

DELUXE CORP
Form 10-Q
May 04, 2012

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

x

For the quarterly period ended March 31, 2012

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

o

For the transition period from _____ to _____

Commission file number: 1-7945

DELUXE CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or
organization)

41-0216800
(I.R.S. Employer Identification No.)

3680 Victoria St. N., Shoreview, Minnesota
(Address of principal executive offices)

55126-2966
(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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at April 24, 2012 was 50,991,275.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

DELUXE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share par value)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$58,715	\$28,687
Trade accounts receivable (net of allowances for uncollectible accounts of \$3,626 and \$4,007, respectively)	67,750	69,023
Inventories and supplies	22,742	22,043
Deferred income taxes	6,481	7,216
Funds held for customers	40,656	44,394
Other current assets	29,793	21,212
Total current assets	226,137	192,575
Long-Term Investments (including \$2,137 and \$2,165 of investments at fair value, respectively)	45,855	45,147
Property, Plant And Equipment (net of accumulated depreciation of \$355,911 and \$352,842, respectively)	110,695	113,411
Assets Held For Sale	2,741	2,741
Intangibles (net of accumulated amortization of \$440,243 and \$433,335, respectively)	152,041	157,339
Goodwill	777,042	776,998
Other Non-Current Assets	95,499	100,598
Total Assets	\$1,410,010	\$1,388,809
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$58,310	\$64,694
Accrued liabilities	151,273	150,098
Long-term debt due within one year	85,497	85,575
Total current liabilities	295,080	300,367
Long-Term Debt	656,524	656,131
Deferred Income Taxes	52,135	49,807
Other Non-Current Liabilities	66,623	79,815
Commitments and Contingencies (Notes 10 and 11)		
Shareholders' Equity:		
Common shares \$1 par value (authorized: 500,000 shares; outstanding: 2012 – 50,991; 2011 – 50,826)	50,991	50,826
Additional paid-in capital	59,782	55,838
Retained earnings	286,745	255,426
Accumulated other comprehensive loss	(57,870	) (59,401
Total shareholders' equity	339,648	302,689
Total Liabilities And Shareholders' Equity	\$1,410,010	\$1,388,809

See Condensed Notes to Unaudited Consolidated Financial Statements

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DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

	Quarter Ended March 31,	
	2012	2011
Revenue	\$377,981	\$349,752
Cost of goods sold, including net restructuring charges	(127,487)	(120,163)
Gross Profit	250,494	229,589
Selling, general and administrative expense	(171,831)	(160,817)
Net restructuring charges	(638)	(1,427)
Net gain on sale of facility	—	110
Operating Income	78,025	67,455
Loss on early debt extinguishment	—	(6,995)
Interest expense	(11,697)	(12,038)
Other income	39	155
Income Before Income Taxes	66,367	48,577
Income tax provision	(22,288)	(16,021)
Net Income	\$44,079	\$32,556
Comprehensive Income	\$45,610	\$34,115
Basic Earnings Per Share	\$0.86	\$0.63
Diluted Earnings Per Share	\$0.86	\$0.63
Cash Dividends Per Share	\$0.25	\$0.25

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common shares par value ⁽¹⁾	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2011	\$50,826	\$55,838	\$255,426	\$(59,401)	) \$302,689
Net income	—	—	44,079	—	44,079
Cash dividends	—	—	(12,760)	) —	(12,760)
Common shares issued	185	2,856	—	—	3,041
Tax impact of share-based awards	—	156	—	—	156
Common shares retired	(20)	(474)	—	—	(494)
Fair value of share-based compensation	—	1,406	—	—	1,406
Other comprehensive income (Note 12)	—	—	—	1,531	1,531
Balance, March 31, 2012	\$50,991	\$59,782	\$286,745	\$(57,870)	) \$339,648

⁽¹⁾ As the par value of our common shares is \$1.00 per share, the number of shares associated with the transactions presented here is equivalent to the related par value. See Note 12 for share information.

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Quarter Ended March 31,	
	2012	2011
Cash Flows From Operating Activities:		
Net income	\$44,079	\$32,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,108	5,159
Amortization of intangibles	11,989	14,584
Amortization of contract acquisition costs	4,379	4,427
Deferred income taxes	2,557	2,241
Employee share-based compensation expense	1,550	1,554
Loss on early debt extinguishment	—	6,995
Other non-cash items, net	2,514	3,508
Changes in assets and liabilities:		
Trade accounts receivable	532	4,524
Inventories and supplies	(1,043	) 746
Other current assets	(5,679	) (2,496
Non-current assets	1,020	2,910
Accounts payable	(3,829	) (2,437
Contract acquisition payments	(9,357	) (4,515
Other accrued and non-current liabilities	(1,824	) (8,716
Net cash provided by operating activities	51,996	61,040
Cash Flows From Investing Activities:		
Purchases of capital assets	(8,996	) (8,422
Other	(92	) 41
Net cash used by investing activities	(9,088	) (8,381
Cash Flows From Financing Activities:		
Net payments on short-term debt	—	(7,000
Payments on long-term debt, including costs of debt reacquisition	—	(215,030
Proceeds from issuing long-term debt	—	200,000
Payments for debt issue costs	(1,038	) (3,280
Change in book overdrafts	(2,628	) (825
Proceeds from issuing shares under employee plans	2,661	5,633
Excess tax benefit from share-based employee awards	362	752
Payments for common shares repurchased	—	(5,986
Cash dividends paid to shareholders	(12,760	) (12,881
Net cash used by financing activities	(13,403	) (38,617
Effect Of Exchange Rate Change On Cash	523	427
Net Change In Cash And Cash Equivalents	30,028	14,469
Cash And Cash		
Equivalents:	Beginning Of Period	28,687
	End Of Period	\$58,715
		\$31,852

See Condensed Notes to Unaudited Consolidated Financial Statements

DELUXE CORPORATION
 CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (dollars and shares in thousands, except per share amounts)

Note 1: Consolidated financial statements

The consolidated balance sheet as of March 31, 2012, the consolidated statements of comprehensive income for the quarters ended March 31, 2012 and 2011, the consolidated statement of shareholders' equity for the quarter ended March 31, 2012, and the consolidated statements of cash flows for the quarters ended March 31, 2012 and 2011 are unaudited. The consolidated balance sheet as of December 31, 2011 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 annual consolidated 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, 2011 (the "2011 Form 10-K").

Note 2: New accounting pronouncements

On January 1, 2012, we adopted Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income. This standard eliminates the option to report other comprehensive income and its components in the statement of shareholders' equity. Also effective January 1, 2012, we adopted ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This standard temporarily defers a provision included in ASU No. 2011-05 which requires that reclassification adjustments from other comprehensive income to net income be presented by income statement line item. Our presentation of comprehensive income in this quarterly report on Form 10-Q complies with these accounting standards.

On January 1, 2012, we adopted ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRSs. The new guidance changes some fair value measurement principles and disclosure requirements. The changes in fair value measurement principles relate primarily to financial assets and did not affect the fair value measurements presented in this report on Form 10-Q. The fair value disclosures required by the new standard are presented in Note 6: Fair value measurements.

Note 3: Supplemental balance sheet information

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

	March 31, 2012	December 31, 2011
Raw materials	\$5,524	\$5,566
Semi-finished goods	8,427	8,273
Finished goods	5,694	5,301
Supplies, primarily production	3,097	2,903

Inventories and supplies	\$22,742	\$22,043
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Available-for-sale securities – Available-for-sale securities included within cash and cash equivalents, funds held for customers and other current assets were comprised of the following:

	March 31, 2012			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Money market securities (cash equivalents)	\$38,580	\$—	\$—	\$38,580
Canadian and provincial government securities (funds held for customers) ⁽¹⁾	5,334	173	—	5,507
Money market securities (other current assets)	2,052	—	—	2,052
Total available-for-sale securities	\$45,966	\$173	\$—	\$46,139

⁽¹⁾ Funds held for customers, as reported on the consolidated balance sheet as of March 31, 2012, also included cash of \$35,149.

December 31, 2011
Cost