

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 September 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 (IRS Employer Identification No.)
incorporation or organization)

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

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at November 1, 1994 was 82,586,882.

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ITEM I. FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION
DELUXE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
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	September 31, 1994 (Unaudited)	December 31, 1993
	-----	-----
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CURRENT ASSETS		
Cash and cash equivalents	\$40,337	\$114,103
Marketable securities	55,619	107,705
Trade accounts receivable	138,908	123,119
Inventories:		
Raw material	23,608	18,260
Semi-finished goods	27,886	21,155
Finished goods	39,873	29,989
Supplies	18,396	15,915
Deferred advertising	14,795	26,080

Deferred income taxes	29,633	28,914
Prepaid expenses and other current assets	56,916	37,123
	-----	-----
Total current assets	445,971	522,363
LONG-TERM INVESTMENTS	43,439	34,815
	-----	-----
PROPERTY, PLANT AND EQUIPMENT		
Land	31,035	32,706
Buildings and improvements	270,223	261,974
Machinery and equipment	523,623	483,853
Construction in progress	3,955	1,360
	-----	-----
Total	828,836	779,893
Less accumulated depreciation	401,954	378,252
	-----	-----
Property, plant, and equipment - net	426,882	401,641
	-----	-----
INTANGIBLES		
Cost in excess of net assets acquired - net	285,794	246,104
Other intangible assets - net	45,522	47,071
	-----	-----
Total intangibles	331,316	293,175
	-----	-----
TOTAL ASSETS	\$1,247,608	\$1,251,994
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$61,281	\$50,424
Accrued liabilities:		
Wages, including vacation pay	57,668	45,584
Employee profit sharing and pension	44,072	59,560
Restructuring costs	6,166	35,489
Accrued rebates	29,414	26,473
Income taxes	8,298	3,847
Other	60,070	69,527
Short term debt	18,000	
Long-term debt due within one year	7,409	6,967
	-----	-----
Total current liabilities	292,378	297,871
	-----	-----
LONG-TERM DEBT	110,823	110,755
	-----	-----
DEFERRED INCOME TAXES	40,298	42,119
	-----	-----
SHAREHOLDERS' EQUITY		
Common shares - \$1 par value (authorized 500,000,000 shares; issued: 82,319,595)	82,320	82,549
Additional paid in capital		341
Retained earnings	722,716	719,046
Cumulative translation adjustment	695	(687)
Unearned compensation	(165)	
Net unrealized change - marketable securities	(1,457)	
	-----	-----
Total shareholders' equity	\$804,109	\$801,249
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,247,608	\$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>

SEPTEMBER 30	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED
-----	-----		-----
1993	1994	1993	1994
-----	-----	-----	-----

	<C>	<C>	<C>
NET SALES	\$426,654	\$371,974	\$1,268,986
\$1,140,590			
OPERATING EXPENSES			
Cost of sales	195,914	173,376	581,813
528,160			
Selling, general, and administrative	160,601	116,148	457,935
342,638			
Employee profit sharing and pension	15,383	14,660	45,826
45,697			
Employee bonus and stock purchase discount	4,946	3,671	17,615
16,287			
Restructuring (credit) charge	(10,000)		(10,000)
60,000			
Total	366,844	307,855	1,093,189
992,782			
INCOME FROM OPERATIONS	59,810	64,119	175,797
147,808			
OTHER INCOME (EXPENSE)			
Investment and other income	1,593	2,796	7,261
10,737			
Interest expense	(2,592)	(2,710)	(8,891)
(7,594)			
INCOME BEFORE INCOME TAXES	58,811	64,205	174,167
150,951			
PROVISION FOR INCOME TAXES			
Federal income tax	22,160	23,197	62,037
50,303			
State income taxes	3,376	4,012	11,257
9,614			
Total	25,536	27,209	73,294
59,917			
NET INCOME	\$33,275	\$36,996	\$100,873
\$91,034			
AVERAGE COMMON SHARES OUTSTANDING	82,332,373	82,568,717	82,396,913
83,061,450			
NET INCOME PER COMMON SHARE	\$.40	\$.45	\$ 1.22
\$ 1.10			
CASH DIVIDENDS PER COMMON SHARE	\$.37	\$.36	\$ 1.09
\$ 1.06			

</TABLE>

See Notes to Consolidated Financial Statements

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

<TABLE>
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	<C>	<C>

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CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$100,873	
\$91,034		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,717	
41,001		
Amortization of intangibles	19,551	
11,323		
Stock purchase discount	6,274	
6,407		
Deferred income taxes and investment credit	(1,036)	
(21,431)		
Changes in assets and liabilities:		
Trade accounts receivable	(10,337)	
(4,219)		
Inventories	(21,139)	
(10,166)		
Accounts payable	8,531	
35		
Restructuring costs	(29,323)	
52,923		
Other assets and liabilities	(4,229)	
(16,675)		

Net cash provided by operating activities	112,882	
150,232		

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities with maturities of more than 3 months	(13,115)	
(116,832)		
Proceeds from sales of marketable securities with maturities of more than 3 months	43,500	
125,294		
Net change in marketable securities with maturities of 3 months or less	20,000	
(6,100)		
Purchases of property, plant, and equipment	(74,203)	
(51,416)		
Payments for acquisitions, net of cash acquired	(52,196)	
(110,136)		
Other	(21,816)	
(21,284)		

Net cash used in investing activities	(97,830)	
(180,474)		

CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(2,632)	
(9,080)		
Payments to retire common stock	(33,135)	
(80,742)		
Proceeds from issuing stock under employee plans	18,900	
21,897		
Increase in short term debt	18,000	
Cash dividends paid to shareholders	(89,951)	
(88,204)		

Net cash used in financing activities	(88,818)	
(156,129)		

NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,766)	
(186,371)		

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	114,103	
275,172		

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$40,337	
\$88,801		

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of September 30, 1994, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 1994 and 1993 and the consolidated statements of cash flows for the nine-month periods ended September 30, 1994 and 1993 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements are included. Such adjustments consist 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 \$1,457,000 as of September 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." Under SFAS 112 the Company accrues 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 third quarter of 1994, the Company recorded a \$10 million credit to reduce its restructuring reserve. The restructuring reserve was established in 1993 when the Company recorded a \$60 million charge (reduced to \$49 million in the 4th quarter of 1993) in connection with a formal restructuring plan for the closure of 16 of its check printing plants. As of September 30, 1994, the Company had closed 15 of the 16 plants. Certain costs included in the 1993 charge were not incurred. The \$6.2 million balance of the reserve at September 30, 1994 represents specifically identified, incremental employee severance and asset impairment and disposal costs to be incurred as a result of the closings.
5. During the third quarter of 1994, the Company acquired all of the outstanding stock of Software Partnership Limited, which is included in the Electronic Payment Systems Division, for \$15.8 million. The Company recorded the acquisition under the purchase method of accounting. The acquisition did not have a material proforma impact on operations.
6. The Company has uncommitted bank lines of credit of \$155 million available at variable interest rates. As of September 30, 1994, \$18 million was drawn on those lines at an interest rate of 5.13%.

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

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 1994 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1993

Net sales were \$1,269.0 million for the first nine months of 1994, up 11.3% over the first nine months of 1993, when sales were \$1,140.6 million. The Payment Systems segment revenue for the first nine months of 1994 decreased 0.3% from the first nine months of 1993 due to continued price competition in the financial institution (FI) market. This decline was offset by a 31.4% increase in revenue from the Company's Electronic Payment Systems division.

Deluxe's Business Systems segment posted a 54.5% increase in revenue for the first nine months of 1994 over the first nine 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 of the Consumer Specialty Products segment increased 25.4% 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 \$115.3 million or 33.7% for the first nine months of 1994 over the first nine months of 1993. The Business Systems segment's expenses increased approximately \$58.1 million primarily due to the acquisition of PaperDirect, Inc. Also, the Consumer Specialty Products segment increased its selling expense by approximately \$26.0 million, primarily due to increased advertising. The remaining increase is due to increases in costs associated with acquisitions, international operations and re-engineering projects. Net income was \$100.9 million for the first nine months of 1994, or 8.0% of sales, compared to \$91.0 million for the first nine months of 1993 or 8.0% 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. During the third quarter of 1994 the Company recorded a \$10 million credit to reduce its 1993 restructuring charge, as certain of the costs included in the charge were not incurred.

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

Net sales were \$426.7 million for the third quarter of 1994, up 14.7% over the third quarter of 1993, when sales were \$372.0 million. The third quarter Payment Systems segment's revenue increased 5.1% over the third quarter of 1993. A 45.8% increase in revenue from the Company's Electronic Payment Systems division was partially offset by a decline in revenue due to continued price competition in the FI market.

Deluxe's Business Systems segment posted a 60.6% increase in revenue in the third quarter of 1994 over third quarter 1993 primarily due to the contribution of PaperDirect, Inc., which the Company acquired in the third quarter of 1993, T-Maker Inc., which the company acquired in the second quarter of 1994, and the growth of the Company's Canadian and United Kingdom operations. Revenue for the Consumer Specialty Products segment increased 17.6% 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 \$44.5 million or 38.3% in third quarter 1994 over third quarter 1993. The Business Systems segment's expenses increased approximately \$20.2 million primarily due to the acquisition of PaperDirect, Inc. Also, the Consumer Specialty Products segment increased its selling expense by approximately \$6.4 million, primarily due to increased advertising. The remaining increase is due to increases in costs associated with acquisitions, international operations and re-engineering projects. Net income was \$33.3 million in the third quarter of 1994, or 7.8% of sales, compared to \$37.0 million in 1993 or 10.0% of sales.

FINANCIAL CONDITION - LIQUIDITY

Cash provided by operations was \$112.9 million for the first nine months of 1994, compared with \$150.2 million for the first nine 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 September 30, 1994 was \$153.6 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, T-Maker, Inc., and Software Partnership. The current ratio was 1.5 to 1 on September 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 \$74.2 million for the first nine months of 1994, compared to \$51.4 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 of notes, payable in 2001 under its 1989 shelf registration of debt securities. Additional long-term borrowings could be secured in the event the Company makes a significant acquisition. Such borrowings could include medium or long-term notes.

In addition, the Company has uncommitted bank lines of credit of \$155 million. As of September 30, 1994, \$18 million was drawn on those lines. The Company may secure additional short-term financing to fund acquisitions. Such financings could include committed lines of credit and a commercial paper program. Borrowings under these financings would be dependent upon favorable short-term interest rates.

Cash dividends totaled \$90.0 million for the first nine months of 1994 compared

to \$88.2 million for the first nine months of 1993.

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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 November 15, 1994

/s/ H. V. Haverty

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

Date November 15, 1994

/s/ C. M. Osborne

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

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