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

FORM 10-Q/A
Amendment No. 1 to

(Mark one)

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

For quarterly period ending September 30, 1998

or

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

For the transition period from __________________ to __________________

Commission file number: 1-7945

DELUXE CORPORATION

(Exact name of registrant as specified in its charter)

| MINNESOTA | 41-021-6800 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 3680 Victoria St. N., St. Paul, Minnesota | 55126-2966 |
| (Address of principal executive offices) | (Zip Code) |

(651) 483-7111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No ___

The number of shares outstanding of registrant's common stock, par value $1.00 per share, at November 2, 1998 was 80,443,689.

SIGNIFICANT FINANCIAL AND ACCOUNTING DEVELOPMENTS

On December 31, 1998, the registrant received a number of questions and comments from the Securities and Exchange Commission's Division of Corporate Finance (the "Division") with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. From January through September of 1999, representatives of the registrant and the Division engaged in an extensive dialog concerning the comments raised by the Division. The principal focus of these discussions related to the $36.4 million accrual recorded by the registrant in the third quarter of 1998 to reserve for expected future losses on the existing long-term contracts and relationships of its Deluxe Government Services segment.

In the first quarter of 1999, the registrant determined that one relationship included in the 1998 loss accrual should no longer be included because the definitive agreement between the registrant and the prime contractor remains subject to negotiation. By not considering this relationship in the charge for expected future losses, $4.3 million of assets dedicated to this relationship were exposed to impairment. The resulting reclassification between accrued contract/relationship losses and the write-off of the long-lived assets dedicated to this relationship was recorded in the first quarter of 1999.

As a result of extended discussions with the Division, the registrant concluded its method of calculating a contract's costs should exclude the depreciation and

amortization associated with any assets related to that contract which are determined to be impaired pursuant to the registrant's policy on impairment of long-lived assets. The principal impact of this revised methodology is to record an asset impairment charge of $26.3 million at September 30, 1998. In calculating the impairment charge, the Company determined that the assets utilized by this business have no fair market value. Thus, the long-lived assets of this business were reduced to a carrying value of $0. In addition, the Company revised the amount of the reserve recorded for expected future losses on long-term service contracts and relationships and reversed $21.7 million of the original loss reserve at September 30, 1998. In effect, this revised approach results in the immediate recognition by the registrant of the impairment of the assets employed on its loss contracts, as opposed to depreciating those assets over time and including the amount of such depreciation in the estimated amount of the future losses from these long-term service contracts.

As a collorary to the revised methodology, however, the assets associated with the profitable long-term service contracts of the registrant's Deluxe Government Services segment must also be written-off. Originally, these assets were not encompassed within the loss contract accrual because the related contracts were profitable. Incorporating the assets employed on the profitable contracts into the impairment analysis increases the impaired asset write-down by an additional $4.6 million as of September 30, 1998 and increases the amount of the registrant's third quarter charge by an equivalent amount. This additional write-down reduced the Company's after-tax reported earnings by $2.9 million, or $.04 per share, for the quarter and nine months ended September 30, 1998. The restatement also resulted in a decrease in total assets of $26.3 million and a decrease in total liabilities of $23.3 million as of September 30, 1998. Net property, plant and equipment decreased from $400.7 million to $395.7 million. Net intangible assets decreased from $198.7 million to $177.4. Other accrued liabilities decreased from $197.6 million to $175.9 million. The effects of the revised methodology are presented in the restated financial statements included in this Amendment No. 1 of Form 10-Q for the quarter ended September 30, 1998. See Notes to the Consolidated Financial Statements.

The registrant has recently been notified that the prime contractor for a number of states and state coalitions for which the registrant's Deluxe Government Services business provides switching services does not intend to renew its switching agreement with the registrant. The registrant's Deluxe Government Services business is currently negotiating with the contractor regarding the timing and cost of this transition and the subsequent conversion of the switching services to a third party. The registrant will adjust the charge described above when the results of these negotiations are reasonably estimable. It is possible that the loss of this contract and revenue stream will require the registrant to record an additional accrual.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the registrant has amended and restated in its entirety each item of its Quarterly Report on Form 10-Q which has been affected by the financial statement restatement. In order to preserve the nature and character of the disclosures set forth in such items as of the original filing date of such Report, this Form 10-Q/A does not otherwise modify the disclosures in that report which were not affected by the restatement.



ITEM 1. FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION
DELUXE CORPORATION AND SUBSIDIARIES
***CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

<TABLE>
<CAPTION>

| <S> | September 30, 1998 (Unaudited) (As restated, See Note 2) <C> | December 31, 1997 <C> |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 150,218 | $ 171,438 |
| Marketable securities | 17,451 | 8,021 |
| Trade accounts receivable | 157,931 | 151,201 |
| Inventories: | | |
| Raw material | 19,851 | 22,950 |
| Semi-finished goods | 8,538 | 9,132 |
| Finished goods | 22,052 | 23,768 |
| Supplies | 9,007 | 11,146 |
| Deferred advertising | 17,105 | 15,763 |
| Deferred income taxes | 50,206 | 50,345 |
| Prepaid expenses and other current assets | 46,573 | 48,849 |
| Total current assets | 498,932 | 512,613 |

| | | |
|---|---|---|
| LONG-TERM INVESTMENTS | 46,225 | 52,910 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Land | 37,166 | 38,832 |
| Buildings and improvements | 268,047 | 288,270 |
| Machinery and equipment | 554,705 | 562,637 |
| Construction in progress | 5,753 | 346 |
| Total | 865,671 | 890,085 |
| Less accumulated depreciation | 469,985 | 475,077 |
| Property, plant and equipment - net | 395,686 | 415,008 |
| INTANGIBLES | | |
| Cost in excess of net assets acquired - net | 52,323 | 54,435 |
| Internal use software - net | 109,848 | 74,584 |
| Other intangible assets - net | 15,278 | 38,814 |
| Total intangibles | 177,449 | 167,833 |
| TOTAL ASSETS | $ 1,118,292 | $ 1,148,364 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 70,291 | $ 73,516 |
| Accrued liabilities: | | |
| Wages, including vacation pay | 71,512 | 62,513 |
| Employee profit sharing and pension | 24,089 | 40,517 |
| Accrued income taxes | 12,682 | 31,960 |
| Accrued rebates | 35,631 | 36,708 |
| Other | 175,934 | 129,263 |
| Long term debt due within one year | 5,027 | 7,078 |
| Total current liabilities | 395,166 | 381,555 |
| LONG-TERM DEBT | 109,774 | 109,986 |
| DEFERRED INCOME TAXES | 6,009 | 6,040 |
| OTHER LONG-TERM LIABILITIES | 35,176 | 40,535 |
| SHAREHOLDERS' EQUITY | | |
| Common shares - $1 par value (authorized 500,000,000 shares; issued: 1998 - 80,263,821 shares; 1997 - 81,325,925 shares) | 80,264 | 81,326 |
| Additional paid-in capital | | 4,758 |
| Retained earnings | 492,133 | 525,302 |
| Unearned compensation | (290) | (649) |
| Net unrealized gain - marketable securities | 253 | |
| Cumulative translation adjustment | (193) | (489) |
| Total shareholders' equity | 572,167 | 610,248 |
| TOTAL LIABILITIES AND SHARHOLDERS' EQUITY | $ 1,118,292 | $ 1,148,364 |

</TABLE>

See Notes to Unaudited Consolidated Financial Statements***



DELUXE CORPORATION AND SUBSIDIARIES
***CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Dollars in Thousands, except per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

| | QUARTERS ENDED SEPT. 30, | | NINE MONTHS ENDED SEPT. 30, | |
|---|---|---|---|---|
| | 1998 (As restated, See Note 2) | 1997 | 1998 (As restated, See Note 2) | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| NET SALES | $ 469,770 | $ 466,908 | $ 1,433,531 | $ 1,420,762 |
| OPERATING EXPENSES | | | | |
| Cost of sales | 259,188 | 222,516 | 697,762 | 664,565 |
| Selling, general and administrative | 210,898 | 219,338 | 596,542 | 602,933 |
| Goodwill impairment charge | | 82,893 | | 82,893 |
| Total | 470,086 | 524,747 | 1,294,304 | 1,350,391 |
| INCOME (LOSS) FROM OPERATIONS | (316) | (57,839) | 139,227 | 70,371 |
| OTHER INCOME (EXPENSE) | | | | |
| Other income (expense) | 5,433 | (44,399) | 13,626 | (35,294) |
| Interest expense | (2,135) | (2,152) | (6,293) | (7,023) |

| | | | | |
|---|---|---|---|---|
| INCOME (LOSS) BEFORE INCOME TAXES | 2,982 | (104,390) | 146,560 | 28,054 |
| PROVISION (BENEFIT) FOR INCOME TAXES | 3,097 | (36,875) | 60,849 | 16,687 |
| NET INCOME (LOSS) | $ (115) | $ (67,515) | $ 85,711 | $ 11,367 |
| NET INCOME (LOSS) PER COMMON SHARE - Basic and Diluted | $ 0.00 | $ (0.82) | $ 1.06 | $ 0.14 |
| CASH DIVIDENDS PER COMMON SHARE | $ 0.37 | $ 0.37 | $ 1.11 | $ 1.11 |

</TABLE>

See Notes to Unaudited Consolidated Financial Statements***



DELUXE CORPORATION AND SUBSIDIARIES
***CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | NINE MONTHS ENDED SEPT. 30, | |
|---|---|---|
| | 1998 (As restated, See Note 2) | 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | $ 85,711 | $ 11,367 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 43,263 | 41,769 |
| Asset impairment charge | 26,252 | 99,019 |
| Amortization of intangibles | 18,385 | 20,010 |
| Stock purchase discount | 4,514 | 5,049 |
| Net gain on sales of businesses | (3,383) | (535) |
| Changes in assets and liabilities, net of effects from discontinued operations and sales of businesses: | | |
| Trade accounts receivable | (9,958) | (11,907) |
| Inventories | 240 | (1,363) |
| Accounts payable | (2,901) | 6,298 |
| Other assets and liabilities | 15,936 | 28,694 |
| Net cash provided by continuing operations | 178,059 | 198,401 |
| Net cash used by discontinued operations | | (174) |
| Net cash provided by operating activities | 178,059 | 198,227 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of marketable securities with maturities of more than 3 months | 15,890 | |
| Purchases of marketable securities with maturities of more than 3 months | (25,066) | (8,000) |
| Net change in marketable securities with maturities of three months or less | | (3,500) |
| Purchases of capital assets | (88,496) | (68,578) |
| Acquisitions, net of cash acquired | | (10,600) |
| Net proceeds from sales of businesses and discontinued operations | 12,319 | 2,198 |
| Other | 20,849 | 6,157 |
| Net cash used in investing activities | (64,504) | (82,323) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net payments on short-term debt | | (16,783) |
| Proceeds from long-term debt | 292 | |
| Payments on long-term debt | (5,502) | (5,380) |
| Payments to retire common stock | (60,260) | (53,589) |
| Proceeds from issuing stock under employee plans | 20,634 | 17,757 |
| Cash dividends paid to shareholders | (89,939) | (91,253) |
| Net cash used in financing activities | (134,775) | (149,248) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (21,220) | (33,344) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 171,438 | 142,571 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 150,218 | $ 109,227 |

=========== ===========

</TABLE>

See Notes to Unaudited Consolidated Financial Statements***



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of September 30, 1998 and the consolidated statements of income and cash flows for the quarters and the nine month periods ended September 30, 1998 and 1997 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements are included. Other than those discussed in the notes below, such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented in accordance with instructions for Form 10-Q and do not contain certain information included in the Company's consolidated annual financial statements and notes.

***2. Subsequent to the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, the management of the Company and the Securities and Exchange Commission ("SEC") had discussions regarding the Company's accounting for expected future losses on long-term service contracts and relationships of the Deluxe Government Services segment. As a result of these discussions, which concluded in September 1999, the Company has revised the amount of the reserve recorded for expected future losses on these contracts and relationships. Additionally, the Company has recorded an asset impairment charge relating to the long-lived assets of this segment.

The Company concluded that any contract loss accrual should be excluded from the undiscounted cash flow analysis used in determining whether or not there is an impairment of long-lived assets. In the situation where an impairment is recorded, the original estimation of contract costs used in the calculation of a contract loss accrual would then require an adjustment to exclude the depreciation and amortization associated with the impaired assets.

Application of the revised methodology modified the calculations related to the Deluxe Government Services segment. Such revisions for the quarter and nine months ended September 30, 1998 consisted of asset impairment charges of $26.3 million on long-lived assets offset by a reduction of $21.7 million in accrued contract/relationship losses, for a net charge to cost of sales of $4.6 million and a reduction in net income of $2.9 million, net of a tax benefit of $1.7 million. As a result of these adjustments, basic and diluted net income per share for the quarter and nine months ended September 30, 1998 decreased to $.00 per share from $.04 per share and to $1.06 per share from $1.10 per share, respectively. The accompanying consolidated financial statements for the quarter and nine months ended September 30, 1998 have been restated to give effect to these revised calculations.***

***3. The Company evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. Should the sum of the expected future net cash flows be less than the carrying value of the long-lived asset, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset. In evaluating whether there is any impairment of long-lived assets associated with long-term service contracts, the amount of any contract loss accrual is excluded from the undiscounted future cash flows associated with the long-lived assets when determining whether those assets are impaired.

The Company evaluates the recoverability of long-lived assets held for disposal by comparing the asset's carrying amount with its fair value less costs to sell. Should the fair value less costs to sell be less than the carrying value of the long-lived asset, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset less costs to sell.***

***4. On occasion, the Company enters into long-term service contracts, which are definitive agreements to provide services over a period of time in excess of one year and with respect to which the Company has no contractual right to adjust the prices or terms at or on which its services are supplied during the term of the contract. Revenues are recognized for all long-term service contracts when the service is performed. Total revenues for some long-term service contracts may vary based on the demand for services. Expenses are recognized when incurred, with the exception of installation costs. Any installation costs are capitalized and recognized ratably over the life of the contract, which approximates the anticipated revenue recognition. Any equipment and software purchased to support a long-term service contract is capitalized and depreciated or amortized over the life of the related contract or the life of the asset, whichever is shorter.

In determining the profitability of a long-term service contract, only direct and allocable indirect costs associated with the contract are included in the calculation. The appropriateness of allocations of indirect costs depends on the circumstances and involves the judgement of management, but such costs may include the costs of indirect labor, contract supervision, tools and



equipment, supplies, quality control and inspection, insurance, repairs and maintenance, depreciation and amortization and, in some circumstances, support costs. The method of allocating any indirect costs included in the analysis is also dependent upon the circumstances and the judgement of management, but the allocation method must be systematic and rational. General and administrative costs and selling costs are not included in the analysis. Provisions for estimated losses on long-term service contracts, if any, are made in the period in which the loss first becomes probable and reasonably estimable. Projected losses are based on management's best estimates of a contract's revenue and costs. Actual losses on individual long-term service contracts are compared to the loss projections periodically, with any changes in the estimated total contract loss recognized as they become probable and reasonably estimable.

Certain direct costs associated with the electronic benefits transfer contracts discussed in Note 13 are common to a number of contracts and are attributed to each contract based on its use of the services associated with these common direct costs. Revenues or case counts are used to attribute these costs to individual contracts.

In the event an asset impairment loss is recognized on long-lived assets used to support a long-term service contract, the original estimation of the contract's costs is revised to exclude the depreciation and amortization associated with the impaired assets.***

5. As of September 30, 1998, the Company had uncommitted bank lines of credit of $170 million available at variable interest rates. As of that date, there were no amounts drawn on those lines. The Company also had a $150 million committed line of credit available for borrowing and as support for commercial paper. As of September 30, 1998, the Company had no commercial paper outstanding and no indebtedness outstanding under its committed line of credit. Additionally, the Company had a shelf registration in place for the issuance of up to $300 million in medium-term notes. Such notes could be used for general corporate purposes, including working capital, capital expenditures, possible acquisitions and repayment or repurchase of outstanding indebtedness and other securities of the Company. As of September 30, 1998, no such notes were issued or outstanding.

6. The following table reflects the calculation of basic and diluted earnings per share (unaudited dollars and shares outstanding in thousands, except per share amounts).

<TABLE>
<CAPTION>
***

| | Quarter Ended Sept. 30, | | Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Net income (loss) per share-basic: | | | | |
| Net income (loss) | $ (115) | $ (67,515) | $ 85,711 | $ 11,367 |
| Weighted average shares outstanding | 80,498 | 81,901 | 80,721 | 82,031 |
| Net income (loss) per share-basic | $ .00 | $ (.82) | $ 1.06 | $ .14 |
| Net income (loss) per share-diluted: | | | | |
| Net income (loss) | $ (115) | $ (67,515) | $ 85,711 | $ 11,367 |
| Weighted average shares outstanding | 80,498 | 81,901 | 80,721 | 82,031 |
| Dilutive impact of options | | | 176 | 116 |
| Shares contingently issuable | | | 10 | 13 |
| Weighted average shares and potential dilutive shares outstanding | 80,498 | 81,901 | 80,907 | 82,160 |
| Net income (loss) per share-diluted | $ .00 | $ (.82) | $ 1.06 | $ .14 |

***
</TABLE>

***7. Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires disclosure of comprehensive income and its components in the Company's financial statements. The Company's total comprehensive income for the quarter and nine months ended September 30, 1998 was $.1 million and $86.2 million, respectively. The Company had a comprehensive loss of $67.9 million for the quarter ended September 30, 1997, and had comprehensive income of $10.7 million for the nine months ended September 30, 1997. The Company's comprehensive income consists of net income, unrealized holding gains and losses on securities and foreign

currency translation adjustments.***

8. During 1998, the Company will adopt Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises employers' disclosures about pensions and other postretirement benefit plans. The Company does not anticipate that the effect of this pronouncement will have a material impact on reported operating results.

9. During the third quarter of 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires the disclosure of financial and



descriptive information about the reportable operating segments of the Company. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect the Company's results of operations or financial position. The Company has organized its business units into six reportable operating segments based on the nature of the products and services offered by each: Paper Payment Systems; Payment Protection Systems; Electronic Payment Systems; Direct Response; Government Services; and Deluxe Direct. Paper Payment Systems provides check printing services to financial services companies and markets checks and business forms directly to households and small businesses. Payment Protection Systems provides payment protection, collection and risk management services to financial institutions and retailers. Electronic Payment Systems provides electronic funds transfer and other software services to the financial and retail industries. The remaining businesses within Direct Response, which are currently held for sale, provide direct marketing, customer database management and related services to the financial industry and other businesses. Government Services provides electronic benefits transfer services to state governments. Deluxe Direct, which is currently held for sale, primarily sells greeting cards, stationery and specialty paper products through direct mail. All segments, with the exception of the Electronic Payment Systems segment, operate primarily in the United States. The Electronic Payment Systems segment operates both domestically and internationally. No single customer of the Company accounted for more than 10% of net sales in 1998 or 1997.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as presented in the Company's notes to its consolidated annual financial statements. In evaluating segment performance, management focuses on income from operations. This measurement excludes special charges (e.g., restructuring charges, asset impairment charges, charges to legal reserves, etc.), interest expense, investment income, income tax expense and other non-operating items, such as gains or losses from asset disposals. Corporate expenses are allocated to the segments as a fixed percentage of segment revenues. This allocation includes expenses for various support functions such as human resources, information services and finance. The corresponding corporate asset balances are not allocated to the segments. Most intersegment sales are based on current market pricing. Segment information for the nine months ended September 30, 1998 and 1997 is as follows (in thousands):

<TABLE>
<CAPTION>
***

| NINE MONTHS ENDED SEPTEMBER 30, 1998 | Paper Payment Systems | Payment Protection Systems | Electronic Payment Systems | Direct Response | Government Services | Deluxe Direct | Total Segments |
|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net sales from external customers | $ 959,199 | $ 161,451 | $ 95,127 | $ 35,065 | $ 30,939 | $ 151,750 | $1,433,531 |
| Intersegment sales | 2,053 | 1,121 | 4,942 | 557 | | 3,903 | 12,576 |
| Operating income (loss) excluding special charges | 231,957 | 23,110 | (1,418) | (15,353) | (7,475) | (1,672) | 229,149 |
| Special charges | 11,099 | 623 | 1,381 | 2,513 | 41,180 | | 56,796 |
| Operating income (loss) including special charges | 220,858 | 22,487 | (2,799) | (17,866) | (48,655) | (1,672) | 172,353 |
| Segment assets | 407,810 | 104,992 | 119,467 | 39,172 | 21,140 | 114,734 | 807,315 |
| Depreciation and amortization expense | 27,451 | 6,996 | 9,795 | 1,238 | 4,225 | | 49,705 |
| Capital purchases | 37,335 | 9,361 | 11,284 | 829 | 299 | 1,130 | |

60,238

<CAPTION>

| NINE MONTHS ENDED SEPTEMBER 30, 1997 | Paper Payment Systems | Payment Protection Systems | Electronic Payment Systems | Direct Response | Government Services | Deluxe Direct | Total Segments |
|---|---|---|---|---|---|---|---|
| Net sales from external customers | $ 967,156 | $ 143,171 | $ 85,701 | $ 36,033 | $ 19,019 | $ 169,682 | $1,420,762 |
| Intersegment sales | 3,856 | 1,530 | 4,135 | 2,182 | | 2,349 | 14,052 |
| Operating income (loss) excluding special charges | 213,354 | 27,196 | (1,235) | (15,379) | (8,305) | (8,995) | 206,636 |
| Goodwill impairment charge | | | 9,361 | 3,000 | | 70,532 | 82,893 |
| Other special charges | 17,696 | | 3,270 | 2,000 | | 13,480 | 36,446 |
| Operating income (loss) including special charges | 195,658 | 27,196 | (13,866) | (20,379) | (8,305) | (93,007) | 87,297 |

</TABLE>



<TABLE>
<S> <C> <C> <C> <C> <C> <C> <C>

| | Paper Payment Systems | Payment Protection Systems | Electronic Payment Systems | Direct Response | Government Services | Deluxe Direct | Total Segments |
|---|---|---|---|---|---|---|---|
| Segment assets | 370,615 | 80,744 | 101,636 | 41,298 | 30,338 | 138,739 | 763,370 |
| Depreciation and amortization expense | 25,617 | 6,594 | 12,081 | 4,867 | 3,043 | 697 | 52,899 |
| Capital purchases | 28,913 | 5,897 | 6,674 | 2,296 | 470 | 730 | 44,980 |

***
</TABLE>

Segment information reconciles to consolidated amounts as follows (in thousands):

OPERATING INCOME INCLUDING SPECIAL CHARGES

<TABLE>
<CAPTION>

| *** | Nine Months Ended September 30, 1998 | Nine Months Ended September 30, 1997 |
|---|---|---|
| Total segment operating income including special charges | $ 172,353 | $ 87,297 |
| Elimination of intersegment profits | (84) | 48 |
| Unallocated corporate expenses | (33,042) | (16,974) |
| Total consolidated operating income including special charges | $ 139,227 | $ 70,371 |

***
</TABLE>

1998 unallocated corporate expenses consist of corporate special charges (see note 10), as well as charges for certain corporate liabilities which are not allocated to the segments. 1997 unallocated corporate expenses consist primarily of corporate special charges (see note 10).

TOTAL ASSETS

<TABLE>
<CAPTION>

| *** | September 30, 1998 | September 30, 1997 |
|---|---|---|
| Total segment assets | $ 807,315 | $ 763,370 |
| Unallocated corporate assets | 310,977 | 341,470 |
| Total consolidated assets | $1,118,292 | $1,104,840 |

***

</TABLE>

Unallocated corporate assets consist primarily of cash, marketable securities, long-term investments, deferred tax assets and long-term assets employed by the corporate support groups.

DEPRECIATION AND AMORTIZATION EXPENSE

<TABLE>
<CAPTION>

| *** | Nine Months Ended September 30, 1998 | Nine Months Ended September 30, 1997 |
|---|---|---|
| <S> | <C> | <C> |
| Total segment depreciation and amortization expense | $ 49,705 | $ 52,899 |
| Depreciation and amortization of unallocated corporate assets | 11,943 | 8,880 |
| Total consolidated depreciation and amortization expense | $ 61,648 | $ 61,779 |

***
</TABLE>

Segment depreciation and amortization expense includes only the expense attributable to segment assets.

CAPITAL PURCHASES

<TABLE>
<CAPTION>

| | Nine Months Ended September 30, 1998 | Nine Months Ended September 30, 1997 |
|---|---|---|
| <S> | <C> | <C> |
| Total segment capital purchases | $ 60,238 | $ 44,980 |
| Corporate capital purchases | 28,258 | 23,598 |
| Total consolidated capital purchases | $ 88,496 | $ 68,578 |

</TABLE>

Corporate capital purchases consist primarily of a new financial information system (SAP) and various other information system enhancements.

Revenues are attributed to geographic areas based on the location of the assets producing the revenues. The Company's operations by geographic area are as follows (in thousands):



<TABLE>
<CAPTION>

| | NET SALES FROM EXTERNAL CUSTOMERS | | LONG-LIVED ASSETS | |
|---|---|---|---|---|
| | Nine Months Ended | | | |
| *** | September 30, 1998 | September 30, 1997 | September 30, 1998 | September 30, 1997 |
| <S> | <C> | <C> | <C> | <C> |
| United States | $1,411,765 | $1,391,920 | $615,528 | $623,546 |
| Foreign countries | 21,766 | 28,842 | 3,832 | 6,098 |
| Total consolidated | $1,433,531 | $1,420,762 | $619,360 | $629,644 |

***
</TABLE>

10. During the third quarter of 1998, the Company recorded pretax restructuring charges of $39.5 million. The restructuring charges included costs associated with the Company's initiative to reduce its selling, general and administrative expenses (SG&A), the outsourcing of production of the Direct Response segment's direct mail products, as well as the closing of additional check printing plants. The Company anticipates eliminating approximately 800 SG&A positions within sales and marketing, finance and accounting, human resources and information services. Approximately 60 positions will be eliminated due to the outsourcing of direct mail products production. The Company also plans to close additional check printing plants over the next 18 months, affecting approximately 800 to 900 employees. The restructuring charges consisted of employee severance costs of $31.2 million and $8.3 million for expected losses on the disposition of assets. Expenses of $10.9 million were included in cost of sales; $21.1 million was included in selling, general, and administrative and $7.5 million was included in other expense in the consolidated statements of income (loss) for the quarter and nine months ended September 30, 1998.

During the third quarter of 1997, the Company recorded pretax restructuring

charges of $24.5 million. The restructuring charges included additional costs for the closing of 21 check printing plants, as announced in 1996, as well as costs associated with the continued consolidation of the Company's core businesses. The additional charge for plant closing costs represented amounts which could not be recorded in 1996 because they did not meet the requirements for accrual in that year due to the timeframe over which the plant closing plan was expected to be completed. The restructuring charges consisted of employee severance costs of $21.6 million and $2.9 million for expected losses on the disposition of assets. Expenses of $7.7 million were included in cost of sales; $13.9 million was included in selling, general, and administrative and $2.9 million was included in other expense in the consolidated statements of income (loss) for the quarter and nine months ended September 30, 1997.

The Company's consolidated balance sheets reflect restructuring accruals of $50.4 million and $39.5 million as of September 30, 1998 and December 31, 1997, respectively, for employee severance costs and $10.9 million and $3.7 million as of September 30, 1998 and December 31, 1997, respectively, for estimated losses on asset dispositions. The majority of the severance costs are expected to be paid out by early 2000 with cash generated from the Company's operations.

***11. An impairment charge of $26.3 million was recorded in the third quarter of 1998 to write-down the carrying value of long-lived assets of the Government Services segment. The assets consist of point-of-sale equipment, internal-use software and capitalized installation costs utilized in the electronic benefits transfer (EBT) activities of this segment. During the third quarter of 1998, management concluded that the operating losses incurred by this business would continue. This is primarily due to the fact that the variable costs associated with supporting benefit recipient activity are higher than originally anticipated and actual transaction volumes are below original expectations. In calculating the impairment charge, the Company determined that the assets utilized by this business have no fair market value. The point-of-sale equipment was purchased via capital leases. The lease buy-out prices for this equipment plus the deinstallation costs exceed the amount equipment resellers are willing to pay for the equipment. The utility of the internal-use software is limited to its use in supporting the EBT business, and the installation costs could not be resold. Thus, the long-lived assets of this business were reduced to a carrying value of $0. This impairment charge is reflected in cost of sales in the consolidated statements of income (loss) for the quarter and nine months ended September 30, 1998.***

In October 1998 the Company announced that it had reached agreements in principle to sell PaperDirect, Inc. ("PaperDirect"), the Social Expressions component ("Social Expressions") of Current, Inc. and the remaining businesses within the Company's Direct Response segment. The sales are currently expected to close in the fourth quarter of 1998. These businesses, along with the international component of the Electronic Payment Systems segment, are accounted for in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." These businesses contributed revenue of $52.6 million and $55.2 million in the third quarters of 1998 and 1997, respectively, and revenue of $177.7 million and $171.9 million during the first nine months of 1998 and 1997, respectively. They contributed operating losses of $1.6 million and $2.1 million in the third quarters of 1998 and 1997, respectively, and losses of $3.5 million and $6.2 million during the first nine months of 1998 and 1997, respectively. The direct mail check printing business of Current, Inc. will remain with the Company and its results of operations are included in the Paper Payment Systems operating segment.

During the third quarter of 1997, the Company recorded a pretax impairment charge of $99 million to write-down the carrying value of PaperDirect, Social Expressions and the international operations of the Electronic Payment Systems segment to their estimated fair values less costs to sell. This charge is reflected in the goodwill impairment charge ($82.9 million) and in selling, general and administrative expense ($16.1 million) in the consolidated statements of income (loss) for the quarter and nine months ended September 30, 1997.



12. In August 1998, the Company completed the sale of its Card Services business and the Company is currently in the process of outsourcing the production of its direct mail products. These initiatives will not have a material impact on the Company's reported operating results. The results of operations of these businesses were included in the Direct Response operating segment.

***13. During the third quarter of 1998, the Company recorded a charge of $14.7 million to reserve for expected future losses on existing long-term contracts and relationships of the Government Services segment. This charge is reflected in cost of sales in the consolidated statements of income (loss) for the quarter and nine months ended September 30, 1998. This segment provides electronic benefits transfer services to state governments and online medical eligibility verification services to the State of New York. Due to a continuing strong economy, record low unemployment and welfare reform, the actual transaction volumes and expected future revenues of this business are well below original

expectations. Additionally, actual and expected future telecommunications, installation, help desk and other costs are significantly higher than originally anticipated, resulting in expected future losses on the existing electronic benefits transfer contracts and relationships of this business. This charge was calculated in accordance with the Company's policy on long-term service contracts (see Note 4).***

14. During the third quarter of 1997, the Company recorded a $40 million pretax charge to reserve for an adverse judgement against one of the Company's subsidiaries. The charge also reserves for potential legal and other related costs. The Company has appealed from this judgment and has thus classified this obligation as other long-term liabilities in the consolidated balance sheet.

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

Company Profile

During the third quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires the disclosure of financial and descriptive information about the reportable operating segments of the Company. The Company has organized its business units into six operating segments based on the nature of the products and services offered by each: Paper Payment Systems; Payment Protection Systems; Electronic Payment Systems; Direct Response; Government Services; and Deluxe Direct. Paper Payment Systems provides check printing services to financial services companies and markets checks and business forms directly to households and small businesses. Payment Protection Systems provides payment protection, collection and risk management services to financial institutions and retailers. Electronic Payment Systems provides electronic funds transfer and other software services to the financial and retail industries. The remaining businesses within Direct Response, which are currently held for sale, provide direct marketing, customer database management and related services to the financial industry and other businesses. Government Services provides electronic benefits transfer services to state governments. Deluxe Direct, which is currently held for sale, primarily sells greeting cards, stationery and specialty paper products through direct mail. All segments, with the exception of the Electronic Payment Systems segment, operate primarily in the United States. The Electronic Payment System segment operates both domestically and internationally.

Results of Operations - Quarter and Nine Months Ended September 30, 1998 Compared to the Quarter and Nine Months Ended September 30, 1997

Net sales were $470 million for the third quarter of 1998, up .6% from the third quarter of 1997 when sales were $467 million. Net sales were $1,434 million for the first nine months of 1998, up .9% from the comparable period in 1997 when sales for the first nine months were $1,421 million. Paper Payment Systems revenue was flat in the third quarter of 1998 versus the third quarter of 1997. Revenues for the first nine months of 1998 were down 1.0% from the first nine months of 1997 due to lower volume for the financial institution check printing business. This decrease was partially offset by increased volume for direct mail checks and small business products. Payment Protection Systems revenue was up 11.4% over the third quarter of 1997 and 12.4% over the first nine months of 1997 due to increased volume for all product lines. Electronic Payment Systems revenue was up 7.0% for the quarter and 11.4% for the first nine months of 1998 versus the same periods in 1997. The increase was due to higher volume arising from an increased customer base and increased transaction volume. Direct Response revenue was down 8.1% from the third quarter of 1997 and 6.8% from the first nine months of 1997 due to lower volume and the sale of the Card Services business in the third quarter of 1998. Government Services revenue was up 53.7% over the third quarter of 1997 and 62.7% over the first nine months of 1997 due to increased volume from existing contracts, as well as the addition of new contracts in 1998. Deluxe Direct revenue was down 17.7% for the quarter and 9.5% for the first nine months of 1998 due primarily to divestitures.

***Cost of sales increased $36.7 million, or 16.5%, from the third quarter of 1997, and increased $33.2 million, or 5.0%, from the first nine months of 1997. Included in the 1998 third quarter results was a charge of $51.6 million for check printing plant closings, and an asset impairment charge and contract loss accrual related to the Government Services segment. Included in the 1997 third quarter results was a charge of $7.7 million related to the continued consolidation of check printing plants. With these charges removed, cost of sales decreased $7.2 million, or 3.4%, from the third quarter of 1997, and decreased $10.7



million, or 1.6%, from the first nine months of 1997. Paper Payment Systems cost of sales decreased 10.2% for the quarter and 8.6% for the first nine months of 1998 versus 1997, excluding the impact of restructuring charges in both years. This decrease is due primarily to savings realized from plant consolidation and productivity improvements within the financial institution check printing business. Payment Protection Systems cost of sales increased 20.3% over the

third quarter of 1997 and 17.5% over the first nine months of 1997 due to the increased sales volume and increased depreciation, rent and salaries expense due to the growth of the segment. Electronic Payment Systems cost of sales increased 10.7% for the quarter and 10.0% for the first nine months of 1998 versus 1997 due to the increased sales volume. Additionally, information systems cost increased due to the year 2000 issues, the need to pay higher wages to retain technical personnel, and increased equipment costs related to a new data center. Direct Response cost of sales was down 20.2% for the quarter and 5.7% for the first nine months of 1998 versus 1997, excluding the impact of restructuring charges in 1998. These decreases are due to the lower sales volume, the sale of the Card Services business and the outsourcing of production of direct mail products. Government Services cost of sales increased 40.6% over the third quarter of 1997 and 45.7% over the first nine months of 1997, excluding special charges in 1998. The increase was due to the increased sales volume. Because many of the costs of this business are fixed, cost of sales increased at a lower rate than did revenue. Deluxe Direct cost of sales decreased 12.7% for the quarter and 6.0% for the first nine months of 1998 versus 1997 due primarily to divestitures, which decrease was partially offset by increased information systems costs in 1998.***

Selling, general and administrative (SG&A) expenses decreased $8.4 million, or 3.8%, from the third quarter of 1997, and decreased $6.4 million, or 1.1%, from the first nine months of 1997. Included in 1998 third quarter results was a $22.0 million charge primarily for severance related to the Company's initiative to reduce SG&A expenses. Included in 1997 third quarter results was a charge totaling $39.6 million related to check printing plant consolidation, job reductions and the write-down of impaired assets. With these charges removed, SG&A expenses increased $9.1 million, or 5.1%, from the third quarter of 1997, and increased $11.1 million, or 2.0%, from the first nine months of 1997. Paper Payment Systems SG&A expenses increased 9.7% from the third quarter of 1997 and 1.5% from the first nine months of 1997 due to increased amortization expense for the segment's new customer service system. Payment Protection Systems SG&A expense increased 16.4% for the quarter and 20.8% for the first nine months of 1998 versus 1997, excluding special charges in 1998. These increases were due primarily to increased information systems and marketing costs reflecting the Company's investment in this segment. Electronic Payment Systems SG&A expenses increased 14.3% over the third quarter of 1997 and 15.1% over the first nine months of 1997, excluding special charges in both years, due primarily to increased sales and marketing costs. Direct Response SG&A expenses decreased 11.0% for the quarter and 4.1% for the first nine months of 1998 versus 1997, with special charges excluded in both years, due to lower amortization expense due to asset write-offs in the third quarter of 1997. Government Services SG&A expenses increased 17.8% for the quarter and 14.6% for the first nine months of 1998 versus 1997 due to costs associated with additional contracts in 1998. Deluxe Direct SG&A expenses decreased 23.5% from the third quarter of 1997 and 18.8% from the first nine months of 1997, excluding special charges in 1997, due to divestitures and reduced marketing expenses.

Other income increased $49.8 million from the third quarter of 1997 and $48.9 million from the first nine months of 1997. 1997 third quarter results include charges of $49.8 million relating to legal proceedings and asset impairments. During 1997, a judgement was entered against one of the Company's subsidiaries in conjunction with a potential bid to provide electronic benefit transfer services for the Southern Alliance of States. The majority of this amount is expected to be paid in 1999 if the Company is unsuccessful in its attempt to obtain a reversal of this judgment on appeal.

***The Company's effective tax rate decreased to 41.5% for the first nine months of 1998 versus 59.5% for the first nine months of 1997. The decrease is due to higher pretax income in 1998 combined with a higher base of non-deductible expenses in 1997 consisting primarily of the goodwill impairment charge. With the effect of the special charges removed in both years, the Company's effective tax rate was 40.2% for the first nine months of 1998 and 40.6% for the first nine months of 1997.***

***The Company's net loss was $.1 million for the third quarter of 1998 compared to a net loss of $67.5 million for the third quarter of 1997. Net income for the first nine months of 1998 was $85.7 million compared to $11.4 million for the first nine months of 1997. 1998 third quarter results include after-tax charges of $46.6 million for severance related to the Company's initiative to reduce its SG&A expenses, the outsourcing of production of its direct mail products, the closing of additional check printing plants and accrued contract losses and asset impairments within its Government Services segment. The 1997 third quarter results include after-tax charges of $112.3 million for asset impairments related to its businesses held for sale, an unfavorable legal decision and severance reserves related to continued consolidation of check printing plants and consolidation of the Company's core businesses. With these charges removed, net income was $46.5 million for the third quarter of 1998, or 9.9% of sales, compared to $44.8 million, or 9.6% of sales, for the third quarter of 1997. Net income, excluding special charges, was $132.4 million, or 9.2% of sales, for the first nine months of 1998, compared to $123.7 million, or 8.7% of sales, for the first nine months of 1997. The increase for both periods is attributable to the changes discussed above.***

Financial Condition - Liquidity

***Cash provided by operations was $178.1 million for the first nine months of 1998 compared with $198.2 million for the first nine months of 1997. Cash from operations represents the Company's primary source of working capital for financing capital expenditures and paying cash dividends. The Company's working capital on September 30, 1998 was $103.8 million compared to $131.1 million on December 31, 1997. The Company's current ratio was 1.3 to 1 on September 30, 1998 and December 31, 1997.***

Financial Condition - Capital Resources

Purchases of capital assets totaled $88.5 million for the first nine months of 1998 compared to $68.6 million during the comparable period one year ago. The increase represents investments in a new financial information system, a new customer interface system, as well as other strategic initiatives designed to improve productivity and profitability. As of September 30, 1998, the Company had uncommitted bank lines of credit of $170 million available at variable interest rates. As of that date, there were no amounts drawn on those lines. The Company also had a $150 million committed line of credit available for borrowing and as support for commercial paper. As of September 30, 1998, the Company had no commercial paper outstanding and no indebtedness outstanding under its committed line of credit. Additionally, the Company had a shelf registration in place for the issuance of up to $300 million in medium-term notes. Such notes could be used for general corporate purposes, including working capital, capital expenditures, possible acquisitions and repayment or repurchase of outstanding indebtedness and other securities of the Company. As of September 30, 1998, no such notes were issued or outstanding. Cash dividends totaled $89.9 million for the first nine months of 1998 compared to $91.3 million for the first nine months of 1997.

Year 2000 Readiness Disclosure

General Approach and State of Readiness. In 1996, the Company initiated a company wide program to prepare its computer systems, applications, embedded chip equipment and third-party suppliers/customers for the year 2000. The year 2000 issue affects the Company and most of the other companies and governmental agencies in the world. Historically, certain computer programs were written using two digits rather than four to define the applicable year. As a result, some programs may recognize a date which uses the two digits "00" as 1900 rather than the year 2000, which may cause them to, among other things, generate erroneous data, lose data elements and possibly fail.

The Company is using a multi-phase approach in conducting its year 2000 remediation efforts. These phases are: assessment; analysis and formulation of remediation strategy; solution implementation; testing; and certification using internally developed criteria. The Company has divided its internal readiness review between "mission critical" systems and equipment and other assets. The project is organized around nine types of computerized assets. The asset types include internally developed applications, product-to-market software and systems, third-party purchased software, data centers, networks, environmental systems, purchased hardware (including embedded chip and desktop equipment), third party assessment and external interfaces. During 1997, the Company performed assessment and prioritization of all affected areas, defined appropriate resolution strategies and began execution of those strategies. The compliance strategies included renovation, replacement and retirement of systems and equipment.

As of September 1998, the overall project is approximately 75% complete and approximately 80% complete with respect to areas identified as "mission critical."

The testing phase is expected to be complete for mission critical components within all asset types by the end of 1998, at which point, the overall project is expected to be approximately 90% complete. Certification of critical assets in all internal categories should be 95% complete by the end of 1998 and certification is expected to be 95% complete across all internal categories by June of 1999. Also during 1999, the project focus will shift toward completion of customer and vendor testing and contingency execution.

As part of its year 2000 review, the Company has also assessed the readiness of its facilities with respect to embedded chip equipment. Included in this effort was all plant manufacturing equipment, HVAC systems, building security systems, PCs and other office equipment such as printers, faxes and copy machines. The most frequent method of achieving compliance in this area is replacement of non-compliant systems and equipment. This effort was approximately 75% complete at September 30, 1998 and is scheduled for completion by September of 1999.

Another area of focus for the Company is the year 2000 readiness of its significant suppliers and customers, both from the standpoint of technology and product/service provision. These external organizations have been contacted and have provided responses to year 2000 assessment requests. Site visits and action plans are being developed as appropriate, based on the importance of the

organizations to the Company's ability to provide products and services. Overall, this category was approximately 75% complete as of the end of September 1998, and this effort is expected to be complete by March 1999.



Costs. The Company expects to incur project expenses of approximately $26.5 million over the life of its year 2000 project, consisting of both internal staff costs and consulting expenses, with $12.6 million having been incurred through September 30, 1998. Funds for the initiative are provided from a separate budget of $26.5 million for the remediation of all affected systems. The Company's SAP software implementation costs and other capital expenditures associated with the replacement or improvement of affected systems are not included in these cost estimates. The Company has not deferred any material information technology project as a result of the initiative.

Risk and Contingency. Because of the nature of the Company's business, the year 2000 issue would, if unaddressed, pose a material business risk for the Company. Business operations may be at risk, as well as customer information interfaces and the provision of products/services. The risk is further increased by the potential for the Company to fall out of compliance with policies set by the Federal Financial Institution Examination Council, National Credit Union Agency and other Federal and regional regulatory bodies.

The Company presently believes that with the planned modifications to existing systems and the replacement or retirement of other systems, the year 2000 compliance issue will be resolved in a timely manner and will not pose significant operational problems for the Company. The Company has prioritized its renovation efforts to focus first on its mission critical internal systems and the Company believes it is presently on schedule to complete this component of its remediation efforts before the relevant year 2000 failure dates are reached.

In addition to the planned modifications, replacements and retirements, the Company has developed risk mitigation processes and created contingency plans in an effort to limit the inherent risk of the Year 2000 issue. Manual fall-back processes and procedures have been identified and put in place, particularly in cases where vendor equipment or services begin to demonstrate the potential to be unavailable in a timely manner. The Company is also preparing plans to deploy internal teams to repair problems as they arise when the century rolls over. Ongoing audit reviews are scheduled during the latter part of 1999 and into 2000 to ensure that compliance control processes continue to be in use. In addition, the Company is enhancing its existing business resumption plans and believes its existing liability insurance programs should mitigate its loss exposure in the event that operational problems do arise.

This discussion should be read in conjunction with the disclosures contained in "Item 5 -- Risk Factors and Cautionary Statements -- Year 2000 Readiness Disclosure," which appears in Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

Outlook

Throughout the remainder of 1998 and 1999, the Company will continue its efforts to reduce costs and improve productivity throughout the organization. At the same time, the Company will continue to invest in major infrastructure improvements. The Company also expects to continue its efforts to complete its divestiture program by selling its remaining non-strategic businesses so it can focus on its growth opportunities.

## PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report:

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 3.1 | Articles of incorporation (incorporated by reference to Exhibit 3(A) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990). | * |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999). | * |
| 4.1 | Amended and Restated Rights Agreement, dated as of January 31, 1997, by and between the Company and Norwest Bank Minnesota, National Association, as Rights Agent, which includes as Exhibit A | |

thereto, the form of Rights Certificate (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 on Form 8-A/A-1 (File No. 001-07945) filed with the Securities and Exchange Commission (the "Commission") on February 7, 1997). *



| | | |
|---|---|---|
| 4.2 | Indenture, relating to up to $150,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (33-32279) filed with the Commission on November 24, 1989). | * |
| 4.3 | Amended and Restated Credit Agreement, dated as of July 8, 1997, among the Company, Bank of America National Trust and Savings Association, as agent, and the other financial institutions party thereto related to a $150,000,000 committed line of credit (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). | * |
| 12.3 | Amended Computation of Ratio of Earnings to Fixed Charges | Filed herewith |
| 27.3 | Amended Financial Data Schedule | Filed herewith |

- --------------------------

*Incorporated by reference

(b) The registrant did not, and was not required to, file any reports on form 8-K during the quarter for which this report is filed.



SIGNATURES

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

DELUXE CORPORATION
(Registrant)

Date: October 7, 1999

/s/ J. A Blanchard III

----------------------------------------
J.A. Blanchard III, President
and Chief Executive Officer
(Principal Executive Officer)

Date: October 7, 1999

/s/ Thomas W. VanHimbergen

----------------------------------------
Thomas W. VanHimbergen
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)



INDEX TO EXHIBITS

| Exhibit No. | Description | Page Number |
|---|---|---|
| 12.3 | Amended Computation of Ratio of Earnings to Fixed Charges | |
| 27.3 | Amended Financial Data Schedule | |

EXHIBIT 12.3

DELUXE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

<TABLE>
<CAPTION>

| | Nine Months Ended | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | September 30, 1998 (As restated)(1) | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| **Earnings** | | | | | | | |
| Income from Continuing Operations before Income Taxes | $ 146,560 | $ 115,150 | $ 118,765 | $ 169,319 | $ 246,706 | $ 235,913 | $ 324,783 |
| Interest expense (excluding capitalized interest) | 6,293 | 8,822 | 10,649 | 13,099 | 9,733 | 10,070 | 15,371 |
| Portion of rent expense under long-term operating leases representative of an interest factor | 10,803 | 13,621 | 13,467 | 14,761 | 13,554 | 13,259 | 12,923 |
| Amortization of debt expense | 91 | 122 | 121 | 84 | 84 | 84 | 84 |
| TOTAL EARNINGS | $ 163,747 | $ 137,715 | $ 143,002 | $ 197,262 | $ 270,077 | $ 259,326 | $ 353,161 |
| **Fixed charges** | | | | | | | |
| Interest Expense (including capitalized interest) | 7,378 | $ 9,742 | $ 11,978 | $ 14,714 | $ 10,492 | $ 10,555 | $ 15,824 |
| Portion of rent expense under long-term operating leases representative of an interest factor | 10,803 | 13,621 | 13,467 | 14,761 | 13,554 | 13,259 | 12,923 |
| Amortization of debt expense | 91 | 122 | 121 | 84 | 84 | 84 | 84 |
| TOTAL FIXED CHARGES | $ 18,272 | $ 23,485 | $ 25,566 | $ 29,559 | $ 24,130 | $ 23,898 | $ 28,831 |
| RATIO OF EARNINGS TO FIXED CHARGES: | 9.0 | 5.9 | 5.6 | 6.7 | 11.2 | 10.9 | 12.2 |

</TABLE>

(1) Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and after discussions with the Securities and Exchange Commission, which concluded in September 1999, the Company revised its accounting treatment for future losses on long-term contracts and relationships and its calculation of impairment charges on long-lived assets related to the Company's Deluxe Government Services segment. As a result, the Company has restated its financial information for the third quarter of 1998. See Note 2 in the Notes to Consolidated Financial Statements contained in the Company's Amendment No. 1 to the Quarterly

Report on Form 10-Q for the quarter ended September 30, 1998.

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

| <S> | <C> | |
|---|---|---|
| <PERIOD-TYPE> | 9-MOS | |
| <FISCAL-YEAR-END> | | DEC-31-1998 |
| <PERIOD-START> | | JAN-01-1998 |
| <PERIOD-END> | | SEP-30-1998 |
| <CASH> | | 150,218 |
| <SECURITIES> | | 17,451 |
| <RECEIVABLES> | | 157,931 |
| <ALLOWANCES> | | 0 |
| <INVENTORY> | | 50,441 |
| <CURRENT-ASSETS> | | 498,932 |
| <PP&E> | | 865,671 |
| <DEPRECIATION> | | 469,985 |
| <TOTAL-ASSETS> | | 1,118,292 |
| <CURRENT-LIABILITIES> | | 395,166 |
| <BONDS> | | 109,774 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 0 |
| <COMMON> | | 80,264 |
| <OTHER-SE> | | 491,903 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 1,118,292 |
| <SALES> | | 1,433,531 |
| <TOTAL-REVENUES> | | 1,433,531 |
| <CGS> | | 697,762 |
| <TOTAL-COSTS> | | 1,294,304 |
| <OTHER-EXPENSES> | | (13,626) |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 6,293 |
| <INCOME-PRETAX> | | 146,560 |
| <INCOME-TAX> | | 60,849 |
| <INCOME-CONTINUING> | | 85,711 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 85,711 |
| <EPS-BASIC> | | 1.06 |
| <EPS-DILUTED> | | 1.06 |

</TABLE>