

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, 1996

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.)

3680 Victoria St. N., St. Paul, Minnesota 55126-2966

(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 No

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at May 1, 1996 was 82,537,467.

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ITEM I. FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	March 31, 1996	December
	(Unaudited)	1995
	-----	-----
31,		

<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	\$22,857	\$13,668
Trade accounts receivable	175,519	169,310
Inventories:		
Raw material	18,639	22,475
Semi-finished goods	22,117	24,861
Finished goods	24,963	28,566

Supplies	11,038	11,139
Deferred advertising	13,463	20,017
Deferred income taxes	36,751	35,926
Prepaid expenses and other current assets	47,469	55,136
Total current assets	372,816	381,098
LONG-TERM INVESTMENTS	52,444	48,147
PROPERTY, PLANT AND EQUIPMENT		
Land	43,562	43,632
Buildings and improvements	314,975	299,954
Machinery and equipment	574,376	578,922
Construction in progress	889	18,315
Total	933,802	940,823
Less accumulated depreciation	457,692	446,665
Property, plant, and equipment - net	476,110	494,158
INTANGIBLES		
Cost in excess of net assets acquired - net	302,557	301,289
Other intangible assets - net	76,016	70,403
Total intangibles	378,573	371,692
TOTAL ASSETS	\$1,279,943	\$1,295,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$59,765	\$75,644
Accrued liabilities:		
Wages, including vacation pay	54,345	51,549
Employee profit sharing and pension	17,176	56,906
Accrued rebates	34,491	31,373
Restructuring costs	35,831	6,283
Other	94,414	89,392
Short-term debt	60,016	48,962
Long-term debt due within one year	9,126	8,699
Total current liabilities	365,164	368,808
LONG-TERM DEBT	110,514	110,997
DEFERRED INCOME TAXES	36,426	34,916
SHAREHOLDERS' EQUITY		
Common shares - \$1 par value (authorized 500,000,000 shares; issued: 82,362,582)	82,363	82,364
Additional paid-in capital	908	1,455
Retained earnings	685,412	697,036
Cumulative translation adjustment	67	500
Unearned compensation	(685)	(739)
Net unrealized change - marketable securities	(226)	(242)
Total shareholders' equity	767,839	780,374
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,279,943	\$1,295,095

</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>

	QUARTER ENDED MARCH 31,	
	1996	1995
<S>	<C>	<C>
NET SALES	\$488,088	\$465,388
OPERATING EXPENSES		
Cost of sales	250,662	209,782
Selling, general, and administrative	185,170	179,011
Employee profit sharing and pension	14,409	14,621
Employee bonus and stock purchase discount	3,901	5,483

Total	454,142	408,897
INCOME FROM OPERATIONS	33,946	56,491
OTHER INCOME (EXPENSE)		
Other Income	1,113	6,063
Interest Expense	(2,788)	(3,004)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	32,271	59,550
PROVISION FOR INCOME TAXES	13,350	24,998
INCOME FROM CONTINUING OPERATIONS	18,921	34,552
DISCONTINUED OPERATIONS		
Loss from operations (net of income tax benefit of \$494 in 1995)		(713)
NET INCOME	\$18,921	\$33,839
AVERAGE COMMON SHARES OUTSTANDING	82,407,794	82,419,035
NET INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS	\$0.23	\$0.42
NET INCOME PER COMMON SHARE FROM DISCONTINUED OPERATIONS		\$(0.01)
NET INCOME PER SHARE	\$0.23	\$0.41
CASH DIVIDENDS PER COMMON SHARE	\$0.37	\$0.37

</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, 1996 and 1995
(Dollars in Thousands)
(Unaudited)

<TABLE>
<CAPTION>

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$18,921	\$33,839
Discontinued operations	713	(713)
Income from continuing operations	18,921	34,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,018	15,889
Amortization of intangibles	9,386	8,167
Stock purchase discount	1,997	2,067
Changes in assets and liabilities, net of effects from acquisitions and discontinued operations:		
Trade accounts receivable	(3,738)	(4,534)
Inventories	9,615	(1,283)
Accounts payable	(16,764)	(4,984)
Restructuring costs	29,548	(11,796)
Other assets and liabilities	(16,793)	(11,796)
Net cash provided by continuing operations	49,190	33,839

38,078		
Net cash (used) provided by discontinued operations	(1,036)	
1,676		
-----	-----	--
Net cash provided by operating activities	48,154	
39,754		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of marketable securities with maturities of more than 3 months	6,250	
3,010		
Purchases of property, plant, and equipment	(14,273)	
(33,411)		
Payments for acquisitions, net of cash acquired	(4,323)	
(37,290)		
Other	(1,481)	
2,836		
-----	-----	--
Net cash used in investing activities	(13,827)	
(64,855)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(2,288)	
(3,799)		
Payments to retire common stock	(9,277)	
(10,352)		
Proceeds from issuing stock under employee plans	6,284	
6,188		
Net proceeds from short-term debt	10,688	
61,781		
Cash dividends paid to shareholders	(30,545)	
(30,577)		
-----	-----	--
Net cash (used in) provided by financing activities	(25,138)	
23,241		
-----	-----	--
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,189	
(1,860)		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,668	
29,139		
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$22,857	
\$27,279		
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</TABLE>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of March 31, 1996, and the related consolidated statements of income and consolidated statements of cash flows for the three-month periods ended March 31, 1996 and 1995 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. The Company has uncommitted bank lines of credit of \$189.2 million available at variable interest rates. As of March 31, 1996, \$10.1 million was drawn on those lines at a weighted average interest rate of 6.7%. Also, the company has in place a \$150 million committed line of credit which is available for borrowing and as support for commercial paper. As of March 31, 1996, \$49.9 million of commercial paper was issued and outstanding at a weighted average interest rate of 5.4%. The Company also

has in place a medium-term note program for the issuance of up to \$300 million of medium-term notes to be used for general corporate purposes, including working capital, repayment or repurchase of outstanding indebtedness and other securities of the Company, capital expenditures, and possible acquisitions. As of March 31, 1996, no such notes were issued or outstanding.

3. During the fourth quarter of 1995, the Company adopted a plan to discontinue its Printwise ink business. The Company recorded charges in the fourth quarter of 1995 for the disposal of the business, and anticipated operating losses until disposal. Accordingly, Printwise is reported as a discontinued operation for the 1996 and 1995 periods presented.
4. During the first quarter of 1996, the Company recorded charges of \$34.8 million related to the closing of 21 of its check printing plants, and to move PaperDirect's operations from New Jersey to existing company facilities in Colorado and Minnesota. The \$34.8 million of charges include employee severance costs and expected losses on the disposition of plant and equipment. Expenses of \$32 million are included in cost of goods sold and \$2.8 million in selling, general, and administrative expense.

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

COMPANY PROFILE

Effective January 1, 1996, the Company reorganized its many independent business units into two market-serving segments, Financial Services and Deluxe Direct. Through Deluxe Financial Services, the Company provides check printing, electronic funds transfer, and related services to financial institutions in the United States, Canada, and the United Kingdom; payment systems protection services including check authorization, account verification, and collection services to financial institutions and retailers; and electronic benefit transfer services to state governments. Through Deluxe Direct, the Company provides direct mail checks and specialty papers to households and small businesses; tax forms and electronic tax filing services to tax preparers; and direct mail greeting cards, gift wrap, and related products to households.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1996 COMPARED TO THREE MONTHS ENDED MARCH 31, 1995

Net sales were \$488.1 million for the first quarter of 1996, up 4.9% over the first quarter of 1995, when sales were \$465.4 million. The Deluxe Financial Services segment's revenue increased 8.9% over the first quarter of 1995, due to revenue growth in all units. Financial institution check printing revenues were up 2.8% over 1995, despite a 2% decline in order counts. The improved results are due to an improved product mix, a first quarter 1996 price increase, and benefits from the integration of the businesses that serve financial institutions. The Deluxe Direct segment's revenue decreased 2.4% from 1995, due primarily to lower social expressions sales.

Selling, general and administrative expenses increased \$6.2 million or 3.4% in first quarter 1996 over first quarter 1995. The Deluxe Financial Services segment's first quarter 1996 expenses increased 7.6% over first quarter 1995, due primarily to costs related to the closing of 21 check printing plants and increased selling expenses for financial institution check printing. The Deluxe Direct segment's expenses decreased 4.3% from first quarter 1995, due primarily to lower advertising expense and reductions in general and administrative expense throughout the segment.

Net income from continuing operations was \$18.9 million in the first quarter of 1996, or 3.9% of sales, compared to \$34.6 million in 1995, or 7.4% of sales. The decrease in first quarter 1996 is due to \$34.8 million of pretax charges taken in the first quarter of 1996 for the closing of 21 check printing plants and to move PaperDirect's operations from New Jersey to existing company facilities in Colorado and Minnesota. Included in first quarter 1995 income is approximately \$5 million of pretax gain resulting from insurance payments for 1994 earthquake damages to Company facilities.

FINANCIAL CONDITION - LIQUIDITY

Cash provided by continuing operations was \$49.2 million for the first three months of 1996, compared with \$38.1 million for the first three months of 1995. 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, 1996 was \$7.7 million compared to \$12.3 million on December 31, 1995. The current ratio was 1 to 1 on March 31, 1996 and 1 to 1 on December 31, 1995.

FINANCIAL CONDITION - CAPITAL RESOURCES

Purchases of property, plant, and equipment totaled \$14.3 million for the first three months of 1996 compared to \$33.4 million one year ago.

The Company has uncommitted bank lines of credit of \$189.2 million. As of March 31, 1996, \$10.1 million was drawn on those lines. In addition, the Company has in place a \$150 million committed line of credit which is available for borrowing and as support for commercial paper. As of March 31, 1996, \$49.9 million of commercial paper was issued and outstanding. The company also has in place a medium-term note program for the issuance of up to \$300 million of medium-term notes. As of March 31, 1996, no such notes were issued or outstanding.

Cash dividends totaled \$30.5 million for the first three months of 1996 compared to \$30.6 million for the first three months of 1995.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) The following exhibits are filed as part of this report:
 - (12) Computation of Ratios
 - (27) Financial Data Schedule
- (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.

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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, 1996

/s/ J.A. Blanchard III

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

Date May 15, 1996

/s/ C.M. Osborne

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

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DELUXE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

<TABLE>
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	Three-Months Ended	Years Ended December 31,					
	Mar 31, 1996	1995	1994	1993	1992	1991	1990
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earnings							

Income from Continuing Operations before Income Taxes	\$32,271	\$169,319	\$246,706	\$235,913	\$324,783	\$295,493	\$282,506
Interest expense (excluding capitalized interest)	2,788	13,099	9,733	10,070	15,371	8,220	1,427
Portion of rent expense under long-term operating leases representative of an interest factor	3,879	14,761	13,554	13,259	12,923	11,807	10,849
Amortization of debt expense	30	84	84	84	84	71	0
TOTAL EARNINGS	\$38,968	\$197,262	\$270,077	\$259,326	\$353,161	\$315,591	\$294,782
Fixed charges							

Interest Expense (including capitalized interest)	\$3,236	\$14,714	\$10,492	\$10,555	\$15,824	\$8,990	\$1,860
Portion of rent expense under long-term operating leases representative of an interest factor	3,879	14,761	13,554	13,259	12,923	11,807	10,849
Amortization of debt expense	30	84	84	84	84	71	0
TOTAL FIXED CHARGES	\$7,145	\$29,559	\$24,130	\$23,898	\$28,831	\$20,868	\$12,709
RATIO OF EARNINGS TO FIXED CHARGES:	5.5	6.7	11.2	10.9	12.2	15.1	23.2

</TABLE>

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