

DELUXE CORP  
Form 10-Q  
May 03, 2010

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**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 the quarterly period ended March 31, 2010

**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)

(I.R.S. Employer Identification No.)

**3680 Victoria St. N., Shoreview, Minnesota**

**55126-2966**

(Address of principal executive offices)

(Zip Code)

**(651) 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at April 19, 2010 was 51,338,716.

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CONSOLIDATED BALANCE SHEETS**

(in thousands, except share par value)

(Unaudited)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 16,328	\$ 12,789
Trade accounts receivable (net of allowances for uncollectible accounts of \$4,649 and \$4,991, respectively)	57,576	65,564
Inventories and supplies	21,916	22,122
Deferred income taxes	10,448	10,841
Funds held for customers	45,994	26,901
Other current assets	28,044	21,282
Total current assets	180,306	159,499
Long-Term Investments (including \$2,113 and \$2,231 of investments at fair value, respectively)	35,389	39,200
Property, Plant, and Equipment (net of accumulated depreciation of \$338,131 and \$335,415, respectively)	118,901	121,797
Assets Held for Sale	4,527	4,527
Intangibles (net of accumulated amortization of \$371,157 and \$362,201, respectively)	143,398	145,910
Goodwill	659,613	658,666
Other Non-Current Assets	89,836	81,611
Total assets	\$ 1,231,970	\$ 1,211,210
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 59,102	\$ 60,640
Accrued liabilities	171,755	156,408
Short-term debt		26,000
Total current liabilities	230,857	243,048
Long-Term Debt	745,099	742,753
Deferred Income Taxes	29,983	24,800
Other Non-Current Liabilities	84,850	83,399
Commitments and Contingencies (Notes 11, 12 and 15)		
Shareholders Equity:		
Common shares \$1 par value (authorized: 500,000 shares; outstanding: 2010 51,338; 2009 51,189)	51,338	51,189
Additional paid-in capital	59,631	58,071
Retained earnings	81,317	60,768

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Accumulated other comprehensive loss	(51,105)	(52,818)
Total shareholders' equity	141,181	117,210
Total liabilities and shareholders' equity	\$ 1,231,970	\$ 1,211,210

See Condensed Notes to Unaudited Consolidated Financial Statements

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**DELUXE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

(Unaudited)

	<b>Quarter Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenue	\$ 335,120	\$ 339,520
Net restructuring charges	621	1,507
Other cost of goods sold	117,742	127,752
Total cost of goods sold	118,363	129,259
Gross Profit	216,757	210,261
Selling, general and administrative expense	148,045	158,356
Net restructuring reversals	(243)	(177)
Asset impairment charges		24,900
Operating Income	68,955	27,182
Gain on early debt extinguishment		9,834
Interest expense	(10,535)	(12,420)
Other (expense) income	(356)	357
Income Before Income Taxes	58,064	24,953
Income tax provision	24,281	12,449
Income from Continuing Operations	33,783	12,504
Net Loss from Discontinued Operations	(399)	
Net Income	\$ 33,384	\$ 12,504
Basic Earnings per Share:		
Income from continuing operations	\$ 0.66	\$ 0.24
Net loss from discontinued operations	(0.01)	
Basic earnings per share	0.65	0.24
Diluted Earnings per Share:		
Income from continuing operations	\$ 0.66	\$ 0.24
Net loss from discontinued operations	(0.01)	
Diluted earnings per share	0.65	0.24
Cash Dividends per Share	\$ 0.25	\$ 0.25

Total Comprehensive Income	\$ 35,097	\$ 14,522
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See Condensed Notes to Unaudited Consolidated Financial Statements

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**DELUXE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(Unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 33,384	\$ 12,504
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Net loss from discontinued operations	399	
Depreciation	5,053	5,622
Amortization of intangibles	10,394	11,231
Asset impairment charges		24,900
Amortization of contract acquisition costs	5,007	6,333
Deferred income taxes	4,699	1,429
Employee share-based compensation expense	1,599	1,495
Gain on early debt extinguishment		(9,834)
Other non-cash items, net	2,174	6,095
Changes in assets and liabilities, net of effects of acquisition and discontinued operations:		
Trade accounts receivable	7,386	10,728
Inventories and supplies	(395)	61
Other current assets	(2,589)	(972)
Non-current assets	1,594	3,859
Accounts payable	(573)	2,842
Contract acquisition payments	(583)	(14,056)
Other accrued and non-current liabilities	(14,857)	734
<b>Net cash provided by operating activities of continuing operations</b>	<b>52,692</b>	<b>62,971</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of capital assets	(9,799)	(9,958)
Payment for acquisition	(700)	
Purchases of customer lists	(70)	(614)
Purchases of marketable securities	(2)	
Proceeds from sales of marketable securities	1,970	
Other	(157)	(232)
<b>Net cash used by investing activities of continuing operations</b>	<b>(8,758)</b>	<b>(10,804)</b>
<b>Cash Flows from Financing Activities:</b>		
Net payments on short-term debt	(26,000)	(9,770)
Payments on long-term debt		(21,654)

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Payments for debt issue costs, credit facility	(2,065)	
Change in book overdrafts	(1,454)	(5,348)
Proceeds from issuing shares under employee plans	1,357	1,016
Excess tax benefit from share-based employee awards	277	8
Payments for common shares repurchased		(1,319)
Cash dividends paid to shareholders	(12,835)	(12,811)
Net cash used by financing activities of continuing operations	(40,720)	(49,878)
Effect of Exchange Rate Change on Cash	325	(359)
Cash Used by Operating Activities of Discontinued Operations		(470)
Cash Used by Investing Activities of Discontinued Operations		(6)
Net Change in Cash and Cash Equivalents	3,539	1,454
Cash and Cash Equivalents: Beginning of Period	12,789	15,590
End of Period	\$ 16,328	\$ 17,044

See Condensed Notes to Unaudited Consolidated Financial Statements

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The consolidated balance sheet as of March 31, 2010, the consolidated statements of income for the quarters ended March 31, 2010 and 2009 and the consolidated statements of cash flows for the quarters ended March 31, 2010 and 2009 are unaudited. The consolidated balance sheet as of December 31, 2009 was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP) in the United States of America. In the opinion of management, all adjustments necessary for a fair statement of the consolidated financial statements are included. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and notes are presented in accordance with instructions for Form 10-Q, and do not contain certain information included in our consolidated annual financial statements and notes. The consolidated financial statements and notes appearing in this report should be read in conjunction with the consolidated audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K ).

**Note 2: New accounting pronouncements**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance requires new disclosures and clarifies some existing disclosure requirements regarding fair value measurements. The disclosures required under this guidance are included in Note 5, with the exception of disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for our quarterly report on Form 10-Q for the quarter ending March 31, 2011.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. This guidance removes the requirement to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements for companies that file financial statements with the Securities and Exchange Commission (SEC). This new guidance was effective immediately. We evaluate subsequent events through the date our financial statements are filed with the SEC. See Note 16 for discussion of subsequent events.

**Note 3: Supplemental balance sheet information**

*Inventories and supplies* Inventories and supplies were comprised of the following:

(in thousands)	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Raw materials	\$ 3,858	\$ 4,048
Semi-finished goods	9,076	8,750
Finished goods	5,404	5,602
Total inventories	18,338	18,400
Supplies, primarily production	3,578	3,722
Inventories and supplies	\$ 21,916	\$ 22,122

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*Marketable securities* Available-for-sale marketable securities included within funds held for customers and other current assets were comprised of the following:

(in thousands)	Cost	March 31, 2010		Fair value
		Gross unrealized gains	Gross unrealized losses	
Corporate investments:				
Money market securities	\$ 1,983	\$	\$	\$ 1,983
Funds held for customers: <sup>(1)</sup>				
Money market securities	4,959			4,959
Canadian and provincial government securities	4,954	1	(71)	4,884
Marketable securities funds held for customers	9,913	1	(71)	9,843
Total marketable securities	\$ 11,896	\$ 1	\$ (71)	\$ 11,826

(1) Funds held for customers, as reported on the consolidated balance sheet as of March 31, 2010, also included cash and cash equivalents of \$36,151.

(in thousands)	Cost	December 31, 2009		Fair value
		Gross unrealized gains	Gross unrealized losses	
Corporate investments:				
Money market securities	\$ 3,667	\$	\$	\$ 3,667
Funds held for customers: <sup>(1)</sup>				
Money market securities	9,522			9,522
Total marketable securities	\$ 13,189	\$	\$	\$ 13,189

(1) Funds held for customers, as reported on the consolidated

balance sheet as of December 31, 2009, also included cash and cash equivalents of \$17,379.

Expected maturities of available-for-sale securities as of March 31, 2010 were as follows:

(in thousands)	<b>Fair value</b>
Due in one year or less	\$ 7,179
Due in one to three years	1,634
Due in three to five years	880
Due after five years	2,133
<b>Total marketable securities</b>	<b>\$ 11,826</b>

Further information regarding the fair value of marketable securities can be found in Note 5: Fair value measurements.

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*Intangibles* Intangibles were comprised of the following:

(in thousands)	March 31, 2010			December 31, 2009		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived:						
Trade name	\$ 19,100	\$	\$ 19,100	\$ 19,100	\$	\$ 19,100
Amortizable intangibles:						
Internal-use software	348,446	(291,932)	56,514	341,822	(285,181)	56,641
Customer lists/relationships	57,073	(28,392)	28,681	55,745	(25,777)	29,968
Distributor contracts	30,900	(25,044)	5,856	30,900	(24,594)	6,306
Trade names	50,461	(19,417)	31,044	51,861	(20,375)	31,486
Other	8,575	(6,372)	2,203	8,683	(6,274)	2,409
Amortizable intangibles	495,455	(371,157)	124,298	489,011	(362,201)	126,810
Intangibles	\$ 514,555	\$ (371,157)	\$ 143,398	\$ 508,111	\$ (362,201)	\$ 145,910

Total amortization of intangibles was \$10.4 million for the quarter ended March 31, 2010 and \$11.2 million for the quarter ended March 31, 2009. Based on the intangibles in service as of March 31, 2010, estimated future amortization expense is as follows:

(in thousands)

Remainder of 2010	\$ 29,649
2011	29,273
2012	16,109
2013	8,023
2014	4,850

*Goodwill* Changes in goodwill during the quarter ended March 31, 2010 were as follows:

(in thousands)	Small Business Services	Financial Services	Direct Checks	Total
Balance, December 31, 2009:				
Goodwill	\$ 596,429	\$	\$ 82,237	\$ 678,666
Accumulated impairment charges	(20,000)			(20,000)
	576,429		82,237	658,666
		876		876

Acquisition of Cornerstone Customer Solutions,  
LLC (see Note 7)

Currency translation adjustment	71			71
Balance, March 31, 2010:				
Goodwill	596,500	876	82,237	679,613
Accumulated impairment charges	(20,000)			(20,000)
	\$ 576,500	\$ 876	\$ 82,237	\$ 659,613

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*Other non-current assets* Other non-current assets were comprised of the following:

(in thousands)	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Contract acquisition costs (net of accumulated amortization of \$89,008 and \$107,971, respectively)	\$ 54,777	\$ 45,701
Deferred advertising costs	13,007	14,455
Other	22,052	21,455
Other non-current assets	\$ 89,836	\$ 81,611

See Note 15 for a discussion of market risks related to contract acquisition costs. Changes in contract acquisition costs during the first quarters of 2010 and 2009 were as follows:

(in thousands)	<b>Quarter Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 45,701	\$ 37,706
Additions <sup>(1)</sup>	14,083	29,265
Amortization	(5,007)	(6,333)
Balance, end of period	\$ 54,777	\$ 60,638

<sup>(1)</sup> Contract acquisition costs are accrued upon contract execution. Cash payments made for contract acquisition costs were \$583 for the quarter ended March 31, 2010 and \$14,056 for the quarter ended March 31, 2009.

*Accrued liabilities* Accrued liabilities were comprised of the following:

(in thousands)	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Funds held for customers	\$ 45,950	\$ 26,901



Customer rebates	18,091	21,861
Deferred revenue	16,118	23,720
Interest	15,794	5,227