

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, 1995

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 May 1, 1995 was 82,504,839.

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ITEM I. FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

| | May 31, 1995 | December |
|---------------------------|--------------|----------|
| | (Unaudited) | 1994 |
| | ----- | ----- |
| 31, | | |
| --- | | |
| <S> | <C> | <C> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$27,279 | \$29,139 |
| Marketable securities | 46,775 | 49,109 |
| Trade accounts receivable | 151,315 | 142,087 |
| Inventories: | | |
| Raw material | 27,968 | 25,198 |
| Semi-finished goods | 26,432 | 26,046 |

| | | |
|---|--------------|--------------|
| Finished goods | 35,641 | 36,976 |
| Deferred advertising | 18,920 | 27,770 |
| Deferred income taxes | 25,352 | 25,647 |
| Prepaid expenses and other current assets | 66,945 | 58,894 |
| | ----- | ----- |
| Total current assets | 426,627 | 420,866 |
| | ----- | ----- |
| LONG-TERM INVESTMENTS | 45,372 | 45,091 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 37,677 | 38,286 |
| Buildings and improvements | 280,838 | 284,131 |
| Machinery and equipment | 570,287 | 544,092 |
| Construction in progress | 6,361 | 3,225 |
| | ----- | ----- |
| Total | 895,163 | 869,734 |
| Less accumulated depreciation | 419,010 | 407,916 |
| | ----- | ----- |
| Property, plant, and equipment - net | 476,153 | 461,818 |
| INTANGIBLES | | |
| Cost in excess of net assets acquired - net | 315,982 | 284,420 |
| Other intangible assets - net | 53,375 | 44,077 |
| | ----- | ----- |
| Total intangibles | 369,357 | 328,497 |
| | ----- | ----- |
| TOTAL ASSETS | \$1,317,509 | \$1,256,272 |
| | ----- | ----- |
| | ----- | ----- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 64,000 | \$ 65,033 |
| Accrued liabilities: | | |
| Wages, including vacation pay | 54,941 | 50,366 |
| Employee profit sharing and pension | 16,511 | 57,915 |
| Accrued rebates | 34,029 | 28,741 |
| Income taxes | 23,896 | 5,394 |
| Other | 73,199 | 67,313 |
| Short-term debt | 73,000 | 11,219 |
| Long-term debt due within one year | 4,606 | 4,479 |
| | ----- | ----- |
| Total current liabilities | 344,182 | 290,460 |
| | ----- | ----- |
| LONG-TERM DEBT | 114,857 | 110,867 |
| | ----- | ----- |
| DEFERRED INCOME TAXES | 40,599 | 40,552 |
| SHAREHOLDERS' EQUITY | | |
| Common shares - \$1 par value (authorized 500,000,000 shares; issued: 82,316,759) | 82,317 | 82,375 |
| Additional paid-in capital | 42 | 1,694 |
| Retained earnings | 735,420 | 732,158 |
| Cumulative translation adjustment | 1,744 | 369 |
| Unearned compensation | (134) | |
| (149) | | |
| Net unrealized change - marketable securities | (1,518) | |
| (2,054) | | |
| | ----- | ----- |
| Total shareholders' equity | 817,871 | 814,393 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,317,509 | \$ 1,256,272 |
| | ----- | ----- |
| | ----- | ----- |

</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>

31,

QUARTER ENDED MARCH

1995 1994

<S>

<C>

<C>

| | | |
|--|------------|------------|
| NET SALES | \$465,628 | \$429,988 |
| OPERATING EXPENSES | | |
| Cost of sales | 210,670 | 196,674 |
| Selling, general, and administrative | 179,811 | 148,466 |
| Employee profit sharing and pension | 14,718 | 14,846 |
| Employee bonus and stock purchase discount | 5,515 | 6,164 |
| | ----- | ----- |
| Total | 410,714 | 366,150 |
| | ----- | ----- |
| INCOME FROM OPERATIONS | 54,914 | 63,838 |
| OTHER INCOME (EXPENSE) | | |
| Investment and other income | 6,540 | 4,726 |
| Interest expense | (3,111) | |
| (3,778) | | |
| | ----- | ----- |
| - | | |
| INCOME BEFORE INCOME TAXES | 58,343 | 64,786 |
| PROVISION FOR INCOME TAXES | 24,504 | 26,745 |
| | ----- | ----- |
| NET INCOME | \$33,839 | \$38,041 |
| | ----- | ----- |
| | ----- | ----- |
| AVERAGE COMMON SHARES OUTSTANDING | 82,419,035 | 82,541,814 |
| NET INCOME PER COMMON SHARE | \$0.41 | \$0.46 |
| CASH DIVIDENDS PER COMMON SHARE | \$0.37 | \$0.36 |

</TABLE>

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, 1995 and 1994
(in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | 1995 | 1994 |
|--|----------|----------|
| | ---- | ---- |
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$33,839 | \$38,041 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 16,129 | 14,133 |
| Amortization of intangibles | 8,173 | 5,778 |
| Stock purchase discount | 2,067 | 2,084 |
| Deferred income taxes | (35) | |
| (74) | | |
| Changes in assets and liabilities, net of effects from acquisitions: | | |
| Trade accounts receivable | (4,529) | 4,883 |
| Inventories | (1,248) | |
| (3,986) | | |
| Accounts payable | (4,996) | 710 |
| Other assets and liabilities | (9,646) | |
| (22,597) | | |
| | ----- | ----- |
| - | | |
| Net cash provided by operating activities | 39,754 | 38,972 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of marketable securities with maturities of more than 3 months | | |
| (9,867) | | |
| Proceeds from sales of marketable securities with maturities of more than 3 months | 3,010 | 23,501 |
| Net change in marketable securities with maturities of 3 months or less | | 20,000 |
| Purchases of property, plant, and equipment | (30,818) | |
| (20,104) | | |
| Payments for acquisitions, net of cash acquired | (37,290) | |

| | | |
|--|----------|-----------|
| Other | 243 | |
| (17,102) | | |
| - | --- | ----- |
| Net cash used in investing activities | (64,855) | |
| (3,572) | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on long-term debt | (3,799) | |
| (756) | | |
| Payments to retire common stock | (10,352) | |
| (11,017) | | |
| Proceeds from issuing stock under employee plans | 6,188 | 6,358 |
| Proceeds from short-term debt | 61,781 | |
| Cash dividends paid to shareholders | (30,577) | |
| (29,790) | | |
| - | ----- | ----- |
| Net cash provided by (used in) financing activities | 23,241 | |
| (35,205) | | |
| - | ----- | ----- |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,860) | 195 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 29,139 | 114,103 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$27,279 | \$114,298 |
| | ----- | ----- |

</TABLE>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of March 31, 1995, and the related consolidated statements of income and consolidated statements of cash flows for the three-month periods ended March 31, 1995 and 1994 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. During the first quarter of 1995, the Company acquired all of the outstanding stock of Financial Alliance Processing Services, Inc. The Company recorded the acquisition under the purchase method of accounting. The acquisition did not have a material proforma impact on operations.
3. The Company has uncommitted bank lines of credit of \$130 million available at variable interest rates. As of March 31, 1995, \$73 million was drawn on those lines at a weighted average interest rate of 6.4%. Also, the company has in place a \$150 million committed line of credit as support for commercial paper. The Company made its first issuance of commercial paper during the second quarter of 1995.

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

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1995 COMPARED TO THREE MONTHS ENDED MARCH 31, 1994

Net sales were \$465.6 million for the first quarter of 1995, up 8.3% over the first quarter of 1994, when sales were \$430.0 million. Payment Systems segment's revenue increased 8.5% over the first quarter of 1994. This included a 63.0% increase in revenue from the Company's Electronic Payment Systems division and a 0.2% increase in the Paper Payment division. A portion of the Electronic Payment division increase was due to the acquisitions of National Revenue Corporation, The Software Partnership Ltd., and Financial Alliance Processing Services, Inc. The Company's Business Systems segment posted a 16.1% increase in revenue in the first quarter of 1995 over first quarter 1994 primarily due to increased revenue in the Business Forms unit, as well as the contribution of T/Maker Company, which was acquired in the second quarter of 1994, and sales increases by the Company's Canadian and United Kingdom operations.

Selling, general and administrative expenses increased \$31.3 million or 21.1% in first quarter 1995 over first quarter 1994. The Electronic Payments Systems division expenses increased approximately \$10.3 million, primarily due to the acquisitions noted above. The Business Systems segment's expenses increased approximately \$9.3 million, primarily due to the acquisition of T/Maker Company, as well as increased selling expenses in the international operations. Net income was \$33.8 million in the first quarter of 1995, or 7.3% of sales, compared to \$38.0 million in 1994 or 8.8% of sales. Included in first quarter 1995 net income is approximately \$5 million of pretax gain resulting from insurance payments for the 1994 earthquake damage to the Company's facilities.

FINANCIAL CONDITION - LIQUIDITY

Cash provided by operations was \$39.8 million for the first three months of 1995, compared with \$39.0 million for the first three months of 1994. This represents the Company's primary source of working capital for financing capital expenditures and paying cash dividends. The Company's working capital on March 31, 1995 was \$82.4 million, compared to \$130.4 million on December 31, 1994. The decrease in 1995 is primarily the result of the acquisition of Financial Alliance. The current ratio was 1.2 to 1 on March 31, 1995 and 1.4 to 1 on December 31, 1994.

FINANCIAL CONDITION - CAPITAL RESOURCES

Purchases of property, plant, and equipment totaled \$30.8 million for the first three months of 1995, compared to \$20.1 million one year ago.

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.

The Company has uncommitted bank lines of credit of \$130 million. As of March 31, 1995, \$73 million was drawn on those lines. In addition, the Company has in place a \$150 million committed line of credit as support for commercial paper.

Cash dividends totaled \$30.6 million for the first three months of 1995 compared to \$29.8 million for the first three months of 1994.

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 May 15, 1995

/s/ J. A. Blanchard III

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

Date May 15, 1995

/s/ C. M. Osborne

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

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000

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|------------------------------|-------------|
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| <FISCAL-YEAR-END> | DEC-31-1995 |
| <PERIOD-START> | JAN-01-1995 |
| <PERIOD-END> | MAR-31-1995 |
| <CASH> | 27,279 |
| <SECURITIES> | 46,775 |
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| <ALLOWANCES> | 0 |
| <INVENTORY> | 90,041 |
| <CURRENT-ASSETS> | 426,627 |
| <PP&E> | 895,163 |
| <DEPRECIATION> | 419,010 |
| <TOTAL-ASSETS> | 1,317,509 |
| <CURRENT-LIABILITIES> | 344,182 |
| <BONDS> | 114,857 |
| <COMMON> | 82,317 |
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| <OTHER-SE> | 735,554 |
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| <SALES> | 465,628 |
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| <CGS> | 210,670 |
| <TOTAL-COSTS> | 410,714 |
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| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 3,111 |
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| <INCOME-CONTINUING> | 0 |
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| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 33,839 |
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| <EPS-DILUTED> | .41 |

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