

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

FORM 10-Q

(Mark one)

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

For quarterly period ended June 30, 1994

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 41-0216800

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

1080 West County Road "F", St. Paul, Minnesota 55126-8201

(Address of principal executive offices) (Zip code)

(612) 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
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The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at August 1, 1994 was 82,551,699.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<TABLE>
<CAPTION>

	June 30, 1994 (Unaudited)	December 31, 1993
	-----	-----
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	\$39,779	\$114,103
Marketable securities	66,421	107,705
Trade accounts receivable	132,223	123,119
Inventories:		
Raw material	22,132	18,260

Semi-finished goods	24,157	21,155
Finished goods	36,275	29,989
Supplies	15,614	15,915
Deferred advertising	15,851	26,080
Deferred income taxes	29,633	28,914
Prepaid expenses and other current assets	50,828	37,123
	-----	-----
Total current assets	432,913	522,363
	-----	-----
LONG-TERM INVESTMENTS	40,674	34,815
	-----	-----
PROPERTY, PLANT AND EQUIPMENT		
Land	30,706	32,706
Buildings and improvements	259,945	261,974
Machinery and equipment	513,468	483,853
Construction in progress	2,289	1,360
	-----	-----
Total	806,408	779,893
Less accumulated depreciation	393,095	378,252
	-----	-----
Property, plant, and equipment - net	413,313	401,641
	-----	-----
INTANGIBLES		
Cost in excess of net assets acquired - net	275,533	246,104
Other intangible assets - net	46,038	47,071
	-----	-----
Total intangibles	321,571	293,175
	-----	-----
TOTAL ASSETS	1,208,471	\$1,251,994
	-----	-----
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$53,330	\$50,424
Accrued liabilities:		
Wages, including vacation pay	59,314	45,584
Employee profit sharing and pension	32,361	59,560
Restructuring costs	17,871	35,489
Accrued rebates	29,900	26,473
Income taxes		3,847
Other	54,873	69,527
Long-term debt due within one year	7,387	6,967
	-----	-----
Total current liabilities	255,036	297,871
	-----	-----
LONG-TERM DEBT	110,187	110,755
	-----	-----
DEFERRED INVESTMENT CREDIT	958	1,224
	-----	-----
DEFERRED INCOME TAXES	40,209	40,895
	-----	-----
SHAREHOLDERS' EQUITY		
Common shares - \$1 par value (authorized 500,000,000 shares; issued: 82,360,810)	82,361	82,549
Additional paid in capital		341
Retained earnings	721,690	719,046
Cumulative translation adjustment	(213)	(687)
Net unrealized change - marketable securities	(1,757)	
	-----	-----
Total shareholders' equity	802,081	801,249
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,208,471	\$1,251,994
	-----	-----
	-----	-----

</TABLE>

See Notes to Consolidated Financial Statements

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DELUXE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands Except per Share Amounts)
(Unaudited)

<TABLE>
<CAPTION>

JUNE 30	QUARTER ENDED JUNE 30	SIX MONTHS ENDED
-----	-----	-----
	1994	1993
		1994

1993				
<S>	<C>	<C>	<C>	<C>
NET SALES	\$412,344	\$362,868	\$842,332	
\$768,616				
OPERATING EXPENSES				
Cost of sales	189,225	168,908	385,899	
354,785				
Selling, general, and administrative	148,867	108,810	297,333	
226,490				
Employee profit sharing and pension	15,597	15,468	30,443	
31,037				
Employee bonus and stock purchase discount	6,506	5,912	12,670	
12,616				
Restructuring Charge		60,000		
60,000				
Total	360,195	359,098	726,345	
684,928				
INCOME FROM OPERATIONS	52,149	3,770	115,987	
83,688				
OTHER INCOME (EXPENSE)				
Investment and other income	943	3,690	5,669	
7,941				
Interest expense	(2,522)	(2,435)	(6,300)	
(4,884)				
INCOME BEFORE INCOME TAXES	50,570	5,025	115,356	
86,745				
PROVISION FOR INCOME TAXES				
Federal income tax	17,373	2,472	39,876	
27,105				
State income taxes	3,641	307	7,883	
5,602				
Total	21,014	2,779	47,759	
32,707				
NET INCOME	\$29,556	\$2,246	\$67,597	
\$54,038				
AVERAGE COMMON SHARES OUTSTANDING				
83,274,796	82,324,840	82,984,424	82,428,636	
NET INCOME PER COMMON SHARE	\$.36	\$.03	\$.82	\$
.65				
CASH DIVIDENDS PER COMMON SHARE	\$.36	\$.35	\$.72	\$
.70				

</TABLE>

See Notes to Consolidated Financial Statements

DELUXE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 1994 and 1993
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

	1994 -----	1993 -----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$67,597	\$54,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,603	27,174
Amortization of intangibles	12,350	7,478
Stock purchase discount	4,175	4,236
Deferred income taxes and investment credit	(167)	(22,333)
Changes in assets and liabilities:		
Trade accounts receivable	(6,155)	19
Inventories	(12,336)	(3,554)
Accounts payable	1,578	(3,372)
Restructuring costs	(17,618)	58,293
Other assets and liabilities	(17,144)	(21,393)
	-----	-----
Net cash provided by operating activities	60,883	100,586
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities with maturities of more than 3 months	(13,115)	(112,810)
Proceeds from sales of marketable securities with maturities of more than 3 months	32,501	88,482
Net change in marketable securities with maturities of 3 months or less	20,000	(16,100)
Purchases of property, plant, and equipment	(47,646)	(39,043)
Payments for acquisitions, net of cash acquired	(36,993)	
Other	(18,411)	(4,872)
	-----	-----
Net cash used in investing activities	(63,664)	(84,343)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(1,691)	(7,616)
Payments to retire common stock	(23,047)	(70,985)
Proceeds from issuing stock under employee plans	12,646	15,279
Cash dividends paid to shareholders	(59,451)	(58,454)
	-----	-----
Net cash used in financing activities	(71,543)	(121,776)
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(74,324)	(105,533)
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	114,103	275,172
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$39,779	\$169,639
	-----	-----

</TABLE>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of June 30, 1994, the related consolidated statements of income for the three-month and six-month periods ended June 30, 1994 and 1993 and the consolidated statements of cash flows for the six-month periods ended June 30, 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. 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 \$1,757,000 as of June 30, 1994 is recorded as a component of shareholders' equity.

3. 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.

4. During the second quarter of 1994, the Company acquired all of the outstanding stock of National Revenue Corporation, which is included in the Electronic Payment Systems Division, and T-Maker, Inc., which is included in the Business Systems Division, for a combined total of \$37 million. The Company recorded these acquisitions under the purchase method of accounting. These acquisitions did not have a material proforma impact on operations.

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

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 1994 COMPARED TO SIX MONTHS ENDED JUNE 30, 1993

Net sales were \$842.3 million for the first six months of 1994, up 9.6% over the first six months of 1993, when sales were \$768.6 million. The Payment Systems segment revenue for the first six months of 1994 decreased 2.8% from the first six months of 1993. A decline in revenue due to a slight decline in check printing orders from financial institutions (FIs) and continued price competition in the FI market was offset by a 23.8% increase in revenue from the Company's electronic payment systems subsidiaries.

Deluxe's Business Systems segment posted a 51.6% increase in revenue for the first six months of 1994 over the first six months of 1993 primarily due to the contribution of PaperDirect, Inc., which the Company acquired in the third quarter of 1993, and the growth of the Company's Canadian and United Kingdom operations. Revenue for the Consumer Specialty Products segment increased 29.6% 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 \$70.8 million or 31.3% for the first six months of 1994 over the first six months of 1993. The Business Systems segment's expenses increased approximately \$37.9 million primarily due to the acquisition of PaperDirect, Inc. Also, the Consumer Specialty Products segment increased its selling expense by approximately \$19.5 million, primarily due to increased advertising. Net income was \$67.6 million for the first six months of 1994, or 8.0% of sales, compared to \$54.0 million for the first six months of 1993 or 7.0% of sales. 1993 net income includes a one-time, pretax charge of \$60 million for costs related to the restructuring of the Check Printing division taken in the second quarter of 1993.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 1994 COMPARED TO THREE MONTHS ENDED JUNE 30, 1993

Net sales were \$412.3 million for the second quarter of 1994, up 13.6% over the second quarter of 1993, when sales were \$362.9 million. The second quarter Payment Systems segment's revenue was approximately the same as the second quarter of 1993. A decline in revenue from financial institutions (FIs) due to continued price competition in the FI market was offset by a 29.1% increase in revenue from the Company's electronic payment systems subsidiaries.

Deluxe's Business Systems segment posted a 65.1% increase in revenue in the second quarter of 1994 over second quarter 1993 primarily due to the contribution of PaperDirect, Inc., which the Company acquired in the third quarter of 1993, and the growth of the Company's Canadian and United Kingdom operations. Revenue for the Consumer Specialty Products segment increased 42.4% 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 \$40.1 million or 36.8% in second quarter 1994 over second quarter 1993. The Business Systems segment's expenses increased approximately \$21.8 million primarily due to the acquisition of PaperDirect, Inc. Also, the Consumer Specialty Products segment increased its selling expense by approximately \$9.5 million, primarily due to increased advertising. Net income was \$29.6 million in the second quarter of 1994, or 7.2% of sales, compared to \$2.2 million in 1993 or 0.6% of sales. Second quarter 1993 net income includes a one-time, pretax charge of \$60 million for costs related to the restructuring of the Check Printing division.

FINANCIAL CONDITION - LIQUIDITY

Cash provided by operations was \$60.9 million for the first six months of 1994, compared with \$100.6 million for the first six months of 1993. 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 cash payments related to the 1993 restructuring of the Company's financial institution check printing operations. The Company's working capital on June 30, 1994 was \$177.9 million, compared to \$224.5 million on December 31, 1993. The decrease in 1994 is primarily the result of the acquisitions of National Revenue Corporation and T-Maker, Inc.. The current ratio was 1.7 to 1 on June 30, 1994 and 1.8 to 1 on December 31, 1993.

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Financial Condition - Capital Resources

Purchases of property, plant, and equipment totaled \$47.6 million for the first six months of 1994, compared to \$39.0 million one year ago. The Company anticipates total capital expenditures of approximately \$85 million in 1994 for new electronic payment system investments, further enhancements to printing capabilities, and additional production facilities for the manufacturing of its new water-washable ink, Printwise.

In February 1991, the Company issued \$100 million in notes payable under its 1989 registration of \$150 million in debt securities. The Company also has available unsecured bank lines of credit of \$55 million should current cash resources and cash provided by operations prove to be inadequate. The Company may incur additional borrowings during the remainder of the year to finance acquisitions.

Cash dividends totaled \$59.5 million for the first six months of 1994 compared to \$58.5 million for the first six months of 1993.

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PART II. OTHER INFORMATION

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual shareholders' meeting on May 10, 1994: 72,929,858 shares were represented (88.38% of the 82,518,073 shares outstanding).

1. Election of Directors:

The nominees listed in the proxy statement were: Haverty, Olson, Asplin, Schreiner, Twogood, MacMillan, Renier, Grogan and Jacobson. The results were as follows:

For all nominees:	71,776,615
Withheld as to all nominees:	931,288
Withheld as to fewer than all nominees:	221,955

2. Approval of employee stock purchase plan:

For:	63,316,099
Against:	4,645,156
Abstain:	526,393
Broker Non-Vote:	4,442,210

3. Approval of stock incentive plan:

For:	58,305,807
Against:	9,227,955
Abstain:	953,886
Broker Non-Vote:	4,442,210

4. Approval of performance share plan:

For:	60,225,750
Against:	7,248,900
Abstain:	1,012,998
Broker Non-Vote:	4,442,210

5. Approval of annual incentive plan:

For:	66,253,089
Against:	5,683,558
Abstain:	993,211

Broker Non-Vote: 0

6. Ratification of appointment of Deloitte & Touche as independent auditors:

For:	72,264,884
Against:	212,159
Abstain:	452,815
Broker Non-Vote:	0

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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.

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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 August 11, 1994 /s/ H. V. Haverty

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

Date August 11, 1994 /s/ C. M. Osborne

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

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