

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 quarterly period ended March 31, 1994  
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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  
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DELUXE CORPORATION  
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(Exact name of registrant as specified in its charter)

MINNESOTA

41-0216800

-----  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1080 West County Road "F", St. Paul, Minnesota 55126-8201  
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(Address of principal executive offices) (Zip code)

(612) 483-7111

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(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  
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The number of shares outstanding of registrant's common stock, par value \$1.00  
per share, at May 2, 1994 was 82,389,388.

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ITEM 1. FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION

DELUXE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
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(Dollars in Thousands)

(Unaudited) December 31,  
March 31, 1994 1993

<S>	<C>	<C>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$114,298	\$114,103
Marketable securities	72,679	107,705
Trade accounts receivable	118,236	123,119
Inventories:		
Raw material	21,450	18,260
Semi-finished goods	23,310	21,155
Finished goods	28,630	29,989
Supplies	16,350	15,915
Deferred advertising	28,569	26,080
Deferred income taxes	28,279	28,914
Prepaid expenses and other current assets	37,133	37,123
<b>Total current assets</b>	<b>488,934</b>	<b>522,363</b>
<b>LONG-TERM INVESTMENTS</b>	<b>38,010</b>	<b>34,815</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	31,807	32,706
Buildings and improvements	259,279	261,974
Machinery and equipment	495,767	483,853
Construction in progress	2,652	1,360
<b>Total</b>	<b>789,505</b>	<b>779,893</b>
Less accumulated depreciation	386,024	378,252
<b>Property, plant and equipment - net</b>	<b>403,481</b>	<b>401,641</b>
<b>INTANGIBLES</b>		
Cost in excess of net assets acquired - net	243,768	246,104
Other intangible assets - net	45,889	47,071
<b>Total intangibles</b>	<b>289,657</b>	<b>293,175</b>
<b>TOTAL ASSETS</b>	<b>\$1,220,082</b>	<b>\$1,251,994</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$51,134	\$50,424
Accrued liabilities:		
Wages, including vacation pay	53,175	45,584
Employee profit sharing and pension	19,855	59,560
Restructuring costs	22,972	35,489
Accrued rebates	28,440	26,473
Income taxes	25,235	3,847
Other	55,212	69,527
Long-term debt due within one year	6,905	6,967
<b>Total current liabilities</b>	<b>262,928</b>	<b>297,871</b>
<b>LONG-TERM DEBT</b>	<b>110,093</b>	<b>110,755</b>
<b>DEFERRED INVESTMENT CREDIT</b>	<b>1,091</b>	<b>1,224</b>
<b>DEFERRED INCOME TAXES</b>	<b>40,320</b>	<b>40,895</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares - \$1 par value (authorized 500,000,000 shares; issued: 82,466,167)	82,466	82,549
Additional paid in capital		341
Retained earnings	725,149	719,046
Cumulative translation adjustment	(631)	(687)
Net unrealized change - marketable securities	(1,334)	
<b>Total shareholders' equity</b>	<b>805,650</b>	<b>801,249</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,220,082</b>	<b>\$1,251,994</b>

</TABLE>

See Notes to Consolidated Financial Statements

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<TABLE>  
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(Dollars in Thousands Except per Share Amounts)  
(Unaudited)

	1994	1993
<S>	<C>	<C>
NET SALES	\$429,988	\$405,747
OPERATING EXPENSES		
Cost of sales	196,674	185,876
Selling, general, and administrative	148,466	117,678
Employee profit sharing and pension	14,846	15,569
Employee bonus and stock purchase discount	6,164	6,705
Total	366,150	325,828
INCOME FROM OPERATIONS	63,838	79,919
OTHER INCOME (EXPENSE)		
Investment and other income	4,726	4,250
Interest expense	(3,778)	(2,449)
INCOME BEFORE INCOME TAXES	64,786	81,720
PROVISION FOR INCOME TAXES		
Federal income tax	22,503	24,633
State income taxes	4,242	5,296
Total	26,745	29,929
NET INCOME	\$38,041	\$51,791
AVERAGE COMMON SHARES OUTSTANDING		
	82,541,814	83,520,388
NET INCOME PER COMMON SHARE (Note 2)	\$.46	\$.62
CASH DIVIDENDS PER COMMON SHARE	\$.36	\$.35

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See Notes to Consolidated Financial Statements

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DELUXE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Three Months Ended March 31, 1994 and 1993  
(Dollars in Thousands)  
(Unaudited)

	1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$38,041	\$51,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,133	13,488
Amortization of intangibles	5,778	3,626
Stock purchase discount	2,084	2,103
Deferred income taxes and investment credit	(74)	(227)
Changes in assets and liabilities:		
Trade accounts receivable	4,883	3,945
Inventories	(3,986)	1,828
Accounts payable	710	(5,613)
Restructuring costs	(12,517)	
Other assets and liabilities	(10,080)	(3,349)
Net cash provided by operating activities	38,972	67,592
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities with maturities of more than 3 months	(9,867)	(50,818)
Proceeds from sales of marketable securities with maturities of more than 3 months	23,501	44,157

Net change in marketable securities with maturities of 3 months or less	20,000	(8,200)
Purchases of property, plant, and equipment	(20,104)	(20,513)
Other	(17,102)	(2,648)
	-----	-----
Net cash used in investing activities	(3,572)	(38,022)
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CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(756)	(1,949)
Payments to retire common stock	(11,017)	(41,148)
Proceeds from issuing stock under employee plans	6,358	8,038
Cash dividends paid to shareholders	(29,790)	(29,322)
	-----	-----
Net cash used in financing activities	(35,205)	(64,381)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	195	(34,811)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	114,103	275,172
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$114,298	\$240,361
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See Notes to Consolidated Financial Statements

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of March 31, 1994, and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 1994 and 1993 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.  
  
The 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 annual financial statements and notes.
2. Net income per common share is based on the average number of common shares outstanding during each period. The Company purchases outstanding shares for reissuance under its employees' stock purchase and stock option plans and for other corporate purposes. It has authorization to continue such purchases, provided the number of outstanding shares is not reduced below 75,000,000 shares.
3. Effective January 1, 1994 the Company adopted Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities." As a result, the carrying value of the Company's marketable securities was reduced to reflect market value. The Company classifies all marketable securities as available for sale. Accordingly, the reduction of \$1,334,000 as of March 31, 1994 is recorded as a component of shareholders' equity.
4. Effective January 1, 1994 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 112 "Employers' Accounting for Postemployment Benefits." SFAS 112 requires the Company to accrue the estimated cost of post employment benefit payments during the years in which employees provide services. The adoption of SFAS 112 did not have a material effect on the Company's financial position or results of operations.

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#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1994 COMPARED TO THREE MONTHS ENDED MARCH 31, 1993

Net sales were \$430.0 million for the first quarter of 1994, up 6.0% over the first quarter of 1993, when sales were \$405.7 million. The first quarter Payments Systems segment's revenue decreased 5.4% from first quarter 1993 reflecting a 4% decline in check-orders from financial institutions (FIs) and continued price competition in the FI market. The decline in revenue from financial institution check printing was partially offset by an 18.0% increase in revenue from the Company's electronic payment systems subsidiaries.

Deluxe's Business Systems segment posted a 40.3% increase in revenue in the first quarter of 1994 over first quarter 1993 primarily due to the contribution of PaperDirect, Inc., which the Company acquired in the third quarter of 1993. Revenue for the Consumer Specialty Products segment increased 21.8% as a result of Current's strong sales in its social expressions and direct mail check printing product lines.

Selling, general and administrative expenses increased \$30.8 million or 26.2% in first quarter 1994 over first quarter 1993. The Business Systems segment's expenses increased approximately \$14.5 million primarily due to the acquisition of Paper Direct, Inc. Also, the Consumer Specialty Products segment increased spending on advertising by approximately \$8.5 million. Net income was \$38.0 million in the first quarter of 1994, or 8.9% of sales, compared to \$51.8 million in 1993 or 12.8% of sales.

The Company's effective tax rate for first quarter 1994 increased to 41.3% compared to 36.6% in first quarter 1993. The increase was the result of changes in the federal tax laws (including an increase in the statutory tax rate to 35% in August 1993), an increase in the Company's non deductible amortization of intangibles related to acquisitions and the adoption of SFAS 109 during the first quarter of 1993, which reduced the provision for income taxes for that quarter.

#### FINANCIAL CONDITION - LIQUIDITY

Cash provided by operations was \$39.0 million for the first quarter of 1994, compared with \$67.6 million one year ago. This represents the Company's primary source of working capital for financing capital expenditures, acquisitions, and paying cash dividends. The decline in 1994 is primarily the result of lower net income and cash payments related to the 1993 restructuring of the Company's financial institution check printing operations. The Company's working capital on March 31, 1994 was \$226.0 million, compared to \$224.5 million, on December 31, 1993. The current ratio was 1.9 to 1 on March 31, 1994 and 1.8 to 1 on December 31, 1993.

#### FINANCIAL CONDITION - CAPITAL RESOURCES

Purchases of property, plant, and equipment totaled \$20.1 million for the first quarter of 1994, compared to \$20.5 million one year ago. The Company anticipates total capital expenditures of approximately \$75 million in 1994 for new electronic payment system investments and further enhancements to printing capabilities.

In February 1991, the Company issued \$100 million in notes payable under its 1989 registration of \$150 million in debt securities. In addition, the Company has unsecured bank lines of credit of \$35 million should current cash resources and cash provided by operations prove to be inadequate.

Cash dividends totaled \$29.8 million in the first quarter of 1994 compared to \$29.3 million in the first quarter of 1993.

#### PART II. OTHER INFORMATION

##### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) None
- (b) The Company 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

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(Registrant)

Date May 15, 1994

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/s/ H. V. Haverty

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H. V. Haverty, Chairman, President  
and Chief Executive Officer  
(Principal Executive Officer)

Date May 15, 1994

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/s/ C. M. Osborne

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C.M. Osborne, Senior Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

