in the table above.

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Negative signing bonus adjustments occur when the actual gross margin generated by the merchant contract during the first year is less than the estimated gross margin for that year, resulting in the overpayment of the up-front signing bonus and would be recovered from the relevant salesperson. Positive signing bonus adjustments result from the prior underpayment of signing bonuses and would be paid to the relevant salesperson.

Fully amortized signing bonuses of $6.9 million and $6.4 million were written off during the three month periods ended September 30, 2014 and 2013, respectively, and $19.4 million and $19.1 million respectively, were written off during the nine month periods ended September 30, 2014 and 2013. In addition, fully amortized customer deferred acquisition costs of $3.9 million and $3.3 million, respectively, were written off during the three months ended September 30, 2014 and 2013, and $11.3 million and $9.9 million, respectively, were written off during the nine months ended September 30, 2014 and 2013.

The Company believes that no impairment of capitalized customer acquisition costs has occurred as of September 30, 2014 and December 31, 2013.

7. Intangible Assets and Goodwill

Intangible Assets — Intangible assets consisted of the following as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
	Gross Assets	Accumulated Amortization	Net Assets	Amortization Life and Method
	(In thousands)			
Finite Lived Assets:				
Customer relationships	$155,925	$19,041	$136,884	6 to 20 years—proportional cash flow
Merchant portfolio	4,214	3,053	1,161	7 years—proportional cash flow
Software	60,376	13,087	47,289	1 to 15 years—straight line
Non-compete agreements	5,806	2,558	3,248	5 years—straight line
Other	5,401	193	5,208	5 to 7 years—straight line
	$231,722	$37,932	$193,790	

	December 31, 2013			
	Gross Assets	Accumulated Amortization	Net Assets	Amortization Life and Method
	(In thousands)			
Finite Lived Assets:				
Customer relationships	$49,814	$14,107	$35,707	3 to 18 years—proportional cash flow
Merchant portfolio	4,095	2,703	1,392	7 years—proportional cash flow
Software	20,750	10,934	9,816	2 to 5 years—straight line
Non-compete agreements	4,489	1,880	2,609	3 to 5 years—straight line
Other	385	52	333	2 to 9 years—straight line
	$79,533	$29,676	$49,857	

Amortization expense related to the intangible assets was $3.4 million and $2.2 million, respectively, for the three months ended September 30, 2014 and 2013 and $8.3 million and $6.7 million for the nine months ended September 30, 2014 and 2013, respectively. The estimated remaining amortization expense related to intangible assets in twelve month increments is as follows:

For the Twelve Months Ending September 30,	
	(In thousands)

2015	$18,498
2016	17,218
2017	15,949
2018	13,875
2019	12,790
Thereafter	115,460
	$193,790

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Goodwill — The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2014 and 2013 were as follows:

	Card	Heartland Ovation Payroll	Heartland School Solutions	Campus Solutions	Other	Total
Balance at January 1, 2013	$43,701	$30,831	$53,350	$33,679	$6,501	$168,062
Goodwill acquired during the period	20,619	—	—	—	—	20,619
Other (a)	—	524	—	1,967	—	2,491
Balance at September 30, 2013	64,320	31,355	53,350	35,646	6,501	191,172
Balance at January 1, 2014	64,320	31,018	53,350	35,789	6,501	190,978
Goodwill acquired during the period	2,247	—	13,592	222,076	—	237,915
Other (a)	(2,130)	—	(2,493)	—	—	(4,623)
Balance at September 30, 2014	$64,437	$31,018	$64,449	$257,865	$6,501	$424,270

(a) Reflects adjustments to allocations of purchase price.

Percentage of total reportable segments' assets that were goodwill as of September 30, 2014 and 2013 is as follows:

	Percent of Goodwill to Reportable Segments' Total Assets	
	September 30, 2014	September 30, 2013
Card	10.9%	11.9%
Heartland Ovation Payroll	23.3%	21.0%
Heartland School Solutions	70.3%	65.4%
Campus Solutions	51.4%	49.4%
Other	32.2%	39.7%

8. Processing Liabilities

Processing liabilities result primarily from the Company's card processing activities and include merchant deposits maintained to offset potential liabilities arising from merchant chargebacks. A summary of processing liabilities and loss reserves was as follows at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Merchant bankcard processing	$97,094	$121,143
Merchant deposits	6,130	8,223
Loss reserves	1,632	1,505
	$104,856	$130,871

In addition to the merchant deposits listed above, the Company held letters of credit related to merchant card payment processing totaling $250,000 at September 30, 2014 and $260,000 at December 31, 2013.

The Company's merchants have the liability for any charges properly reversed by the cardholder through a mechanism known as a chargeback. If the merchant is unable to pay this amount, the Company will be liable to the card brand networks for the reversed charges. The Company has determined that the fair value of its obligation to stand ready to perform is minimal. The Company requires personal guarantees and merchant deposits from certain merchants to minimize its obligation.

The Company typically receives chargebacks from the card networks within four months after the later of (1) the date the transaction is processed, or (2) the delivery of the product or service to the cardholder. As the majority of the Company's SME merchant transactions involve the delivery of the product or service at the time of the transaction, a reasonable basis for determining an estimate of the Company's exposure to chargebacks is the last four months' processing volume on the SME portfolio, which was $28.5 billion and $24.4 billion for the four months ended September 30, 2014 and December 31, 2013, respectively. However, for the four months ended September 30, 2014 and December 31, 2013, the Company was presented with $13.7 million and $11.7 million, respectively, in chargebacks by issuing banks. In the nine months ended September 30, 2014 and 2013, the Company incurred merchant credit losses of $2.5 million and $2.4 million, respectively, on total SME card processing volumes processed of $60.1 billion and $56.2 billion, respectively. These credit losses are included in processing and servicing costs in the Company's Condensed Consolidated Statements of Income and Comprehensive Income.

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The loss recorded by the Company for chargebacks associated with any individual merchant is typically small, due both to the relatively small size and the processing profile of the Company's SME merchants. However, from time to time the Company will encounter instances of merchant fraud, and the resulting chargeback losses may be considerably more significant to the Company. The Company has established a contingent reserve for estimated currently existing credit and fraud losses on its Condensed Consolidated Balance Sheets, amounting to $1.6 million at September 30, 2014 and $1.5 million at December 31, 2013. This reserve is determined by performing an analysis of the Company's historical loss experience applied to current processing volume and exposures.

A summary of the activity in the loss reserve for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Beginning balance	$1,762	$1,955	$1,505	$1,955
Additions to reserve	943	1,228	3,000	2,461
Charges against reserve (a)	(1,073)	(1,228)	(2,873)	(2,461)
Ending balance	$1,632	$1,955	$1,632	$1,955

(a) Included in these amounts are Heartland Ovation Payroll segment losses of $179,000 and $13,000, respectively, for the three months ended September 30, 2014 and 2013, and $376,000 and $88,000, respectively, for the nine months ended September 30, 2014 and 2013.

9. Accrued Buyout Liability

A summary of the accrued buyout liability was as follows as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Vested Relationship Managers and sales managers	$43,178	$38,082
Unvested Relationship Managers and sales managers	1,779	1,297
	44,957	39,379
Less current portion	(14,457)	(13,943)
Long-term portion of accrued buyout liability	$30,500	$25,436

In calculating the accrued buyout liability for unvested Relationship Managers and sales managers, the Company has assumed that 31% of the unvested Relationship Managers and sales managers will vest in the future, which represents the Company's historical vesting rate. A 5% increase to 36% in the expected vesting rate would have increased the accrued buyout liability for unvested Relationship Managers and sales managers by $0.2 million and $0.1 million at September 30, 2014 and December 31, 2013, respectively.

A summary of the activity in the accrued buyout liability for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Beginning balance	$41,268	$33,319	$39,379	$35,410

Increase in settlement obligation, net	5,354	4,935	15,199	13,294
Buyouts	(1,665)	(1,392)	(9,621)	(11,842)
Ending balance	$44,957	$36,862	$44,957	$36,862

10. Credit Facilities

On September 4, 2014, the Company entered into an amended and restated senior secured credit facility (the "2014 Credit Agreement") with Bank of America, N.A., as administrative agent, and certain lenders who are a party to the 2014 Credit Agreement. This 2014 Credit Agreement replaces the Company's October 2013 Credit Agreement (the "2013 Credit Agreement”). Credit extended under the 2014 Credit Agreement is guaranteed by the Company's subsidiaries and is secured by substantially all of the Company's assets and the assets of the Company's subsidiaries.

The 2014 Credit Agreement provides for a revolving credit facility in the aggregate amount of up to $400 million (the “2014 Revolving Credit Facility”) and a term loan in an aggregate principal amount of $375 million (the “2014 Term Credit Facility”). The 2014 Revolving Credit Facility includes up to $35 million that may be used for the issuance of letters of credit and up to $35 million that is available for swing line loans. All principal and interest not previously paid on the 2014 Revolving Credit Facility will mature and be due and payable on September 4, 2019. The 2014 Term Credit Facility amortizes on a quarterly basis as follows, with the remaining principal balance due on September 4, 2019: (i) 5% of the initial 2014 Term Credit Facility to be payable in each of the first three years, (ii) 7.5% of the initial 2014 Term Credit Facility to be payable in the fourth year and (iii) 10% of the initial 2014 Term Credit Facility to be payable in the fifth year. The 2014 Term Credit Facility is also subject to mandatory prepayment from the net cash proceeds of certain asset dispositions, casualty or condemnation events, issuance of indebtedness and extraordinary receipts. Subject to the terms and conditions of the 2014 Credit Agreement, without the consent of the then existing lenders (but subject to the receipt of commitments), the 2014 Revolving Credit Facility may be increased and new incremental term loans may be issued in an aggregate principal amount of up to $150 million for all such increases under the 2014 Revolving Credit Facility and new term loans, subject to certain minimum threshold amounts.
On September 4, 2014, the Company borrowed $375 million under the 2014 Term Credit Facility and used that amount to fund the TouchNet Acquisition (See Note 3, Acquisitions). At September 30, 2014, the Company had $375 million outstanding under the 2014 Term Credit Facility.

The 2014 Credit Agreement contains covenants which include: maintenance of certain leverage and fixed charge coverage ratios; limitations on the Company's indebtedness, liens on the Company's properties and assets, investments in, and loans to other business units, the Company's ability to enter into business combinations and asset sales; and certain other financial and non-financial covenants. These covenants also apply to certain Company subsidiaries. The Company was in compliance with these covenants as of September 30, 2014 and December 31, 2013.

On October 23, 2013, the date the Company closed the 2013 Credit Agreement, it drew down $150.0 million on its revolving credit facility under the 2013 Credit Agreement and used those proceeds to repay borrowings then outstanding; $55.0 million outstanding under a term loan and $91.0 million outstanding under a revolving credit facility. At September 30, 2014 the Company had $197.5 million outstanding under its 2014 Revolving Credit Facility and at December 31, 2013, the Company had $150.0 million outstanding under the 2013 Credit Agreement revolving credit facility.

Under the terms of the 2014 Credit Agreement, the Company may borrow, at its option, at interest rates equal to one, two, three or six month adjusted LIBOR rates, or equal to the greater of the prime rate, the federal funds rate plus 0.50% and the adjusted LIBOR rate plus 1%, in each case plus a margin determined by the Company's current leverage ratio.

The weighted average interest rate at September 30, 2014 was 2.2%. Total fees and direct costs paid for the Company's credit facilities as of September 30, 2014 were $6.2 million, including $3.5 million paid on September 4, 2014. These costs are being amortized to interest expense over the life of the Credit Agreement.

11. Commitments and Contingencies

Litigation—The Company is involved in ordinary course legal proceedings, which include all claims, lawsuits, investigations and proceedings, including unasserted claims, which are probable of being asserted, arising in the ordinary course of business and otherwise not described below. The Company has considered all such ordinary course legal proceedings in formulating its disclosures and assessments. In the opinion of the Company, based on consultations with outside counsel, material losses in addition to amounts previously accrued are not considered reasonably possible in connection with these ordinary course legal proceedings.

The Company has also been subject to lawsuits, claims, and investigations which resulted from the criminal breach of

its payment systems environment (the "Processing System Intrusion"). See Contingencies below for a description of the Processing System Intrusion.

Contingencies—The Company collects and stores sensitive data about its merchant customers and bankcard holders. If the Company's network security is breached or sensitive merchant or cardholder data is misappropriated, the Company could be exposed to assessments, fines or litigation costs.
On January 20, 2009, the Company publicly announced the Processing System Intrusion. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by the Company during the transaction authorization process. The Company believes the breach did not extend beyond 2008. The Company does not consider it a reasonable possibility that losses exceeding the amounts previously recognized on the matters subject to Processing System Intrusion settlement agreements entered into to date will be incurred. With regard to unsettled claims related to the Processing System Intrusion, the Company determined material losses in addition to those previously accrued are not considered reasonably possible on any such claim disclosed. The Company is prepared to vigorously defend itself against any unsettled claims relating to the Processing System Intrusion that have been asserted against it and feels it has strong defenses to all claims that have been asserted against it relating to the Processing System Intrusion.

Leases—The Company leases various office spaces and certain equipment under operating leases with remaining terms ranging up to 13 years. The majority of the office space lease agreements contain renewal options and generally require the Company to pay certain operating expenses.

Future minimum lease payments for all non-cancelable leases as of September 30, 2014 were as follows:

For the Twelve Months Ending September 30,	Operating Leases (a)
	(In thousands)
2015	$14,007
2016	12,865
2017	7,754
2018	7,156
2019	6,126
Thereafter	26,015
Total future minimum lease payments	$73,923

(a) There were no material capital leases at September 30, 2014

Rent expense for leased facilities and equipment was $2.9 million and $2.7 million, respectively, for the three months ended September 30, 2014 and 2013, and $8.7 million and $7.5 million, respectively, for the nine months ended September 30, 2014 and 2013.

Commitments—Certain officers of the Company have entered into employee confidential information and non-competition agreements under which they are entitled to severance pay equal to their base salary and medical benefits for one year or two years depending on the officer and a pro-rated bonus in the event they are terminated by the Company other than for cause. The Company paid $0.6 million under one of these agreements in the nine months ended September 30, 2014.
The following table reflects the Company's other significant contractual obligations, including leases from above, as of September 30, 2014:

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Contractual Obligations	Payments Due by Period Total	Less than 1 year	1 to 3 Years	3 to 5 years	More than 5 years
	(In thousands)				
Processing providers (a)	$6,465	$5,465	$1,000	$—	$—
Telecommunications providers (b)	10,029	3,522	6,008	499	—
Facility and equipment leases	73,923	14,007	20,619	13,282	26,015
2014 Term Credit Facility	375,000	18,750	39,844	316,406	—
2014 Revolving Credit Facility (c)	197,500	—	—	197,500	—
	$662,917	$41,744	$67,471	$527,687	$26,015

(a) The Company has agreements with several third-party processors to provide to us on a non-exclusive basis payment processing and transmittal, transaction authorization and data capture services, and access to various reporting tools. The Company's agreements with third-party processors require it to submit a minimum monthly number of transactions or volume for processing. If the Company submits a number of transactions or volume that is lower than the minimum, it is required to pay the third-party processors the fees that they would have received if the Company had submitted the required minimum number or volume of transactions.

(b) The Company has agreements in place with several large telecommunications companies that provide data center services, wide area network connectivity, and voice services that are used by both the Company call center and card payment processing platforms. These providers require both dollar and term commitments for the services they provide. If the Company does not meet the minimum terms, then there is a requirement to pay the remaining commitments.

(c) Interest rates on the 2014 Revolving Credit Facility are variable in nature; however, the Company is party to fixed-pay amortizing interest rate swaps having a remaining notional amount of $17.5 million. If interest rates were to remain at the September 30, 2014 level, the Company would make interest payments of $0.4 million in the next 1 year and $0.1 million in the next 1 to 3 years or a total of $0.5 million including net settlements on the fixed-pay amortizing interest rate swaps. The 2014 Revolving Credit Facility is available on a revolving basis until September 4, 2019.

Unrecognized Tax Benefits. At September 30, 2014, the Company had gross tax-effected unrecognized tax benefits of approximately $6.8 million. As of September 30, 2014 the Company is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority, hence the unrecognized tax benefits have been excluded from the above commitment and contractual obligations table.

12. Segments

The Company bases its business segments on how it monitors and manages the performance of its operations as determined by the Company's chief operating decision maker or decision making group. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies, personnel skill sets and technology.

The Company has the following five reportable segments: (1) Card Payment Processing, which provides card payment processing and related services to our SME merchants and Network Services Merchants, (2) Heartland School Solutions, which provides school nutrition and point-of-sale solutions and associated payment solutions, (3) Heartland Ovation Payroll, which provides payroll processing and related tax filing services, (4) Campus Solutions, which provides payment processing, integrated commerce solutions, higher education loan services and open- and

closed-loop payment solutions, and (5) Prepaid Card and Other. The Prepaid Card and Other segment consists of Prepaid Card, which provides prepaid card, stored-value card and loyalty and gift card marketing solutions and other miscellaneous income. The components of the Prepaid Card and Other segment do not meet the defined thresholds for being an individually reportable segment under applicable accounting guidance.

SME merchants and Network Services merchants are aggregated for financial reporting purposes in the Card Segment, as they both provide processing services related to bankcard transactions, exhibit similar economic characteristics, and share the same systems to provide services. Campus Solutions includes TouchNet and ECSI for financial reporting purposes because they provide similar commerce solutions, exhibit similar economic characteristics, and provide services to a similar college and university customer base, including some overlap.

The Company allocates revenues, expenses, assets and liabilities to segments only where directly attributable. The unallocated corporate administration amounts consist primarily of costs attributed to finance, corporate administration, human resources and corporate services. Reconciling items include eliminations of intercompany investments and receivables.

The accounting policies of the operating segments are the same as described in the summary of significant accounting policies. The Company believes the terms and conditions of transactions between the segments are comparable to those which could have been obtained in transactions with unaffiliated parties.

At September 30, 2014 and 2013, 60% and 64%, respectively, of the Heartland Ovation Payroll's segment's total assets were funds that the Company holds as a fiduciary in its payroll processing services activities for payment to taxing authorities. At September 30, 2014 and 2013, 8% and 23%, respectively, of the Campus Solutions segment's total assets represent funds held for the Company's loan servicing customers related to payment processing services provided for federal student loan billing and processing that are payable to higher education institutions and other businesses. See Note 7, Intangible Assets and Goodwill for goodwill as a percentage of the reportable segments' total assets.

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A summary of the Company's segments for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	(In thousands)			
Card Payment Processing	$551,901	$519,783	$1,569,431	$1,489,804
Heartland School Solutions (a)	15,061	12,150	42,685	36,628
Heartland Ovation Payroll	12,170	10,578	37,978	33,648
Campus Solutions	14,400	8,556	36,883	27,853
Prepaid Card and Other	7,094	6,062	19,791	17,059
Total revenues	$600,626	$557,129	$1,706,768	$1,604,992
Depreciation and amortization				
Card Payment Processing	$8,628	$6,918	$24,240	$20,015
Heartland School Solutions	1,282	785	2,665	1,854
Heartland Ovation Payroll	727	959	2,416	2,634
Campus Solutions	1,473	674	2,756	1,696
Prepaid Card and Other	388	433	1,157	1,259
Unallocated Corporate Administration Amounts	165	35	282	(1,421)
Total depreciation and amortization	$12,663	$9,804	$33,516	$26,037
Interest Income				
Card Payment Processing	$33	$28	$95	$92
Campus Solutions	—	1	—	3
Total interest income	$33	$29	$95	$95
Interest Expense				
Card Payment Processing	$1,453	$1,242	$3,761	