

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[x] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2002.**

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)

Registrant's telephone number, including area code: (651) 483-7111

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1.00 per share
(Title of Class)

New York Stock Exchange
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
 Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant is \$2,421,007,795 based on the last sales price of the registrant's common stock on the New York Stock Exchange on June 30, 2002. The number of outstanding shares of the registrant's common stock as of March 24, 2003, was 57,306,029.

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Documents Incorporated by Reference:

1. Portions of our annual report to shareholders for the fiscal year ended December 31, 2002, are incorporated by reference in Parts I and II.
2. Portions of our definitive proxy statement to be filed within 120 days after our fiscal year-end are incorporated by reference in Part III.

PART I

Item 1. Business

Overview

Deluxe Corporation is the largest provider of checks in the United States, both in terms of revenue and number of checks produced. We design, manufacture and distribute a comprehensive line of printed checks. In addition to checks, we also offer checkbook covers, business forms, address labels, self-inking stamps, fraud prevention services and customer retention programs. Our checks and business forms are compatible with nearly

all of today's off-the-shelf accounting software packages. We provide check printing services for approximately 10,000 financial institution clients nationwide, including banks, credit unions and financial services companies. We also market products directly to consumers and small businesses through the Internet and direct response marketing.

Our company was incorporated under the laws of the State of Minnesota in 1920. From 1920 until 1988, our company was named Deluxe Check Printers, Incorporated. Our principal executive offices are located at 3680 Victoria Street North, Shoreview, Minnesota 55126-2966, telephone (651) 483-7111.

Industry Background/Outlook

Payment systems and methods have been changing in the United States as banking and other industries have introduced alternatives to the traditional paper check. Alternatives include automated teller machines, credit cards, debit cards and electronic payment systems, such as electronic bill presentment and payment. Although payment method choices have increased, the August 2002 Federal Reserve Bank Payment Study indicates that checks remain consumers' most preferred method of non-cash payment, with more than 42 billion checks being written each year.

According to our estimates, the total number of checks written by individuals and small businesses, the primary purchasers of checks, continued to decline slightly in 2002. We believe that the number of checks written by individuals will continue to decline due to the increasing use of alternative payment methods. Although we believe that the number of checks being written by small businesses has not yet begun to decline, the total number of personal, business and government checks written in the United States has been in decline since the mid-1990s. We believe the decline in personal, business and government checks is due to the increasing use of alternative payment methods, the increasing use of direct deposits for payroll and government transfer payments and the changing payment practices at large businesses and government agencies. Another planned Federal Reserve update in two to four years will provide more insight into check volumes and the trend of total checks written.

The most common method by which consumers order checks is through financial institutions. We believe such orders comprised approximately 80% of all check sales to individuals and small businesses in 2002. Orders originating in this manner are sourced through financial institutions such as banks, credit unions and other financial institutions. Competitive pressures have reduced margins on check orders obtained through financial institutions in recent years due to consolidation in the financial institution industry and due to the profit pressures being faced by the industry as it contends with low interest rates and a slow economy. Merged financial institution entities seek not only the most favorable prices formerly offered to the predecessor institutions but also additional discounts due to the greater volume represented by the combined company. Additionally, financial institution mergers and acquisitions can impact the

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duration of our contracts. While the average length of our contracts with financial institution clients is still between three and five years, the term can be affected when contracts have to be renegotiated due to the consolidation of financial institutions. Another relatively recent trend in the area of contract structure is that many financial institutions, primarily the larger regional and mega banks, are requesting product discounts in the form of cash incentives payable at the beginning of their contracts. These up-front payments impact check producers' cash flows in the short-term.

The direct-to-consumer method of ordering checks emerged in the mid-1980s as a result of consumer desire for lower-priced alternatives and increased design selection. We believe that direct sales represented approximately 20% of all checks sold to individuals and small businesses in 2002. Direct-to-consumer checks are marketed to individuals and small businesses primarily through freestanding inserts in newspapers, in-package advertising, statement stuffers, co-op advertising and the Internet.

Business Segments

We operate three business segments: Financial Services, Direct Checks and Business Services. A brief description of each segment is presented below. Financial information regarding the segments appears under the caption "Note 16. Business segment information" on page 55 of the 2002 Annual Report and is incorporated by reference.

Financial Services

Financial Services is the nation's leading supplier of checks, related products and check merchandising services to financial institutions. Additionally, we offer enhanced services to our financial institution clients, such as customized reporting, file management, expedited account conversion support and fraud prevention. Customers typically submit their check orders to their financial institution, which forwards those orders to us. We then process the orders and ship them directly to the customers. Financial Services produces a wide range of check designs, with many customers preferring one of the dozens of licensed designs we offer, including Disney®, Warner Brothers®, NASCAR™, Harley Davidson®, Coca-Cola® and Laura Ashley®.

Our relationships with specific financial institutions are usually formalized through supply contracts averaging three to five years in duration. We are committed to our financial institution relationships and seek to strengthen and expand them by emphasizing the breadth and value of our checks and related products and services.

Financial Services launched a comprehensive new program — DeluxeSelectSM — during 2002. DeluxeSelect provides financial institution customers more information regarding checks and check-related products as they interact directly with our professional sales associates, our voice response system or order their checks via the

Internet. We can actively promote product upgrades during both the new account opening and check re-ordering processes by engaging customers through our call centers, advanced Internet ordering capabilities and point-of-sale marketing support at financial institution branch offices. The benefits of this program include: 1) increases in accuracy and financial institution customer satisfaction from selecting a check style that reflects their personal interests or style; 2) increased revenue and enhanced profitability for our financial institution clients as they realize the value of our merchandising and check ordering process; 3) more fulfilled Deluxe employees as they are given the opportunity to move away from being order-takers to working in a more robust sales and service environment where they leverage the strengths of our check merchandising strategies to increase customer satisfaction on behalf of our financial institution clients; and 4) lower costs for financial institution platform operations because our team performs this work on their behalf. In 2002, we presented this new program to 225 financial institution clients. As of December 31, 2002, a large majority of these clients had elected to participate in DeluxeSelect. The impact of DeluxeSelect on revenue will depend to a large extent upon the speed at which our clients can integrate the program with their technology.

In addition to investments in revenue-generating programs, we continue to invest in areas of the business where we can reduce costs and increase productivity. Our conversion to a cellular manufacturing

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environment in our check printing facilities is one example. Within the cellular manufacturing environment, a group of employees works together to produce products, rather than those same employees working on individual tasks in a linear fashion. Because employees assume more ownership of the end product, we have seen an improvement in quality and service levels and a reduction in cost per unit. Our conversion to cellular manufacturing began in 2000, and the process is expected to be completed in our Financial Services check printing facilities in early 2004.

Direct Checks

Direct Checks is the nation's leading direct-to-consumer check supplier, selling under the Checks Unlimited® and Designer® Checks brands. Through these two brands, Direct Checks sells personal and business checks, as well as related products, using the Internet and direct response marketing.

Although we have been selling products directly to consumers since our first catalog was produced in 1918, we increased our direct-to-consumer focus in the 1980s in response to changes in the industry. We use a variety of direct marketing techniques to acquire new customers, including freestanding inserts in newspapers, in-package advertising, statement stuffers and co-op advertising. We also use e-commerce strategies to direct traffic to our websites. We continue to emphasize telephone and Internet contacts because they provide a more efficient way of selling products than through the mail. As a result, Direct Checks received over 20 percent of its order volume through the Internet in 2002 via three websites: www.checksunlimited.com, www.designerchecks.com and www.checks.com.

There has been an overall softening in direct mail industry response rates causing some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements to reduce their circulation. This has made it challenging, and more costly, to acquire suitable advertising media for our traditional means of new customer acquisition. We are exploring new opportunities such as the Internet and other partners to replace traditional media sources.

Business Services

Business Services is a leading supplier of checks, forms and related products to small businesses and home offices through financial institution referrals and via direct mail and the Internet. We offer software-compatible laser checks and forms, manual business checks and forms, business cards, stationery and accessories and currently have a database of approximately 1.8 million customers.

Business Services also works with financial institutions to help them better meet the needs of their small business customers. Through a successful business referral program, our financial institution clients refer new small business customers by calling us directly at the time of new account opening. Once contacted by the small business customer, our call center associate spends time learning about their business and accounting requirements and helps them order software compatible checks, forms and other related products. This personal approach, coupled with an integrated direct marketing strategy offered to existing customers, results in satisfied customers for both the financial institution and for Deluxe.

During 2002, Business Services was chosen to be the new exclusive supplier of checks and forms for Microsoft® Money and Microsoft Business Solutions. This alliance gives small and mid-sized business customers that use these Microsoft products access to the various products offered by Business Services.

As part of our growth and e-commerce retailing strategies, we have offered customers access to our small business website, www.deluxeforms.com. Orders from customers obtained via this website represented more than six percent of total orders for Business Services in 2002. This additional order capture medium allows customers to access our full range of products and services and provides them greater convenience when placing orders. We believe this will increase customer satisfaction and encourage repeat sales.

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Business Strategy

In January 2000, our board of directors determined that it was in our shareholders' best interest for us to focus primarily on paper payment systems and approved a plan to spin off our electronic payment solutions, professional services and government services business units into a separate, independent, publicly-traded company called eFunds Corporation. In June 2000, eFunds completed an initial public offering of 12.1% of its common stock. We then distributed the remaining 87.9% of eFunds to our shareholders in December 2000. With this reorganization, our business became more focused and efficient.

All of our employees are guided by five key business objectives: revenue growth; customer loyalty; talent and diversity in our workforce; cost management; and transformation. The key strategies to accomplish these objectives include strengthening our leading position in the markets in which we compete and expanding into closely related products and services which leverage our core competencies and key assets.

- **Revenue growth.** We intend to pursue new clients and customers for our existing products and services, as well as sell additional services and new product offerings to our existing clients and customers. We plan to accomplish this objective by pursuing new business with financial institutions and developing and executing effective marketing offers and programs in existing and new channels. We also plan to increase revenue from new and existing customers by using selling strategies that maximize revenue per unit and revenue and profit contribution per customer transaction.
- **Customer loyalty.** We intend to strengthen our relationships with customers by providing new and enhanced products and services, as well as continuously improving our processes and tools to deliver increased customer satisfaction.
- **Talent and diversity in our workforce.** We invest in our employees to attract and retain those who have the skills and motivation to deliver on our commitment to customers and support our strategic initiatives.
- **Cost management.** We invest in technology and processes that will continue to lower our cost structure. Past initiatives to reduce costs and improve efficiency include developing proprietary print technology, consolidating facilities, implementing more efficient manufacturing processes, selectively outsourcing non-core activities and increasing the use of electronic channels for order placement.
- **Transformation.** We intend to develop or acquire products and services that will generate revenue not entirely dependent on the number, size or frequency of check order transactions. We also intend to pursue changes in our processes to take advantage of available technologies such as the Internet and ongoing developments in information technology applications, telecommunications and printing.

Competition

The payments industry is highly competitive. We face considerable competition from at least six other check printers and expect competition to intensify as the check printing portion of the industry continues to mature and decline. We also face competition from alternative payment systems, including automated teller machines, credit cards, debit cards and electronic payment systems, such as electronic bill presentment and payment. As we expand our e-commerce presence, we face competition from check printing software vendors and from Internet-based sellers of checks and related products.

In the check printing business, the principal factors on which we compete are product and service breadth, price, convenience, quality and program management. From time to time, some of our check printing competitors have reduced the prices of their products in an attempt to gain greater volume. The corresponding pricing pressure placed on us has resulted in reduced profit margins and some loss of business due to our refusal to meet competitor pricing that fell below our profitability targets. Similar pressures in the future could result in additional margin compression. Additionally, in recent years some larger regional and mega banks have received product discounts in the form of cash incentives payable at

the beginning of their contracts. These up-front payments impact our cash flows in the short-term and also result in additional pricing pressure.

Raw Materials and Supplies

The primary raw materials used in producing our products are paper, ink and cartons, which we purchase from various sources. We believe that supplies of our materials are sufficient to meet our operating needs for the foreseeable future. In addition, we also utilize a paper printing plate material that is available from only a limited number of sources. We believe we have a reliable source of supply for this material and that we maintain an inventory sufficient to avoid any production disruptions in the event of an interruption of its supply.

Government Regulation

We are subject to regulations implementing the privacy requirements of the federal financial modernization law known as the Gramm-Leach-Bliley Act ("the Act"). The Act requires each regulated entity to develop and implement policies to protect the security and confidentiality of consumers' nonpublic personal information and to disclose these policies to consumers before a customer relationship is established and annually thereafter.

The regulations require some of our businesses to provide a notice to consumer customers to allow them the opportunity to remove their nonpublic personal information from our files before we share their information with certain third parties. The regulations, including the above provision, may limit our ability to use our direct-to-consumer data in our businesses. However, the regulations do allow us to transfer consumer information to process a transaction that a consumer requests, as well as to protect the confidentiality of a consumer's records or to protect against or prevent actual or potential fraud, unauthorized transactions, claims or other liabilities. We are also allowed to transfer consumer information for required institutional risk control and for resolving customer disputes or inquiries. We may also contribute consumer information to a consumer-reporting agency pursuant to the Fair Credit Reporting Act. Our financial institution clients request various contractual provisions in our agreements that are intended to comply with their obligations under the Act.

Congress and many states are considering more stringent laws or regulations that, among other things, restrict the purchase, sale or sharing of nonpublic personal information about consumers. For example, legislation has been introduced in Congress to further restrict the sharing of consumer information by financial institutions, as well as to require that a consumer opt-in prior to a financial institution's use of his or her data in its marketing programs.

Laws and regulations may be adopted in the future with respect to the Internet, e-commerce or marketing practices generally relating to consumer privacy. Such laws or regulations may impede the growth of the Internet and/or use of other sales or marketing vehicles. As an example, new privacy laws could decrease traffic to our websites and decrease the demand for our products and services. Additionally, the applicability to the Internet of existing laws governing property ownership, taxation, libel and personal privacy is uncertain and may remain uncertain for a considerable length of time.

Intellectual Property

We rely on a combination of trademark and copyright laws, trade secret protection and confidentiality and license agreements to protect our trademarks, software and know-how. However, intellectual property laws afford limited protection. Third parties may infringe or misappropriate our intellectual property or otherwise independently develop substantially equivalent products or services. In addition, designs licensed from third parties account for an increasing portion of our revenues. Typically, such license agreements are effective for a two- to three-year period. There can be no guarantee that such licenses will be renewed or will continue to be available on terms that would allow us to continue to be profitable with those products.

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Employees

As of December 31, 2002, we had 6,195 full- and part-time employees employed within the United States. Of the total number of employees, 2,553 were engaged in production, 2,749 were engaged in customer and technical support services, 507 were engaged in sales and marketing and 386 were engaged in administrative and other functions. None of our employees are represented by labor unions, and we consider our employee relations to be good.

Availability of Commission Filings

We make available through our website, www.Deluxe.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K as soon as reasonably practicable after these items are electronically filed with the Securities and Exchange Commission.

Executive Officers of the Registrant

Our executive officers are elected by the board of directors each year. The current term of office of each executive officer will expire at the annual meeting of the board of directors that will be held prior to the regular shareholders meeting on April 29, 2003. The executive officers and their positions are as follows:

Name	Age	Position	Executive Officer Since
Lawrence J. Mosner	61	Chairman of the Board and Chief Executive Officer	1995
Ronald E. Eilers	55	President and Chief Operating Officer	1996
Stephen J. Berry	40	Senior Vice President, President - Direct Checks	2000
Guy C. Feltz	47	Senior Vice President, President - Deluxe Financial Services	2000
Anthony C. Scarfone	41	Senior Vice President, General Counsel and Secretary	2000
Warner F. Schlais	50	Senior Vice President and Chief Information Officer	2000

Richard L. Schulte	46	Senior Vice President, President - Deluxe Business Services	2000
Douglas J. Treff	45	Senior Vice President and Chief Financial Officer	2000
Stuart Alexander	53	Vice President, Investor Relations and Public Affairs	2003
Katherine L. Miller	49	Vice President, Controller and Chief Accounting Officer	2003
Armstead Ward	56	Senior Vice President, Human Resources	2003

Lawrence J. Mosner has served as chairman of the board and chief executive officer of Deluxe since December 2000. Prior to this position, Mr. Mosner served as vice chairman, a position he assumed in August 1999. Before being named as vice chairman, Mr. Mosner served as executive vice president of Deluxe. In that position, Mr. Mosner had overall responsibility for all of our day-to-day operations from July 1997 until April 1999, at which point he was designated to lead our initiative to restructure various businesses along business unit lines and otherwise evaluate strategic alternatives for enhancing shareholder value.

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Ronald E. Eilers has served as president and chief operating officer of Deluxe since December 2000. From August 1997 to December 2000, Mr. Eilers was a senior vice president of Deluxe and managed our Paper Payment Systems business.

Stephen J. Berry was named a senior vice president of Deluxe in December 2000 and has served as president of our Direct Checks segment since May 1999. From August 1997 to April 1999, Mr. Berry was director of marketing for Direct Checks.

Guy C. Feltz was named a senior vice president of Deluxe in December 2000 and has served as president of our Financial Services segment since July 2000. He was also a vice president of Deluxe from July to December 2000. From August 1999 to July 2000, Mr. Feltz served as senior vice president of sales and marketing for our financial institution check printing business. From June 1998 to July 1999, Mr. Feltz was the president and chief executive officer of our government services business, which was part of Deluxe's former subsidiary, eFunds Corporation. From May 1996 to May 1998, he served as president of Deluxe-HCL, an international joint venture of Deluxe, which was also part of our former eFunds subsidiary.

Anthony C. Scarfone joined us in September 2000 as senior vice president, general counsel and secretary and became an executive officer of Deluxe in December 2000. Prior to joining Deluxe, Mr. Scarfone served as vice president, general counsel and secretary of Dahlberg, Inc., a worldwide manufacturer, distributor and retailer of electronic hearing devices, a position he held from November 1993 to November 1999.

Warner F. Schlais has served as senior vice president and chief information officer since November 1999 and became an executive officer of Deluxe in December 2000. From December 1997 to November 1999, Mr. Schlais was vice president and chief information officer.

Richard L. Schulte was named a senior vice president of Deluxe in December 2000 and has served as president of our Business Services segment since July 2000. From May 1999 to July 2000, Mr. Schulte was our senior vice president of supply chain and operations. From 1995 to May 1999, he was president and general manager of Current, Inc. (now Direct Checks), our direct mail check business.

Douglas J. Treff joined us in October 2000 as senior vice president and chief financial officer and became an executive officer of Deluxe in December 2000. From February 1993 until Mr. Treff joined us, he served as vice president, finance, of Wilsons the Leather Experts, Inc. (Wilson's), a leather specialty apparel retailer. He was also appointed chief financial officer of Wilsons in May 1996.

Stuart Alexander was named an executive officer of Deluxe in January 2003. He has served as vice president, investor relations and public affairs since May 1988.

Katherine L. Miller was named chief accounting officer of Deluxe in January 2003 and has served as vice president and controller since January 2001. Ms. Miller joined us in February 1999 and held several finance director positions prior to assuming her vice president and controller responsibilities. Prior to joining Deluxe, Ms. Miller served in various financial management positions for Northwest Airlines, Inc. from September 1995 to February 1999.

Armstead Ward joined us in January 2003 as senior vice president, human resources and also was named an executive officer of Deluxe that month. Prior to joining us, Mr. Ward served as vice president of global human resources and diversity for The St. Paul Companies from February 2001 to December 2002. From January 1998 to

Item 2. Properties

We conduct our operations in 21 principal facilities, 18 of which are used for printing and/or call center operations. These facilities are located in 15 states and total approximately 2,195,000 square feet. Our headquarters occupies a 158,000 square-foot building in Shoreview, Minnesota. We believe that our current facilities are adequate to meet our anticipated space requirements. We believe that additional space will be available at a reasonable cost to meet our future needs. The following table provides a description of our principal facilities:

Location	Approximate Square Feet	Owned or Lease Expiration Date	Function
Shoreview, Minnesota (2 locations)	313,965	Owned	Administration, marketing, sales, call center and headquarters
Lancaster, California	68,539	Owned	Printing, call center and mail center
Des Plaines, Illinois	191,805	Owned	Printing
Colorado Springs, Colorado	291,311	Owned	Printing, administration, marketing and call center
Dallas, Texas	53,490	Owned	Printing
Greensboro, North Carolina	44,336	Owned	Printing
Indianapolis, Indiana	43,969	Owned	Printing
Lenexa, Kansas (2 locations)	321,080	Owned	Printing
Mountain Lakes, New Jersey	62,961	Owned	Printing
Pittsburgh, Pennsylvania	45,884	Owned	Printing
Streetsboro, Ohio	115,205	Owned	Printing
Salt Lake City, Utah	95,307	Owned	Printing
Campbell, California	68,655	Owned	Printing
Shoreview, Minnesota	50,838	September 2006	Administration
Shoreview, Minnesota	180,832	September 2009	Administration
Anniston, Alabama	83,400	June 2003	Printing and call center
Greensboro, North Carolina	65,340	September 2003	Call center
Syracuse, New York	47,469	December 2004	Call center
Phoenix, Arizona	50,337	June 2003	Call center

Item 3. Legal Proceedings

Other than routine litigation incidental to our business, there are no material pending legal proceedings to which we are a party or to which any of our property is subject.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

 PART II
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the New York Stock Exchange under the symbol DLX. During the years ended December 31, 2002 and 2001, we declared dividends of \$0.37 per share during each quarterly period. At this time, we expect no change in the dividend amount or frequency of payment. As of December 31, 2002, the number of shareholders of record was 10,359. The table below shows the per share price ranges of our common stock for the past two fiscal years as quoted on the New York Stock Exchange.

Stock Price (dollars)	High	Low	Close
2002			
Quarter 1	50.11	40.59	46.26
Quarter 2	46.83	37.29	38.89
Quarter 3	47.20	33.03	45.06
Quarter 4	50.12	40.00	42.10
2001			
Quarter 1	24.35	19.17	23.67
Quarter 2	28.90	22.74	28.90
Quarter 3	34.54	28.38	34.54
Quarter 4	42.19	34.00	41.58

Item 6. Selected Financial Data

The information appearing under the caption "Five Year Summary" on pages 32 through 33 of the 2002 Annual Report is incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17 through 30 of the 2002 Annual Report is incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information appearing under the caption "Quantitative and Qualitative Disclosures About Market Risk" on page 30 of the 2002 Annual Report is incorporated by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements, notes and independent auditors' reports on pages 34 through 57 of the 2002 Annual Report and the information appearing under the caption "Summarized Quarterly Financial Data (unaudited)" on page 58 of the 2002 Annual Report are incorporated by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

 PART III

**Items 10, 11, 12 and 13. Directors and Executive Officers of the Registrant,
Executive Compensation, Security Ownership of Certain
Beneficial Owners and Management, and Certain
Relationships and Related Transactions**

Corresponding sections of our definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after our fiscal year-end, are incorporated by reference.

The following table provides information concerning all of our equity compensation plans as of December 31, 2002:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by shareholders (1)	3,339,245	\$ 30.93	11,204,756
Equity compensation plans not approved by shareholders (2)	270,200	25.20	None
Total	3,609,445	\$ 30.50	11,204,756

- (1) Reflects our 1984, 1994 and 1996 stock incentive plans, our 2000 Stock Incentive Plan, As Amended and our Amended and Restated 2000 Employee Stock Purchase Plan.
- (2) Reflects options outstanding under our 1998 DeluxeShares plan. Under this plan, options were awarded to substantially all employees (excluding foreign employees and employees of businesses held for sale), allowing them, subject to certain conditions, to purchase 100 shares of common stock at a converted exercise price of \$25.20 per share. The options became exercisable on January 30, 2001 and expired on January 30, 2003.

Item 14. Controls and Procedures

The information appearing under the caption "Controls and Procedures" on page 30 of the 2002 Annual Report is incorporated by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a) The following financial statements, schedules and reports of independent accountants and consents are filed with or incorporated by reference in this report:

<u>Financial Statements</u>	<u>Page in 2002 Annual Report</u>
Consolidated Balance Sheets at December 31, 2002 and 2001	34
Consolidated Statements of Income for each of the three years in the period ended December 31, 2002	35
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2002	36
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002	37
Notes to Consolidated Financial Statements	38 - 56
Reports of Independent Accountants	57
Supplemental Financial Information (Unaudited): Summarized Quarterly Financial Data	58
	<u>Page in this Form 10-K</u>
Consents of Independent Accountants to the incorporation by reference of their reports in our registration statements numbered 2-96963, 33-53585, 333-03265, 333-48967, 333-95739, 333-52452, 333-52454 and 333-89532	F-1 - F-2

Schedules other than those listed above are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes.

- (b) Reports on Form 8-K

A report on Form 8-K was filed on December 5, 2002, relating to our agreement to sell \$300,000,000 of 5.00% Senior Notes due in 2012 to be issued under our previously filed Registration Statement on Form S-3 (File No. 33-62041).

- (c) The following exhibits are filed as part of or are incorporated in this report by reference:

<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Articles of Incorporation (incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 1990)	*
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)	*

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<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
4.1	Amended and Restated Rights Agreement, dated as of January 31, 1997, by and between us and Norwest Bank Minnesota, National Association, as Rights Agent, which includes as Exhibit A thereto, the form of Rights Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 on Form 8-A/A-1 (File No. 001-07945) filed with the Commission on February 7, 1997)	*
4.2	Amendment No. 1 to Amended and Restated Rights Agreement, entered into as of January 21, 2000, between us and Norwest Bank Minnesota, National Association as Rights Agent (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000)	*
4.3	First Supplemental Indenture dated as of December 4, 2002, by and between us and Wells Fargo Bank Minnesota, N.A. (formerly, Norwest Bank Minnesota, National Association), as trustee (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the Commission on December 5, 2002)	*
4.4	Credit Agreement dated as of August 19, 2002, among us, Bank One, N.A. as administrative agent, The Bank of New York as syndication agent, Wachovia Bank, N.A. as documentation agent and the other financial institutions party thereto, related to a \$175,000,000 364-day revolving credit agreement (incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002)	*
4.5	Credit Agreement dated as of August 19, 2002, among us, Bank One, N.A. as administrative agent, The Bank of New York as syndication agent, Wachovia Bank, N.A. as documentation agent and the other financial institutions party thereto, related to a \$175,000,000 5-year revolving credit agreement (incorporated by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002)	*
10.1	Deluxe Corporation 2000 Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000)**	*
10.2	Deluxe Corporation 2000 Stock Incentive Plan, as Amended (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)**	*
10.3	Amended and Restated 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2001)**	*
10.4	Deluxe Corporation Deferred Compensation Plan (2001 Restatement), (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001)**	*
10.5	Deluxe Corporation Executive Deferred Compensation Plan for Employee Retention and Other Eligible Arrangements (incorporated by reference to Exhibit 10.24 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000)**	*

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<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
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10.6	Deluxe Corporation Supplemental Benefit Plan (incorporated by reference to Exhibit (10)(B) to the Annual Report on Form 10-K for the Year Ended December 31, 1995)**	*
10.7	Deluxe Corporation 1998 DeluxeSHARES Plan (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K for the year ended December 31, 1997)**	*
10.8	Description of modification to the Deluxe Corporation Non-Employee Director Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K for the year ended December 31, 1997)**	*
10.9	Government Services Indemnification Agreement, dated as of May 1, 2000, by and between us and eFunds Corporation (incorporated by reference to Exhibit 10.17 to Amendment No. 1 to the S-1 filed by eFunds Corporation with the Commission on May 15, 2000 (Registration No. 333-33992))	*
10.10	Professional Services Agreement, dated as of April 1, 2000, by and between us and eFunds Corporation (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the S-1 filed by eFunds Corporation with the Commission on May 15, 2000 (Registration No. 333-33992))	*
10.11	Tax Sharing Agreement, dated as of April 1, 2000, by and between us and eFunds Corporation (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to the S-1 filed by eFunds Corporation with the Commission on May 15, 2000 (Registration No. 33-33992))	*
10.12	Form of Severance Agreement entered into between Deluxe and the following executive officers: Ronald E. Eilers, Anthony C. Scarfone, Richard L. Schulte, Douglas J. Treff, Stephen J. Berry, Warner F. Schlais, Guy C. Feltz, Katherine L. Miller, Stuart Alexander and Armstead Ward (incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K for the year Ended December 31, 2000)**	*
10.13	Severance Agreement entered into effective March 1, 2001 between the Company and Lawrence J. Mosner (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2000)**	*
10.14	Executive Retention Agreement between Deluxe and Lawrence J. Mosner dated April 2, 2001 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001)**	*
10.15	Form of Executive Retention Agreement entered into between Deluxe and the following executive officers: Lawrence J. Mosner, Ronald E. Eilers, Anthony C. Scarfone, Richard L. Schulte, Douglas J. Treff, Stephen J. Berry, Warner F. Schlais, Guy C. Feltz and Armstead Ward (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2000)**	*
10.16	First Amendment of the Deluxe Corporation Deferred Compensation Plan (2001 Restatement) (incorporated by reference to Exhibit 4.3 to the Form S-8 filed January 7, 2002)**	*

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<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
10.17	Deluxe Corporation Deferred Compensation Plan Trust (incorporated by reference to Exhibit 4.3 to the Form S-8 filed January 7, 2002)**	*
10.18	First Amendment to the Deluxe Corporation Supplemental Benefit Plan (2001 Restatement) (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2001)**	*
10.19	Second Amendment to the Deluxe Corporation Deferred Compensation Plan (2001 Restatement)**	Filed herewith
12.1	Statement re: computation of ratios	Filed herewith
13	2002 Annual Report to shareholders	Filed herewith

21.1	Subsidiaries of the Registrant	Filed herewith
23	Consents of Experts and Counsel (incorporated by reference to pages F-1 and F-2 of this Annual Report on Form 10-K)	*
24.1	Power of attorney	Filed herewith
99.1	CEO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.2	CFO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.3	Cautionary Statements and Risk Factors	Filed herewith

*Incorporated by reference

**Denotes compensatory plan or management contract

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Note to recipients of Form 10-K: Copies of exhibits will be furnished upon written request and payment of reasonable expenses in furnishing such copies.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Shoreview, State of Minnesota.

DELUXE CORPORATION

Date: March 26, 2003

By: /s/ Lawrence J. Mosner
Lawrence J. Mosner
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on March 26, 2003.

<u>Signature</u>	<u>Title</u>
By <u>/s/ Lawrence J. Mosner</u> Lawrence J. Mosner	Chief Executive Officer (Principal Executive Officer)
By <u>/s/ Douglas J. Treff</u> Douglas J. Treff	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
By <u>/s/ Katherine L. Miller</u> Katherine L. Miller	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
* _____ Ronald E. Eilers	Director
* _____ Barbara B. Grogan	Director
* _____ Stephen P. Nachtsheim	Director
* _____ Robert C. Salipante	Director
* _____ Daniel D. Granger	Director

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*
Cheryl E. Mayberry McKissack Director

*
Charles A. Haggerty Director

*
Martyn R. Redgrave Director

*By: /s/ Lawrence J. Mosner
Lawrence J. Mosner
Attorney-in-Fact

CERTIFICATIONS

I, Lawrence J. Mosner, Chief Executive Officer of Deluxe Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Deluxe Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Lawrence J. Mosner
Lawrence J. Mosner
Chief Executive Officer

I, Douglas J. Treff, Senior Vice President and Chief Financial Officer of Deluxe Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Deluxe Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Douglas J. Treff
Vice President and
Chief Financial Officer

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INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 2-96963, 33-53585, 333-03265, 333-48967, 333-95739, 333-52452, 333-52454 and 333-89532 on Form S-8 of our report dated January 25, 2001, incorporated by reference in this Annual Report on Form 10-K of Deluxe Corporation for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
March 26, 2003

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in each Registration Statement on Form S-8 (No. 2-96963, 33-53585, 333-03265, 333-48967, 333-95739, 333-52452, 333-52454 and 333-89532) of Deluxe Corporation of our report dated January 24, 2003 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
March 26, 2003

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EXHIBIT INDEX

The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description</u>	<u>Page Number</u>
10.19	Second Amendment to the Deluxe Corporation Deferred Compensation Plan (2001 Restatement)	
12.1	Statement re: computation of ratios	
13	2002 Annual Report to shareholders	
21.1	Subsidiaries of the Registrant	
24.1	Power of attorney	
99.1	CEO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
99.2	CFO Certification of Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
99.3	Cautionary Statements and Risk Factors	

**SECOND AMENDMENT
OF
DELUXE CORPORATION
DEFERRED COMPENSATION PLAN
(2001 Restatement)**

The "Deluxe Corporation Deferred Compensation Plan" adopted by Deluxe Corporation, a Minnesota corporation, effective November 15, 1983, and which is presently maintained under a document entitled "DELUXE CORPORATION DEFERRED COMPENSATION PLAN (2001 Restatement)," as amended by a First Amendment adopted on October 26, 2001 (hereinafter collectively referred to the "Plan Statement"), is hereby amended in the following respect:

1. REALLOCATION OF DEFERRAL ACCOUNT AMONG INVESTMENT OPTIONS. Effective for Plan Years beginning on or after January 1, 2003, Section 5.3 of the Plan Statement is amended to read in full as follows:

5.3. **Investment Options.** The Management Committee shall permit a Participant to allocate the Participant's Deferral Account among one or more investment options for purposes of measuring the value of the benefit. That portion of the Deferral Account allocated to an investment option shall be deemed to be invested in such investment option and shall be valued as if so invested, reflecting all earnings, losses and other distributions or charges and changes in value which would have been incurred through such an investment. Neither the Company nor the Plan nor any trust established under the Plan shall have any obligation to invest in any such investment option. The determination of which investment options to make available, and the continued availability of selected investment options rests in the Management Committee's sole discretion. A Participant's request to allocate or reallocate among investment options must comply with any procedures established by the Management Committee and must be in such increments as the Management Committee may require. The Participant may reallocate the Participant's Deferral Account among investment options as of any day that the U.S. securities markets are open and conducting business. All requests for allocation or reallocation are subject to acceptance by the Management Committee, at its discretion. If accepted by the Management Committee, an allocation request will be effective as soon as reasonably administratively practicable.

2. CLAIMS PROCEDURES. Effective for all claims filed on or after January 1, 2002, Sections 10.2, 10.3 and 10.5 of the Plan Statement are moved to and renumbered as Sections 11.8 through 11.10 and Section 10 of the Plan Statement is amended to read in full as follows:

10.1. **Determinations.** The Management Committee shall make such determinations as may be required from time to time in the administration of the Plan. The Management Committee

shall have the discretionary authority and responsibility to interpret and construe the Plan and to determine all factual and legal questions under the Plan, including but not limited to the entitlement of Participants and Beneficiaries, and the amounts of their respective interests. Each interested party may act and rely upon all information reported to them hereunder and need not inquire into the accuracy thereof, nor be charged with any notice to the contrary. The PRC shall make such determinations as may be required from time to time in the administration of the Plan.

10.2. **Claims Procedure.** Until modified by the Management Committee, the claims procedure set forth in this Section 10 shall be the mandatory claims and review procedure for the resolution of disputes and disposition of claims filed under the Plan on or after January 1, 2002.

10.2.1. **Initial Claim.** An individual may, subject to any applicable deadline, file with the Management Committee a written claim for benefits under the Plan in a form and manner prescribed by the Management Committee.

- (a) If the claim is denied in whole or in part, the Management Committee shall notify the claimant of the adverse benefit determination within ninety (90) days after receipt of the claim.
- (b) The ninety (90) day period for making the claim determination may be extended for ninety (90) days if the Management Committee determines that special circumstances require an extension of time for determination of the claim, provided that the Management Committee notifies the claimant, prior to the expiration of the initial ninety (90) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.

10.2.2. **Notice of Initial Adverse Determination.** A notice of an adverse determination shall set forth in a manner calculated to be understood by the claimant:

- (a) the specific reasons for the adverse determination;
- (b) references to the specific provisions of the Plan (or other applicable Plan document) on which the adverse determination is based;
- (c) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary; and

- (d) a description of the claims review procedure, including the time limits applicable to such procedure, and a statement of the claimant's right to bring a civil action under section 502(a) of the Employee Retirement Income Security Act of 1974, as amended, following an adverse determination on review.

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10.2.3. **Request for Review.** Within sixty (60) days after receipt of an initial adverse benefit determination notice, the claimant may file with the Management Committee a written request for a review of the adverse determination and may, in connection therewith submit written comments, documents, records and other information relating to the claim benefits. Any request for review of the initial adverse determination not filed within sixty (60) days after receipt of the initial adverse determination notice shall be untimely.

10.2.4. **Claim on Review.** If the claim, upon review, is denied in whole or in part, the Management Committee shall notify the claimant of the adverse benefit determination within sixty (60) days after receipt of such a request for review.

- (a) The sixty (60) day period for deciding the claim on review may be extended for sixty (60) days if the Management Committee determines that special circumstances require an extension of time for determination of the claim, provided that the Management Committee notifies the claimant, prior to the expiration of the initial sixty (60) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.
- (b) In the event that the time period is extended due to a claimant's failure to submit information necessary to decide a claim on review, the claimant shall have sixty (60) days within which to provide the necessary information and the period for making the claim determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information or, if earlier, the expiration of sixty (60) days.
- (c) The Management Committee's review of a denied claim shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

10.2.5. **Notice of Adverse Determination for Claim on Review.** A notice of an adverse determination for a claim on review shall set forth in a manner calculated to be understood by the claimant:

- (a) the specific reasons for the denial;
- (b) references to the specific provisions of the Plan (or other applicable Plan document) on which the adverse determination is based;
- (c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

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- (d) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain information about such procedures; and
- (e) a statement of the claimant's right to bring an action under section 502(a) of Employee Retirement Income Security Act of 1974, as amended.

10.3. **Rules and Regulations.**

10.3.1. **Adoption of Rules.** Any rule not in conflict or at variance with the provisions hereof may be adopted by the Management Committee.

10.3.2. **Specific Rules.**

- (a) No inquiry or question shall be deemed to be a claim or a request for a review of a denied claim unless made in accordance with the established claim procedures. The Management Committee may require that any claim for benefits and any request for a review of a denied claim be filed on forms to be furnished by the Management Committee upon request.
- (b) All decisions on claims and on requests for a review of denied claims shall be made by the Management Committee unless delegated as provided for in the Plan, in which case references in this Section 10 to the Management Committee shall be treated as references to the Management Committee's delegate.

- (c) Claimants may be represented by a lawyer or other representative at their own expense, but the Management Committee reserves the right to require the claimant to furnish written authorization and establish reasonable procedures for determining whether an individual has been authorized to act on behalf of a claimant. A claimant's representative shall be entitled to copies of all notices given to the claimant.
- (d) The decision of the Management Committee on a claim and on a request for a review of a denied claim may be provided to the claimant in electronic form instead of in writing at the discretion of the Management Committee.
- (e) In connection with the review of a denied claim, the claimant or the claimant's representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

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- (f) The time period within which a benefit determination will be made shall begin to run at the time a claim or request for review is filed in accordance with the claims procedures, without regard to whether all the information necessary to make a benefit determination accompanies the filing.
 - (g) The claims and review procedures shall be administered with appropriate safeguards so that benefit claim determinations are made in accordance with governing plan documents and, where appropriate, the plan provisions have been applied consistently with respect to similarly situated claimants.
 - (h) For the purpose of this Section, a document, record, or other information shall be considered "relevant" if such document, record, or other information: (i) was relied upon in making the benefit determination; (ii) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; (iii) demonstrates compliance with the administration processes and safeguards designed to ensure that the benefit claim determination was made in accordance with governing plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants; and (iv) constitutes a statement of policy or guidance with respect to the Plan concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.
 - (i) The Management Committee may, in its discretion, rely on any applicable statute of limitation or deadline as a basis for denial of any claim.

10.4. **Deadline to File Claim.** To be considered timely under the Plan's claim and review procedure, a claim must be filed with the Management Committee within one (1) year after the claimant knew or reasonably should have known of the principal facts upon which the claim is based.

10.5. **Exhaustion of Administrative Remedies.** The exhaustion of the claim and review procedure is mandatory for resolving every claim and dispute arising under this Plan. In any subsequent legal action all explicit and all implicit determinations by the Management Committee (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

10.6. **Deadline to File Legal Action.** No legal action to recover Plan benefits or to enforce

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or clarify rights under the Plan under section 502 or section 510 of the Employee Retirement Income Security Act of 1974, as amended, or under any other provision of law, whether or not statutory, may be brought by any claimant on any matter pertaining to this Plan unless the legal action is commenced in the proper forum before the earlier of:

- (a) thirty (30) months after the claimant knew or reasonably should have known of the principal facts on which the claim is based, or
- (b) six (6) months after the claimant has exhausted the claim and review procedure.

10.7. **Knowledge of Fact by Participant Imputed to Beneficiary.** For the purpose of applying the deadlines to file a claim or a legal action, knowledge of all facts that a Participant knew or reasonably should have known shall be imputed to every claimant who is or claims to be a Beneficiary of the Participant or otherwise

claims to derive an entitlement by reference to the Participant for the purpose of applying the previously specified periods.

3. SAVINGS CLAUSE. Save and except as hereinabove expressly amended, the Plan Statement shall continue in full force and effect.

DELUXE CORPORATION

October 21, 2002

By _____
Anthony C. Scarfone
Its Senior Vice President

Deluxe Corporation
Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31,					
	2002	2001	2000	1999	1998	1997
<u>Earnings:</u>						
Income from continuing operations before income taxes	\$340,722	\$297,534	\$273,429	\$322,582	\$256,305	\$147,682
Interest expense (excluding capitalized interest) ¹	5,079	5,691	11,900	8,852	8,672	7,411
Portion of rent expense under long-term operating leases representative of an interest factor	3,058	3,540	3,520	7,728	8,859	8,732
Total Earnings	\$348,859	\$306,765	\$288,849	\$339,162	\$273,836	\$163,825
<u>Fixed charges:</u>						
Interest expense (including capitalized interest) ¹	\$ 5,139	\$ 5,691	\$ 11,900	\$ 9,925	\$ 10,063	\$ 8,331
Portion of rent expense under long-term operating leases representative of an interest factor	3,058	3,540	3,520	7,728	8,859	8,732
Total fixed charges	\$ 8,197	\$ 9,231	\$ 15,420	\$ 17,653	\$ 18,922	\$ 17,063
Ratio of earnings to fixed charges	42.6	33.2	18.7	19.2	14.5	9.6

¹ Includes amortization of debt issuance costs.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Profile

We operate three business segments: Financial Services, Direct Checks and Business Services. Financial Services sells checks, related products and check merchandising services to financial institutions. Direct Checks sells checks and related products directly to consumers through direct mail and the Internet. Business Services sells checks, forms and related products to small businesses and home offices through financial institution referrals and via direct mail and the Internet. All three segments operate only in the United States.

During 2000, we operated two business segments: Paper Payment Systems and eFunds. On December 29, 2000, we disposed of the eFunds segment via a spin-off transaction. As a result, in 2001 we reorganized our Paper Payment Systems segment into the three segments we operate today. The results of the eFunds segment are reflected as discontinued operations in our consolidated financial statements for the year ended December 31, 2000.

Results of Operations

The following table presents, for the periods indicated, the relative composition of selected statement of income data (dollars in thousands, except revenue per unit amounts):

	2002		2001		2000	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Revenue from external customers:						
Financial Services	\$ 754,022	-	\$ 768,499	-	\$ 794,628	-
Direct Checks	310,866	-	305,637	-	278,348	-
Business Services	219,095	-	204,239	-	189,736	-
Total	\$ 1,283,983	-	\$ 1,278,375	-	\$ 1,262,712	-
Units (millions) ⁽¹⁾	92.64	-	96.24	-	97.09	-
Revenue per unit	\$ 13.86	-	\$ 13.28	-	\$ 13.01	-
Gross profit	848,189	66.1%	824,557	64.5%	809,689	64.1%
Selling, general and administrative expense	502,961	39.2%	514,369	40.2%	518,245	41.0%
Other operating expense ⁽²⁾	297	-	8,250	0.6%	12,510	1.0%
Operating income:						
Financial Services	\$ 180,999	24.0%	\$ 167,721	21.8%	\$ 174,276	21.9%
Direct Checks	92,415	29.7%	75,365	24.7%	64,980	23.3%
Business Services	71,517	32.6%	58,852	28.8%	50,363	26.5%
Unallocated ⁽³⁾	-	-	-	-	(10,685)	-
Total	\$ 344,931	26.9%	\$ 301,938	23.6%	\$ 278,934	22.1%

(1) Units represent an equivalent quantity of checks sold calculated across all check-related product lines. Non-production and accessory products are excluded from the calculation of units.

(2) Other operating expense consists of asset impairment and net disposition losses and in 2001 and 2000 includes goodwill amortization expense.

(3) Unallocated operating loss for 2000 represents asset impairment losses and restructuring charges related to a discontinued e-commerce initiative.

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Revenue

Revenue increased \$5.6 million, or 0.4%, to \$1,284.0 million for 2002 from \$1,278.4 million for 2001. Revenue per unit increased 4.4% as compared to 2001 due to price increases in all three segments, the improved effectiveness of our selling techniques and continued strength in selling premium-priced licensed designs and services. Partially offsetting the increase in revenue per unit was a 3.7% decrease in unit volume. Over 40% of this decline was due to lower financial institution conversion activity during 2002, as bank mergers and acquisitions were down from 2001. Conversion activity is driven by the need to replace checks after one financial institution merges with or acquires another. Additionally, the Direct Checks segment was impacted by lower consumer response rates, and all three segments were impacted by a decline in check usage due to the slower economy and the increasing use of alternative payment methods.

Gross profit

Gross profit increased \$23.6 million, or 2.9%, to \$848.2 million for 2002 from \$824.6 million for 2001. Gross margin increased to 66.1% for 2002 from 64.5% for 2001. The increase in gross margin was due to the higher revenue per unit discussed earlier and continued focus on productivity improvements, including the conversion to

lean and cellular manufacturing concepts in our Financial Services and Business Services check printing facilities, as well as other cost reductions and reduced spoilage. Postal rate increases partially offset these improvements.

Selling, general and administrative (SG&A) expense

SG&A expense decreased \$11.4 million, or 2.2%, to \$503.0 million for 2002 from \$514.4 million for 2001. As a percentage of revenue, SG&A expense decreased to 39.2% for 2002 from 40.2% for 2001. The improvement was primarily due to our efforts to move customers to the lower-cost electronic and Internet order channels, lower depreciation and amortization expense as a result of reductions in capital purchases in recent years and ongoing cost management efforts. Partially offsetting these decreases was a \$7.1 million increase in advertising expense within the Direct Checks segment. There has been an overall softening in direct mail industry response rates causing some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements to reduce their circulation. This has made it challenging, and more costly, to acquire suitable advertising media for Direct Checks traditional means of new customer acquisition.

Goodwill amortization expense

On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, in its entirety. Under this new statement, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment testing on at least an annual basis. Thus, we recorded no goodwill amortization expense during 2002, compared to \$6.2 million for 2001.

Asset impairment and net disposition losses

The net loss of \$0.3 million for 2002 consisted of the retirement of certain software assets, partially offset by the recognition of \$0.9 million of the deferred gain resulting from a 1999 sale-leaseback transaction with an unaffiliated third party. The net loss of \$2.1 million for 2001 consisted of write-offs resulting from a review of asset usage and physical inventories of assets, partially offset by the recognition of \$1.7 million of the deferred gain from the 1999 sale-leaseback transaction.

Interest expense

Interest expense decreased \$0.5 million to \$5.1 million for 2002 from \$5.6 million for 2001. The decrease was due to lower interest rates partially offset by higher debt levels. During 2002, we had weighted-average debt outstanding of \$171.8 million at a weighted-average interest rate of 2.13%. During 2001, we had weighted-average debt outstanding of \$104.5 million at a weighted-average interest rate of 3.99%. In February 2001, we paid off \$100.0 million of unsecured and unsubordinated notes which carried interest at 8.55%.

Provision for income taxes

Our effective tax rate for 2002 was 37.1% compared to 37.5% for 2001. The decrease was due primarily to the reversal of \$12.9 million of previously established income tax reserves. During the fourth quarter of 2002, the Internal Revenue Service (IRS) completed its review of our income tax returns for 1996 through 1998. Certain IRS rules were clarified in a manner favorable to us, and the related reserves were no longer required. Substantially offsetting these reversals was a \$12.2 million charge for a valuation allowance relating to our deferred tax asset for capital loss carryforwards which expire at the end of 2003. By the fourth quarter of 2002, the predominance of negative evidence indicated that it was more likely than not that the tax benefits associated with a majority of the capital loss carryforwards would not be realized as certain tax planning strategies upon which we intended to rely were no longer considered to be prudent or feasible.

Income from continuing operations

Income from continuing operations increased \$28.4 million, or 15.3%, to \$214.3 million for 2002 from \$185.9 million for 2001. The improvement was due to the increases in revenue and gross profit, the reduction in SG&A expense and the change in accounting for goodwill discussed earlier.

Diluted earnings per share from continuing operations

Diluted earnings per share from continuing operations increased \$0.67, or 24.9%, to \$3.36 for 2002 from \$2.69 for 2001. In addition to the increase in income from continuing operations discussed earlier, average shares outstanding decreased from 2001 due to our share repurchase programs. In January 2001, our board of directors approved the repurchase of up to 14 million shares of our common stock and in August 2002, the board authorized the repurchase of an additional 12 million shares. As of December 31, 2002, 15.2 million shares had been repurchased under these programs. The change in average shares outstanding resulting from share repurchases, partially offset by the impact of shares issued under employee stock purchase and stock incentive plans, accounted for \$0.26 of the increase in 2002 earnings per share as compared to 2001.

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, we continue to account for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, our results of operations do not include

compensation expense for stock options issued under our stock incentive plan and for 2002 do not include compensation expense for shares issued under our amended and restated employee stock purchase plan. Had this expense been included in our results, diluted earnings per share would have been \$0.04 lower for 2002 and \$0.05 lower for 2001. This pro forma impact of stock-based compensation was calculated under a method consistent with that disclosed in the notes to our consolidated financial statements for the year ended December 31, 2002.

Revenue

Revenue increased \$15.7 million, or 1.2%, to \$1,278.4 million for 2001 from \$1,262.7 million for 2000. Revenue per unit increased 2.1% from 2000 due to price increases in all three segments and increased sales of premium-priced licensed designs, partially offset by continued competitive pricing pressure in the Financial Services segment. Unit volume decreased 0.9% due primarily to the loss of financial institution clients as a result of the competitive pricing pressure. Partially offsetting the volume decline in the Financial Services segment was the effectiveness of promotional spending in the Direct Checks and Business Services segments, the continued success of the financial institution referral program in the Business Services segment and the acquisition of Designer Checks in February 2000.

Gross profit

Gross profit increased \$14.9 million, or 1.8%, to \$824.6 million for 2001 from \$809.7 million for 2000. Gross margin increased to 64.5% for 2001 from 64.1% for 2000. Price and volume increases within the Direct Checks and Business Services segments, as well as productivity improvements and cost management measures within all businesses, were partially offset by the effect of continued pricing pressure and decreased volume within the Financial Services segment.

Selling, general and administrative (SG&A) expense

SG&A expense decreased \$3.8 million, or 0.7%, to \$514.4 million for 2001 from \$518.2 million for 2000. As a percentage of revenue, SG&A expense decreased to 40.2% for 2001 from 41.0% for 2000. The improvement was primarily due to on-going cost management efforts across all businesses, administrative cost reductions due to the eFunds spin-off on December 29, 2000, and costs incurred in 2000 related to PlaidMoon. During 2000, we introduced PlaidMoon.com, an Internet-based business concept that allowed consumers to design and purchase personalized items. In October 2000, we announced that we were scaling back and repositioning our PlaidMoon.com business concept into our other businesses. The expenses relating to the start-up of this project resulted in higher SG&A expense for 2000 as compared to 2001.

Partially offsetting these decreased expenses were increased marketing costs related to new customer acquisition within the Direct Checks segment and net restructuring charges of \$2.6 million in 2001, as compared to net restructuring charge reversals of \$2.4 million in 2000. The net restructuring charges recorded in 2001 related to various workforce reductions across all segments. The reductions are expected to affect 270 employees and will be completed in early 2003. The net restructuring charge reversals recorded in 2000 primarily related to a previous initiative to reduce SG&A expense. The reversal resulted from higher than anticipated employee attrition and the reversal of accruals for early termination payments to a group of employees.

Asset impairment and net disposition losses

The net loss of \$2.1 million for 2001 consisted of write-offs resulting from a review of asset usage and physical inventories of assets, partially offset by the recognition of \$1.7 million of the deferred gain resulting from a 1999 sale-leaseback transaction with an unaffiliated third party. In 2000, we recorded \$9.7 million of asset impairment losses related to the PlaidMoon project discussed earlier under SG&A expense. As a result of the decision to scale back and reposition this project into our other businesses, we completed an evaluation to determine to what extent the long-lived assets of this project could be utilized by our other businesses. The impaired assets consisted of internal-use software developed for use by the PlaidMoon.com website. The estimated fair value of the software was determined by calculating the present value of net cash flows expected to be generated by alternative uses of the assets. The impairment losses were partially offset by gains from capital asset sales and the recognition of \$1.8 million of the deferred gain resulting from the 1999 sale-leaseback transaction.

Interest expense

Interest expense decreased \$5.8 million to \$5.6 million for 2001 as compared to \$11.4 million for 2000. The decrease was due to lower interest rates and debt levels. During 2001, we had weighted-average debt outstanding of \$104.5 million at a weighted-average interest rate of 3.99%. During 2000, we had weighted-average debt outstanding of \$125.0 million at a weighted-average interest rate of 8.11%. In February 2001, we paid off \$100.0 million of unsecured and unsubordinated notes which carried interest at 8.55%.

Provision for income taxes

Our effective tax rate for continuing operations was 37.5% for 2001 compared to 38.0% for 2000.

Income from continuing operations

Income from continuing operations increased \$16.4 million, or 9.7%, to \$185.9 million for 2001 from \$169.5 million for 2000. The improvement was due to the increases in revenue and gross profit and the decreases in SG&A expense, asset impairment losses and interest expense discussed earlier.

Diluted earnings per share from continuing operations

Diluted earnings per share from continuing operations increased \$0.35, or 15.0%, to \$2.69 for 2001 from \$2.34 for 2000. In addition to the increase in income from continuing operations discussed earlier, average shares outstanding decreased from 2000 due to our share repurchase program. In January 2001, our board of directors approved the repurchase of up to 14 million shares of our common stock. Through December 31, 2001, we had repurchased 11.3 million of these shares. The change in average shares outstanding resulting from share repurchases, partially offset by the impact of shares issued under employee stock purchase and stock incentive plans, accounted for \$0.12 of the increase in 2001 earnings per share as compared to 2000.

Discontinued operations

Loss from discontinued operations was \$7.5 million for 2000. This represents the results of our eFunds segment,

which was disposed of via a spin-off transaction on December 29, 2000, as well as the costs of the spin-off.

Diluted earnings per share

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, we continue to account for employee stock-based compensation in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, our results of operations do not include compensation expense for stock options issued under our stock incentive plan. Had this expense been included in our results, diluted earnings per share would have been \$0.05 lower for 2001 and \$0.06 lower for 2000. This pro forma impact of stock-based compensation was calculated under a method consistent with that disclosed in the notes to our consolidated financial statements for the year ended December 31, 2002.

Segment Disclosures

Financial Services

Financial Services provides checks, related products and check merchandising services to financial institutions. Additionally, we offer enhanced services to our clients, such as customized reporting, file management, expedited account conversion support and fraud prevention.

The following table shows the results of this segment for the last three years (dollars in thousands):

	2002	2001	2000
Revenue	\$ 754,022	\$ 768,499	\$ 794,628
Operating income	180,999	167,721	174,276
% of revenue	24.0%	21.8%	21.9%

Financial Services revenue decreased \$14.5 million, or 1.9%, to \$754.0 million for 2002 from \$768.5 million for 2001. The decrease was due to lower volume resulting from lower financial institution conversion activity during 2002, an overall decline in the number of checks being written due to the slower economy and the increasing use of alternative payment methods, as well as the timing of client gains and losses. The volume decline was partially offset by price increases and continued strength in selling premium-priced licensed designs and services. Operating income increased \$13.3 million, or 7.9%, to \$181.0 million for 2002 from \$167.7 million for 2001. The improvement was due to continued focus on cost reductions and productivity improvements, including the transformation to lean and cellular manufacturing concepts, lower depreciation and amortization expense as a result of lower levels of capital purchases in recent years, increased efficiencies due to a shift from mail to electronic orders and reduced spoilage. Postal rate increases partially offset these improvements.

Financial Services revenue decreased \$26.1 million, or 3.3%, to \$768.5 million for 2001 from \$794.6 million for 2000. The decrease was due to continued competitive pricing pressure, as well as the resulting volume decline due to the loss of financial institution clients. We were able to partially offset these declines through a price increase, increased shipping and handling revenue and increased sales of premium-priced products. Operating income decreased \$6.6 million, or 3.8%, to \$167.7 million for 2001 from \$174.3 million for 2000. The revenue decrease was partially offset by productivity improvements and cost management measures.

Direct Checks

Direct Checks sells checks and related products directly to consumers through direct mail and the Internet. We use a variety of direct marketing techniques to acquire new customers in the direct-to-consumer market, including freestanding inserts in newspapers, in-package advertising, statement stuffers and co-op advertising. We also use e-commerce strategies to direct traffic to our websites. Direct Checks sells under the Checks Unlimited® and Designer® Checks brand names.

The following table shows the results of this segment for the last three years (dollars in thousands):

	2002	2001	2000
Revenue	\$ 310,866	\$ 305,637	\$ 278,348
Operating income	92,415	75,365	64,980
% of revenue	29.7%	24.7%	23.3%

Direct Checks revenue increased \$5.3 million, or 1.7%, to \$310.9 million for 2002 from \$305.6 million for 2001. The increase was due to higher revenue per unit as a result of price increases, the improved effectiveness of our selling techniques and continued strength in selling premium-priced licensed designs, partially offset by a decrease in volume as direct mail response rates were down. Operating income increased \$17.0 million, or 22.6%, to \$92.4 million for 2002 from \$75.4 million for 2001. The change in accounting for goodwill required under SFAS No. 142, *Goodwill and Other Intangible Assets*, accounted for \$6.2 million of the increase. Under this statement, goodwill and intangible assets with indefinite lives are no longer amortized but are subject to impairment testing on at least an annual basis. In addition, the improvement was due to the revenue increase, the continued migration of orders to the lower-cost Internet channel, continued cost management efforts and productivity improvements within the manufacturing function. Partially offsetting these improvements were increased advertising costs as a result of fewer new customer acquisition media sources. There has been an overall softening in direct mail industry response rates causing some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements to reduce their circulation. This has made it challenging, and more costly, to acquire suitable advertising media for our traditional means of new customer acquisition.

Direct Checks revenue increased \$27.3 million, or 9.8%, to \$305.6 million for 2001 from \$278.3 million for 2000. The increase was due to higher revenue per unit resulting from a price increase and increased sales of Disney® and other premium-priced licensed designs. Additionally, unit volume increased from 2000 due to new customer acquisitions, increased units per order and the acquisition of Designer Checks in February 2000. Operating income increased \$10.4 million, or 16.0%, to \$75.4 million for 2001 from \$65.0 million for 2000. The revenue increase and cost management efforts were partially offset by increased advertising expense related to new customer acquisition and an increase in goodwill amortization expense of \$1.0 million due to the acquisition of Designer Checks.

Business Services

Business Services sells checks, forms and related products to small businesses and home offices through financial institution referrals and via direct mail and the Internet. Through our business referral program, our financial institution clients refer new small business customers by calling us directly at the time of new account opening. We also use a variety of direct marketing techniques to acquire and retain customers.

The following table shows the results of this segment for the last three years (dollars in thousands):

	2002	2001	2000
Revenue	\$ 219,095	\$ 204,239	\$ 189,736
Operating income	71,517	58,852	50,363
% of revenue	32.6%	28.8%	26.5%

Business Services revenue increased \$14.9 million, or 7.3%, to \$219.1 million for 2002 from \$204.2 million for 2001. The increase was due to increased volume from financial institution referrals and improved selling techniques, as well as higher revenue per unit due to price increases. Partially offsetting these increases was lower financial institution conversion activity during 2002 and a decline in check usage due to the slower economy and the increasing use of alternative payment methods. Operating income increased \$12.6 million, or 21.5%, to \$71.5 million for 2002 from \$58.9 million for 2001. The improvement was due to the revenue increase, reduced materials costs and continued cost management efforts.

Business Services revenue increased \$14.5 million, or 7.6%, to \$204.2 million for 2001 from \$189.7 million for 2000. The increase was due to price increases and increased volume as this business continued to benefit from financial institution referrals and effective promotional spending. Operating income increased \$8.5 million, or 16.9%, to \$58.9 million for 2001 from \$50.4 million for 2000. The revenue increase and cost management efforts were partially offset by increased commissions relating to our financial institution referral program.

Liquidity, Capital Resources and Financial Condition

As of December 31, 2002, we had cash and cash equivalents of \$124.9 million. The following table shows our cash flow activity for the last three years and should be read in conjunction with the consolidated statements of cash flows (dollars in thousands):

	2002	2001	2000
Continuing operations:			
Net cash provided by operating activities	\$ 257,139	\$ 270,623	\$ 253,572
Net cash used by investing activities	(44,149)	(13,497)	(96,141)
Net cash used by financing activities	(97,706)	(328,287)	(168,774)
Net cash provided (used) by continuing operations	115,284	(71,161)	(11,343)
Net cash used by discontinued operations	-	-	(32,360)
Net increase (decrease) in cash and cash equivalents	\$ 115,284	\$ (71,161)	\$ (43,703)

Net cash provided by operating activities decreased \$13.5 million to \$257.1 million for 2002 from \$270.6 million for 2001. The increase in earnings in 2002 was offset by higher employee profit sharing and pension contributions, income tax payments and voluntary employee beneficiary association (VEBA) trust contributions.

During 2002, net cash provided by operating activities of \$257.1 million was primarily generated by earnings before interest, taxes, depreciation and amortization of intangibles and goodwill (EBITDA⁽¹⁾) of \$403.3 million. Operating income during the same period was \$344.9 million. These cash inflows were utilized to fund income tax payments of \$116.5 million, contract acquisition payments to financial institution clients of \$34.9 million, employee profit sharing and pension contributions of \$28.4 million and VEBA trust contributions of \$25.5 million. Net cash provided by operating activities during 2002, the net issuance of long-term debt of \$295.7 million, cash receipts of \$30.9 million from shares issued under employee plans and cash on hand at December 31, 2001 enabled us to spend \$172.8 million on share repurchases, to pay short-term debt of \$150.0 million, to pay dividends of \$92.9 million and to purchase capital assets of \$40.7 million.

Net cash provided by operating activities increased \$17.0 million to \$270.6 million for 2001 from \$253.6 million for 2000. The increase in earnings and accounts payable was partially offset by higher contract acquisition

payments to financial institution clients. Beginning in 2001, competitive pressures in the industry increased the importance of these up-front payments to clients in order to retain and increase our client base.

During 2001, net cash provided by operating activities of \$270.6 million was primarily generated by EBITDA of \$374.7 million, increases in accounts payable and miscellaneous operating expense accruals and a reduction in trade accounts receivable. Operating income during the same period was \$301.9 million. These operating cash inflows were utilized primarily to fund income tax payments of \$107.0 million and contract acquisition payments to financial institution clients of \$34.0 million. Net cash provided by operating activities during 2001, the net issuance of \$150.0 million of commercial paper, cash on hand at December 31, 2000 and cash receipts of \$68.7 million from shares issued under employee plans enabled us to spend \$345.4 million on share repurchases, to pay dividends of \$101.8 million, to make payments on long-term debt of \$101.6 million and to purchase capital assets of \$28.8 million.

We believe that important measures of our financial strength are the ratios of earnings before interest and taxes (EBIT⁽²⁾) to interest expense and free cash flow⁽³⁾ to debt. EBIT to interest expense was 68.0 times for 2002, 53.9 times for 2001 and 24.5 times for 2000. Our committed lines of credit contain covenants requiring a minimum EBIT to interest expense ratio of 2.5 times. The increase in 2002, as compared to 2001, was primarily due to the improvements in operating results discussed earlier under Results of Operations and lower interest expense in 2002 due to lower interest rates. The increase in 2001, as compared to 2000, was primarily due to lower interest expense in 2001 resulting from lower interest rates and debt levels throughout the year. The comparable ratio of operating income to interest expense was 67.9 times for 2002, 54.1 times for 2001 and 24.4 times for 2000. Free cash flow to debt was 40.1% for 2002, 86.8% for 2001 and 88.3% for 2000. The decrease in 2002, as compared to 2001, was due to the higher debt level as of December 31, 2002 resulting from borrowings to implement our financial strategy. This impact was partially offset by increased earnings and the lower amount of dividends paid in 2002 based on fewer shares outstanding. The decrease in 2001, as compared to 2000, was due to the higher level of debt as of December 31, 2001 due to cash expenditures made for our 2001 share repurchase program. Partially offsetting the higher debt level was a \$42.2 million increase in free cash flow resulting from the lower level of capital asset purchases during 2001, as well as the improvements in operating results discussed earlier under Results of Operations. The comparable ratio of net cash provided by operating activities to debt was 83.4% for 2002, 167.6% for 2001 and 228.7% for 2000.

We currently have a \$300.0 million commercial paper program in place. Our commercial paper program carries a credit

(1) EBITDA is not a measure of financial performance under generally accepted accounting principles. We disclose EBITDA because it can be used to analyze profitability between companies and industries by eliminating the effects of financing (i.e., interest) and capital investments (i.e., depreciation and amortization). We continually evaluate EBITDA, as we believe that an increasing EBITDA depicts increased ability to attract financing and increases the valuation of our business. EBITDA is derived from operating income as follows (dollars in thousands):

	2002	2001	2000
Operating income	\$ 344,931	\$ 301,938	\$ 278,934
Other income (expense)	195	(1,188)	1,178
Depreciation	23,953	30,605	33,375
Amortization of intangibles	34,252	37,189	29,994
Amortization of goodwill	-	6,188	5,201
EBITDA	\$ 403,331	\$ 374,732	\$ 348,682

(2) EBIT is not a measure of financial performance under generally accepted accounting principles. By excluding interest and income taxes, this measure of profitability can indicate whether a company's earnings are adequate to pay its debts. Thus, we believe that it is an important measure to monitor. The measure of EBIT to interest expense illustrates how many times the current year's EBIT covers the current year's interest expense. Our committed lines of credit contain covenants requiring a minimum EBIT to interest expense ratio. EBIT is derived from operating income as follows (dollars in thousands):

	2002	2001	2000
Operating income	\$ 344,931	\$ 301,938	\$ 278,934
Other income (expense)	195	(1,188)	1,178
EBIT	\$ 345,126	\$ 300,750	\$ 280,112

(3) Free cash flow is not a measure of financial performance under generally accepted accounting principles. It represents the excess cash generated from operations after the purchase of capital assets and the payment of dividends. We disclose free cash flow because it is an important liquidity measure which we monitor on an on-going basis. The measure of free cash flow to debt is a liquidity measure which illustrates to what degree our free cash flow covers our existing debt. Free cash flow is derived from net cash provided by operating activities of continuing operations as follows (dollars in thousands):

	2002	2001	2000
Net cash provided by operating activities of continuing operations	\$ 257,139	\$ 270,623	\$ 253,572
Purchases of capital assets	(40,708)	(28,775)	(48,483)
Cash dividends paid to shareholders	(92,940)	(101,773)	(107,195)
Free cash flow	\$ 123,491	\$ 140,075	\$ 97,894

rating of A1/P1. If for any reason we were unable to access the commercial paper markets, we would rely on our committed lines of credit for liquidity. The average amount of commercial paper outstanding during 2002 was \$152.9 million at a weighted-average interest rate of 1.77%. As of December 31, 2002, no commercial paper was outstanding. The average amount of commercial paper outstanding during 2001 was \$90.9 million at a weighted-

average interest rate of 3.37%. As of December 31, 2001, \$150.0 million was outstanding at a weighted-average interest rate of 1.85%.

We have \$350.0 million available under two committed lines of credit. These lines are available for borrowing and as support for our commercial paper program. We have a \$175.0 million line of credit which expires in August 2003 and carries a commitment fee of six basis points (.06%). We also have a \$175.0 million line of credit which expires in August 2007 and carries a commitment fee of eight basis points (.08%). The credit agreements, which govern these lines of credit, contain customary covenants regarding EBIT to interest expense coverage and levels of subsidiary indebtedness. We believe the risk of violating our financial covenants is low. No amounts were drawn on these lines during 2002 and no amounts were outstanding as of December 31, 2002. Our previous committed line of credit expired in August 2002. No amounts were drawn on that line during 2002 or 2001, and no amounts were outstanding as of December 31, 2001.

We also have an uncommitted bank line of credit for \$50.0 million available at variable interest rates. No amounts were drawn on this line during 2002. The average amount drawn on this line of credit during 2001 was \$1.3 million at a weighted-average interest rate of 4.26%. As of December 31, 2002 and 2001, no amounts were outstanding under this line of credit.

In August 2002, our board of directors approved a financial strategy intended to reduce our cost of capital and as a result, increase leverage. This strategy would allow us to increase our debt level up to a maximum of \$700 million. The additional debt is expected to be a combination of both long-term and short-term borrowings and would be utilized in part to repurchase shares under a 12 million share repurchase program also approved by our board of directors in August as part of the financial strategy. As a result of this announcement, our long-term credit rating was downgraded to 'A' from 'A+' by one rating agency and was downgraded to 'A2' from 'A1' by another rating agency. We still maintain a strong investment-grade credit rating and expect no impact on our ability to borrow. Our credit facilities do not have covenants or events of default tied to maintaining an investment-grade credit rating.

In connection with this financial strategy, in December 2002, we issued \$300.0 million of senior, unsecured notes (the Notes) maturing on December 15, 2012. The Notes were issued under our shelf registration statement covering up to \$300.0 million in medium-term notes, thereby exhausting that registration statement. The proceeds from the Notes were used to retire our commercial paper borrowings and will be used for general corporate purposes, including funding share repurchases, capital asset purchases, working capital or financing for possible acquisitions. Interest payments are due each June and December at an annual interest rate of 5.0%. Principal redemptions may be made at our election prior to their stated maturity. The Notes include covenants that place restrictions on the issuance of additional debt that would be senior to the Notes and the execution of certain sale-leaseback arrangements. Proceeds from the offering, net of offering costs, were \$295.7 million. In conjunction with the planned issuance of the Notes, we executed derivative instruments (the Lock Agreements) to effectively hedge, or lock-in, the annual interest rate on \$150.0 million of the Notes. Upon issuance of the Notes, the Lock Agreements were terminated, yielding a deferred pre-tax loss of \$4.0 million, which is reflected in accumulated other comprehensive loss in our consolidated balance sheet and will be reclassified ratably to our statements of income as an increase to interest expense over the ten-year term of the Notes.

Contractual Obligations

As of December 31, 2002, our contractual obligations were as follows (dollars in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Long-term debt	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000
Capital lease obligations	13,798	2,567	3,794	3,928	3,509
Operating lease obligations	15,149	5,428	6,912	2,137	672
Purchase obligations	143,242	77,690	65,340	212	-
Other long-term liabilities	30,040	9,970	9,317	4,331	6,422
Total	\$ 502,229	\$ 95,655	\$ 85,363	\$ 10,608	\$ 310,603

Long-term debt consists of senior, unsecured notes issued in December 2002. These notes mature on December 15, 2012 and carry interest at a rate of 5.0%. The amount presented above represents their face value.

We currently have commitments under both operating and capital leases. Our capital lease obligations bear interest at rates of 5.5% to 10.4% and are due through 2009. We have also entered into operating leases on certain facilities and equipment.

Purchase obligations include amounts due under contracts with third party service providers. These contracts are primarily for information technology services, including software development and support services, and personal computer, telecommunications, network server and help desk services. Additionally, purchase obligations include amounts due under royalty agreements and Direct Checks direct mail advertising agreements. Certain of the contracts with third party service providers allow for early termination upon the payment of specified penalties. If we were to terminate these agreements, we would incur penalties of \$54.8 million as of December 31, 2002.

Other long-term liabilities consist primarily of amounts due for workers' compensation, deferred officers' compensation and environmental liabilities. During 2002, we purchased an environmental insurance policy which covers the costs of remediation activities at the identified sites and remains in effect for 30 years. As a result, we

will receive reimbursements from the insurance company for environmental remediation costs we incur. As of December 31, 2002, we had recorded liabilities of \$7.5 million for environmental matters. The related receivables from the insurance company are reflected in other current assets and other non-current assets in our consolidated balance sheet in amounts equal to our environmental liabilities.

Of the \$28.8 million reported as long-term liabilities in our consolidated balance sheet as of December 31, 2002, \$8.7 million is excluded from the payments shown above for other long-term liabilities. This amount includes a portion of the liability for our deferred compensation plan. Under our plan, employees begin receiving payments upon the termination of employment or disability and we cannot predict when these events will occur. Additionally, this amount includes items which will not be paid in cash, such as a deferred gain resulting from a 1999 sale-leaseback transaction with an unaffiliated third party.

Contingent Commitments/Off-balance Sheet Arrangements

In conjunction with the spin-off of eFunds Corporation (eFunds) on December 29, 2000, we agreed to indemnify eFunds for future losses arising from any litigation based on the conduct of eFunds' electronic benefits transfer and medical eligibility verification business prior to eFunds' initial public offering in June 2000, and from certain future losses on identified loss contracts in excess of eFunds' accrual for contract losses as of April 30, 2000. The maximum contractual amount of litigation and contract losses for which we will indemnify eFunds is \$14.6 million. This agreement remains in effect until one year after the termination of the identified loss contracts or until all disputes have been settled. All identified loss contracts are scheduled to expire by 2006. Through December 31, 2002, no amounts have been paid or claimed under this agreement. This obligation is not reflected in the consolidated balance sheets, as it is not probable that any payment will occur.

Related Party Transactions

Other than contracts we entered into in conjunction with the spin-off of eFunds on December 29, 2000, we have entered into no related party transactions during the past three years. The contracts with eFunds account for 19% of the total purchase obligations discussed earlier under Contractual Obligations. These contracts were valued at going market rates and were reviewed by an independent committee of outside directors formed to ensure the arms-length negotiation of the contracts.

We are not engaged in any transactions, arrangements or other relationships with unconsolidated entities or other third parties that are reasonably likely to have a material effect on our liquidity, or on our access to, or requirements for capital resources. In addition, we have not established any special purpose entities.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to long-lived assets, contract acquisition costs, deferred advertising costs, post-retirement benefits and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. During 2002, we made no significant changes to our accounting policies, nor did we adopt any new accounting policies, other than those required by newly issued accounting standards, which would materially impact our 2002 results of

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operations or their presentation in the accompanying consolidated financial statements. The estimates and judgments utilized are reviewed by management on an ongoing basis, and by the audit committee of our board of directors at the end of each quarter prior to the public release of our financial results. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Application of Critical Accounting Policies

Long-lived assets

As of December 31, 2002, we had property, plant and equipment of \$140.0 million and intangible assets of \$106.0 million. In addition to the original cost of these assets, their recorded value is impacted by a number of policy elections and other considerations, including estimated useful lives, depreciation and amortization methods, salvage values and impairment losses. Buildings have been assigned 40-year lives and machinery and equipment have been assigned lives ranging from three to 11 years, with a weighted-average life of nine years as of December 31, 2002. These assets are generally depreciated using accelerated methods. Leasehold and building improvements are depreciated on the straight-line basis over the estimated useful life of the property or the life of the lease, whichever is shorter. Intangible assets consist primarily of internal-use software and are generally amortized on the straight-line basis over periods ranging from two to ten years, with a weighted-average life of six years as of December 31, 2002.

Our business segments allocate depreciation and amortization expense to cost of goods sold or SG&A expense based on how the assets are used. The depreciation and amortization methods and lives applied to our long-lived assets are intended to allocate the cost of these assets over their estimated useful lives and in proportion to the benefits received from their use. We continually evaluate the useful lives and depreciation and amortization methods used. As circumstances change or the manner in which we utilize a particular asset changes, adjustments to these estimates may be necessary. Any change in estimate is reflected on a prospective basis and thus, does not impact the results of operations for periods prior to the change. During 2001, we revised the estimated useful lives for certain of our e-commerce intangible assets. These changes in estimate resulted in increased amortization expense of \$2.9 million in 2001. No significant changes in depreciation or amortization estimates were made during 2002 or 2000.

We must evaluate the recoverability of property, plant, equipment and identifiable intangibles not held for sale whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to, (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used or in its physical condition, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. We recorded asset impairment losses of \$9.7 million in 2000. These charges related to investments in an e-commerce initiative which was discontinued during 2000. No significant impairment losses were recorded during 2002 or 2001.

Contract acquisition costs

As of December 31, 2002, we had net capitalized contract acquisition costs of \$55.3 million. We capitalize certain contract acquisition costs related to signing or renewing contracts with our financial institution clients. These costs, which primarily consist of cash payments made to financial institution clients by our Financial Services segment, are generally recorded as reductions of revenue on the straight-line basis over the related contract term. Currently, these amounts are being amortized over periods ranging from two to seven years, with a weighted-average life of four years as of December 31, 2002. Whenever events or changes occur that impact the related contract, including significant declines in the anticipated profitability, we evaluate the carrying value of the contract acquisition costs to determine if an impairment has occurred.

As of December 31, 2002 and 2001, contract acquisition costs consisted of balances relating to numerous financial institutions. Should a financial institution cancel a contract prior to the agreement's termination date, or should the volume of orders realized through a financial institution fall below contractually-specified minimums, we generally have a contractual right to a refund of the remaining unamortized contract acquisition costs.

Deferred advertising costs

As of December 31, 2002, we had deferred advertising costs of \$17.3 million. These costs include materials, printing, separations and postage costs related primarily to direct response advertising programs of our Direct Checks segment. These costs

are amortized as SG&A expense over periods (averaging 18 months) that correspond to the estimated revenue streams of the individual advertisements. The actual revenue streams are analyzed at least annually to monitor the propriety of the amortization periods. Judgment is required in estimating the future revenue streams, as check re-orders can span an extended period of time. Significant changes in the actual revenue streams would require the amortization periods to be modified, thus impacting the results of operations during the period in which the change occurred and in subsequent periods. During 2002, 2001 and 2000, no material revisions were made to the amortization of deferred advertising costs. We are currently in the process of reviewing our various marketing programs and the related revenues generated from these programs. We anticipate that this review will be complete by the end of the first quarter of 2003 and will result in a slight positive adjustment to our deferred advertising amortization. We cannot yet quantify this amount with certainty, however, as our review is still in progress.

Post-retirement benefits

Our net post-retirement benefit expense was \$5.6 million in 2002, \$1.1 million in 2001 and \$0.1 million in 2000. Our business segments allocate post-retirement benefit expense to cost of goods sold or SG&A expense, based on the composition of their workforces. Our post-retirement benefit expense and liability are calculated utilizing various actuarial assumptions and methodologies. These assumptions include, but are not limited to, the discount rate, the expected long-term rate of return on plan assets and the expected health care cost trend rate. The discount rate assumption is based on the rates of return on high-quality, fixed-income instruments currently available whose cash flows match the timing and amount of expected benefit payments. The expected long-term rate of return on plan assets and the health care cost trend rate are based upon an evaluation of our historical trends and experience, taking into account current and expected market conditions. The long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for expected benefit payments. The health care cost trend rate represents the expected annual rate of change in the cost of health care benefits currently provided due to factors other than changes in the demographics of plan participants. If the assumptions

utilized in determining our post-retirement benefit expense and liability differ from actual events, our results of operations for future periods could be impacted.

In measuring the accumulated post-retirement benefit obligation as of December 31, 2002, we assumed a discount rate of 6.75% and an expected long-term rate of return on plan assets of 8.75%. A 0.25 point change in the discount rate would increase or decrease our annual post-retirement benefit expense by \$0.3 million. A 0.25 point change in the expected long-term rate of return on plan assets would increase or decrease our annual post-retirement benefit expense by \$0.1 million. As of December 31, 2002, the fair market value of plan assets was \$51.3 million. We made no contributions to plan assets during 2002, 2001 or 2000.

In measuring the accumulated post-retirement benefit obligation as of December 31, 2002, our initial health care inflation rate for 2003 was assumed to be 10.25% and our ultimate health care inflation rate for 2008 and beyond was assumed to be 5.0%. A one percentage point increase in the health care inflation rate for each year would increase the accumulated post-retirement benefit obligation by \$17.7 million and the service and interest cost components of our annual post-retirement benefit expense by \$1.2 million. A one percentage point decrease in the health care inflation rate for each year would decrease the accumulated post-retirement benefit obligation by \$15.4 million and the service and interest cost components of our annual post-retirement benefit expense by \$1.3 million.

When actual events differ from our assumptions or when we change the assumptions used, an unrecognized actuarial gain or loss results. Unrecognized gains and losses are reflected in post-retirement benefit expense over the average remaining service life of employees expected to receive benefits under the plan, which is currently 16 years. As of December 31, 2002, our unrecognized net actuarial loss was \$76.5 million. Of this amount, \$35.2 million resulted from differences between our expected long-term rate of return on plan assets and the actual return on plan assets. Since this assumption takes a long-term view of investment returns, there may be differences between the expected rate of return and the actual rate of return on plan assets in the short-term. Additionally, \$15.3 million of the unrecognized net actuarial loss resulted from changes in our assumed health care inflation rate. During both 2002 and 2001, we increased our health care inflation rate assumption to reflect the current trend of increasing medical costs. The remainder of the net actuarial loss amount primarily related to changes in the discount rate assumption, differences between our assumed medical costs and actual experience and changes in the employee population.

Income taxes

When preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as capital assets, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance

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recorded against our net deferred tax assets. Additionally, in accordance with SFAS No. 5, *Accounting for Contingencies*, we have established reserves for income tax contingencies. These reserves relate to various tax years subject to audit by tax authorities. We believe that our current income tax reserves are adequate. However, the ultimate outcome may differ from our estimates and assumptions and could impact the provision for income taxes reflected in our consolidated statements of income.

During 2002, we reversed \$12.9 million of previously established income tax reserves. During the fourth quarter of 2002, the IRS completed its review of our income tax returns for 1996 through 1998. Certain IRS rules were clarified in a manner favorable to us, and the related reserves were no longer required. Substantially offsetting these reversals was a \$12.2 million charge for a valuation allowance relating to our deferred tax asset for capital loss carryforwards which expire at the end of 2003. By the fourth quarter of 2002, the predominance of negative evidence indicated that it was more likely than not that the tax benefits associated with a majority of the capital loss carryforwards would not be realized as certain tax planning strategies upon which we intended to rely were no longer considered to be prudent or feasible.

Other Matters

On January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, in its entirety. This statement addresses accounting and financial reporting for goodwill and intangible assets. Under the new statement, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment testing on at least an annual basis. Other than goodwill, we have no intangible assets with indefinite lives. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position as of January 1, 2002. In addition, the remaining useful lives of amortizable intangible assets were reviewed and deemed appropriate.

The following information reflects our results of operations as they would have appeared had we not recorded goodwill amortization expense and its related tax effects during 2001 and 2000 (dollars in thousands, except per share amounts):

2002

2001

2000

Income from continuing operations, as reported	\$	214,274	\$	185,900	\$	169,472
Add: Goodwill amortization expense, net of tax		-		3,979		3,311
Pro forma income from continuing operations	\$	214,274	\$	189,879	\$	172,783
Earnings per share from continuing operations:						
Basic - as reported	\$	3.41	\$	2.72	\$	2.34
Basic - pro forma		3.41		2.77		2.39
Diluted - as reported		3.36		2.69		2.34
Diluted - pro forma		3.36		2.75		2.39

As of June 30, 2002, we completed the 14 million share repurchase program approved by our board of directors in January 2001. The total cost to purchase the 14 million shares was \$463.8 million. In August 2002, our board of directors approved the repurchase of up to 12 million additional shares. Through December 31, 2002, 1.2 million of these additional shares had been repurchased at a cost of \$54.4 million. Primarily as a result of the required accounting treatment for these share repurchases, shareholders' equity decreased from \$262.8 million as of December 31, 2000 to \$64.3 million as of December 31, 2002.

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses the financial accounting and reporting for costs associated with exit or disposal activities and applies only to those activities initiated on or after the date of adoption. We adopted SFAS No. 146 on October 1, 2002 and thus, applied the requirements of this statement when reporting our results of operations for the fourth quarter of 2002.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. It also clarifies the requirements related to the recognition of liabilities by a guarantor at the inception of certain guarantees. We adopted the disclosure requirements of this interpretation on December 31, 2002. The recognition provisions of the interpretation are applicable only to guarantees issued or modified after December 31, 2002. The only agreement subject to the requirements of this interpretation was the eFunds indemnification agreement discussed earlier under Contingent Commitments/Off-balance Sheet Arrangements. As of December 31, 2002, we had no other guarantees which fell within the scope of this interpretation.

On December 2, 2002, eFunds restated its results of operations for the years ended December 31, 2000 and 2001 and for the nine months ended September 30, 2002. eFunds also announced that the Securities and Exchange Commission is conducting an inquiry of eFunds and has requested information relating to various transactions that occurred in 2000 and 2001, including data license and software sales. We completed the spin-off of eFunds on December 29, 2000. As such, eFunds' results of operations are reflected as discontinued operations in our consolidated financial statements for the year ended December 31, 2000. eFunds' results of operations are not included in our consolidated financial statements for any period subsequent to December 31, 2000. Thus, these restatements have no impact on our financial position (i.e., balance sheet) as of December 31, 2000 or on our financial position or results of operations for any period subsequent to December 31, 2000.

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After reviewing the nature and scope of the transactions that occurred in 2000, as described in eFunds' amended annual report for the year ended December 31, 2001 on Form 10-K/A, we believe that the adjustments made by eFunds have a de minimis impact on our net income for the year ended December 31, 2000. Additionally, the adjustments have no effect on the results reported for our continuing operations. Accordingly, we have not revised our financial results for the year ended December 31, 2000. Furthermore, eFunds' historical results of operations have no bearing on our current or future results of operations, our business strategy or on our ability to generate cash for current or future uses.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation, as outlined in SFAS No. 123, *Accounting for Stock-Based Compensation*. This statement also amends the financial statement disclosure requirements relating to stock-based compensation. We currently have no plans to adopt the fair value method of accounting for stock-based compensation.

In December 2002, we issued \$300.0 million of senior, unsecured notes (the Notes) maturing on December 15, 2012. The Notes were issued under our shelf registration statement covering up to \$300.0 million in medium-term notes, thereby exhausting that registration statement. The proceeds from the Notes were used to retire our commercial paper borrowings and will be used for general corporate purposes, including funding share repurchases, capital asset purchases, working capital or financing for possible acquisitions. Interest payments are due each June and December at an annual interest rate of 5.0%. Principal redemptions may be made at our election prior to their stated maturity. The Notes include covenants that place restrictions on the issuance of additional debt that would be senior to the Notes and the execution of certain sale-leaseback arrangements. Proceeds from the offering, net of offering costs, were \$295.7 million. In conjunction with the planned issuance of the Notes, we executed derivative instruments (the Lock Agreements) to effectively hedge, or lock-in, the annual interest rate on \$150.0 million of the Notes. Upon issuance of the Notes, the Lock Agreements were terminated, yielding a deferred pre-tax loss of \$4.0 million, which is included in accumulated other comprehensive loss in our

consolidated balance sheet and will be reclassified ratably to our statements of income as an increase to interest expense over the ten-year term of the Notes.

Outlook

We believe current economic, business and geo-political conditions are having an impact on our results of operations. We have observed a decline in check usage as economic uncertainty and low consumer confidence translates into fewer checks written and as the use of electronic payments increases. In addition, we continue to operate in a highly competitive industry. While we cannot predict what impact these or other factors will have on our results of operations, our plan is to continue to manage expenses, invest in our business and purchase capital assets when they will reduce operating expenses, increase productivity or profitably increase revenue.

We anticipate additional financial institution business in the second half of 2003 as we expect clients to continue to recognize the value added by our high quality products and world-class call centers. Additionally, we expect Business Services to benefit from the recently announced alliance with Microsoft® Money and Microsoft Business Solutions. This alliance makes Business Services the exclusive supplier of checks and forms for these Microsoft products. We anticipate that these increases will be offset by a decline in check usage, the competitive pricing pressure faced by our Financial Services business and a decline in response rates in the Direct Checks segment. Our Direct Checks segment relies upon other businesses and cooperative mailers to distribute its promotional materials. This is the traditional means of new customer acquisition for this business. The consumer response rates to these direct mail advertisements have declined, and we are exploring new opportunities such as the Internet and other partners to replace traditional media sources.

Cost management and productivity improvements, primarily from the transformation to lean and cellular manufacturing concepts and an increasing mix of orders coming through the lower-cost electronic and Internet channels, are expected to continue. We expect these improvements to be offset by increased postage and advertising expenses. The increased advertising expenses are a result of the softening in direct mail response rates discussed earlier. Additionally, interest expense will be higher in 2003 due to the \$300.0 million of senior, unsecured notes issued in December 2002. These notes mature in December 2012 and carry interest at a rate of 5.0%. We also expect expense for our post-retirement health care plan to increase approximately \$5.0 million in 2003, compared to 2002. This is due primarily to increasing medical costs and continued weakness in the United States stock market. Our post-retirement plan is funded, to a large degree, by a trust invested in debt and equity securities. The expected return on these assets reduces our annual post-retirement benefit expense. Because the fair market value of these assets decreased in both 2002 and 2001, the expected return on these assets for 2003 is expected to be lower than in previous years.

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As we continue with the 12 million share repurchase program announced in August 2002, our shareholders' equity could move to a negative position as a result of the required accounting treatment for share repurchases. Should this occur, given the strength of our financial position as reflected in our cash flow and coverage ratios such as EBIT to interest expense and free cash flow to debt, we do not expect any concern from rating agencies, investment bankers or institutional investors. At this time we anticipate no changes to our current dividend payout level.

We continue to implement initiatives throughout the company that are directly related to our growth strategy. Our growth strategy is to leverage our core competencies of personalization, direct marketing and e-commerce. We intend to add services and expand product offerings, as well as use selling strategies that maximize revenue and profit contribution per customer. We will invest in technology and processes that will lower our cost structure and enhance our revenue opportunities. We also continue to consider acquisitions which would leverage our core competencies and be accretive to earnings and cash flow per share.

We have a number of new initiatives which are in line with this strategy. For example, our Financial Services segment recently launched a comprehensive new program — DeluxeSelectSM — for its financial institution clients. DeluxeSelect provides financial institution customers more information regarding checks and check-related products as they interact directly with our professional sales associates, our voice response system or order their checks via the Internet. We can actively promote product upgrades during both the new account opening and check re-ordering processes by engaging customers through our call centers, advanced Internet ordering capabilities and point-of-sale marketing support at financial institution branch offices. In 2002, we presented this new program to 225 financial institution clients. As of December 31, 2002, a large majority of these clients had elected to participate in DeluxeSelect. The impact of DeluxeSelect on revenue will depend to a large extent upon the speed at which our clients can integrate the program with their technology.

As mentioned above, in 2002 our Business Services segment was chosen to be the new exclusive supplier of checks and forms for Microsoft Money and Microsoft Business Solutions. This alliance gives small and mid-sized business customers that use these Microsoft products access to various products offered by Business Services, including software compatible laser checks and forms, manual business checks and forms, business cards, stationery and accessories. Another Business Services initiative, the business referral program, continues to produce excellent results. This program focuses on acquiring and retaining business customers by compensating financial institutions for referrals and on-going retained business.

In addition to investments in revenue-generating programs, we continue to invest in areas of the business where we can reduce costs and increase productivity. Our conversion to a cellular manufacturing environment in our check printing facilities is one example. Within the cellular manufacturing environment, a group of employees works together to produce products, rather than those same employees working on individual tasks in a linear

fashion. Because employees assume more ownership of the end product, we have seen an improvement in quality and service levels and a reduction in cost per unit. Our conversion to cellular manufacturing began in 2000, and the process is expected to be completed in our Financial Services check printing facilities in early 2004.

We expect to spend approximately \$45.0 million on purchases of capital assets during 2003. Approximately half is expected to be devoted to maintenance of our business, with the remainder targeted for strategic initiatives to drive revenue growth or reduce costs. Additionally, beginning in 2001 we saw a new trend in the area of financial institution contract structure. Many financial institutions, primarily the larger regional and mega banks, began receiving product discounts in the form of cash incentives payable at the beginning of their contracts. These up-front cash payments impact our cash flows in the short-term. We saw this trend continue in 2002 and we expect to see it continue in the future.

As discussed above under Liquidity, Capital Resources and Financial Condition, in August 2002 our board of directors approved a financial strategy intended to reduce our cost of capital and as a result, increase leverage. This strategy would allow us to increase our debt level up to a maximum of \$700 million. It also authorized a 12 million share repurchase program. These steps are intended to enhance shareholder value by allowing us to: (1) reduce our cost of capital; (2) acquire shares from time to time, at prices we believe to be opportunistic; and (3) minimize dilution resulting from shares issued through our employee stock purchase and stock incentive plans. In December 2002, we issued \$300.0 million of ten-year senior, unsecured notes. We intend to utilize the debt proceeds, along with cash generated by operations, for general corporate purposes, including funding share repurchases, capital asset purchases, working capital or financing for possible acquisitions.

Cautionary Statement Regarding Forward-looking Statements

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides companies with a "safe harbor" when making forward-looking statements as a way of encouraging them to furnish their shareholders with information regarding expected trends in their operating results, anticipated business

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developments and other prospective information. Statements made in this report concerning our intentions, expectations or predictions about future results or events are "forward-looking statements" within the meaning of the Reform Act. These statements reflect our current expectations or beliefs, and are subject to risks and uncertainties that could cause actual results or events to vary from stated expectations, and these variations could be material and adverse. Given that circumstances may change, and new risks to the business may emerge from time to time, having the potential to negatively impact our business in ways we could not anticipate at the time of making a forward-looking statement, you are cautioned not to place undue reliance on these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Some of the factors that could cause actual results or events to vary from stated expectations include, but are not limited to, the following: developments in the demand for our products or services, such as the rate at which the use of checks may decline as consumers' preferred method of non-cash payment; the inherent unreliability of earnings, revenue and cash flow predictions due to numerous factors, many of which are beyond our control; the terms under which we do business with our major financial institution clients, customers and suppliers; unanticipated delays, costs and expenses inherent in the development and marketing of new products and services; the impact of governmental laws and regulations, particularly in the area of consumer privacy; and competitive forces. Additional information concerning these and other factors that could cause actual results or events to differ materially from our current expectations are contained in Exhibit 99.3 to our Annual Report on Form 10-K for the year ended December 31, 2002, which has been filed with the Securities and Exchange Commission.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in interest rates primarily as a result of the borrowing and investing activities used to maintain liquidity and fund business operations. We do not enter into financial instruments for speculative or trading purposes. Throughout most of 2002, we continued to utilize commercial paper to fund working capital requirements and share repurchases. In December 2002, we issued \$300.0 million of senior, unsecured notes maturing on December 15, 2012 and carrying interest at a rate of 5.0%. A portion of the proceeds from these notes was used to retire our commercial paper obligations. We also have various lines of credit available and capital lease obligations. As of December 31, 2002, we had no variable rate obligations and the fair market value of our \$300.0 million notes was \$302.9 million, based on quoted market prices. The nature and amount of debt outstanding can be expected to vary as a result of future business requirements, market conditions and other factors.

In conjunction with the planned issuance of the \$300.0 million of senior, unsecured notes issued in December 2002, we executed derivative instruments to effectively hedge, or lock-in, the annual interest rate on \$150.0 million of these notes. We realized a deferred pre-tax loss of \$4.0 million on these agreements, which is reflected in accumulated other comprehensive loss in our consolidated balance sheet. Additionally, the notes were issued at a discount of \$1.9 million from par value, and we incurred debt issuance costs of \$2.4 million. All of these amounts will be reclassified ratably to our statements of income as an increase to interest expense over the ten-year term of the notes, resulting in an effective annual interest rate of 5.3%.

Based on the outstanding variable rate debt in our portfolio over the past three years, a one percentage point increase in interest rates would have resulted in additional interest expense of \$1.5 million in 2002, \$0.9 million in

2001 and \$0.3 million in 2000.

As of December 31, 2002, we had no fixed income securities in our investment portfolio.

Controls and Procedures

Disclosure controls and procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14 of the Securities and Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the evaluation date, our disclosure controls and procedures are effective at alerting them on a timely basis of material information required to be included in our periodic filings with the Securities and Exchange Commission.

Internal controls

There were no significant changes in our internal controls or, to our knowledge, in other factors which could significantly affect these controls subsequent to the date of their evaluation.

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Management's Responsibility for Financial Reporting

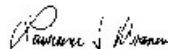
The accompanying consolidated financial statements and related information are the responsibility of management. They have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on our best estimates and judgments under existing circumstances. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

We maintain internal accounting control systems that are adequate to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that our financial records provide a reliable basis for the preparation of our consolidated financial statements. We believe our systems are effective, and the costs of the systems do not exceed the benefits obtained. These systems of control are supported by the selection of qualified personnel, by organizational assignments that provide appropriate division of responsibilities and by the dissemination of written finance policies. This control structure is further supported by a program of internal audits.

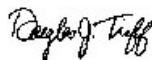
The audit committee of the board of directors has reviewed the financial data included in this report. The audit committee, comprised entirely of independent directors, assists the board of directors in monitoring the integrity of our financial statements, the effectiveness of our internal audit function and independent accountants, and our compliance systems. In carrying out these responsibilities, the audit committee meets regularly with management to consider the adequacy of our internal controls and the objectivity of our financial reporting. The audit committee also discusses these matters with our independent accountants, with appropriate personnel from our finance organization and with our internal auditors, and meets privately on a regular basis with the independent accountants and internal auditors, each of whom reports and has unrestricted access to the audit committee.

The role of the independent accountants is to render an independent, professional opinion on management's consolidated financial statements to the extent required by auditing standards generally accepted in the United States of America. Their report expresses an independent opinion on the fairness of presentation of our consolidated financial statements.

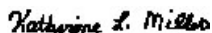
We recognize the responsibility to conduct our affairs according to the highest standards of personal and corporate conduct. This responsibility is reflected in our compliance policy and in our code of ethics and business conduct, which are distributed to all employees, and in our compliance training program.



Lawrence J. Mosner
Chief Executive Officer



Douglas J. Treff
Senior Vice President
and Chief Financial Officer



Katherine L. Miller
Vice President, Controller
and Chief Accounting Officer

Five-Year Summary

Year Ended December 31,

(Dollars in thousands, except per share amounts)

	2002	2001	2000	1999	1998
Statement of Income Data:					
Revenue	\$1,283,983	\$1,278,375	\$1,262,712	\$1,363,798	\$1,673,715
As a percentage of revenue:					
Gross profit	66.1%	64.5%	64.1%	59.1%	56.3%
Selling, general and administrative expense	39.2%	40.2%	41.0%	37.1%	40.7%
Operating income ⁽¹⁾	26.9%	23.6%	22.1%	24.0%	15.1%
Operating income ⁽¹⁾	\$ 344,931	\$ 301,938	\$ 278,934	\$ 327,724	\$ 253,128
Earnings before interest, taxes, depreciation and amortization of intangibles and goodwill (EBITDA) ⁽²⁾	403,331	374,732	348,682	384,990	319,353
Earnings before interest and taxes (EBIT) ^{(1) (3)}	345,126	300,750	280,112	323,949	257,199
Income from continuing operations ⁽¹⁾	214,274	185,900	169,472	204,321	153,566
Per share - basic	3.41	2.72	2.34	2.66	1.90
Per share - diluted	3.36	2.69	2.34	2.65	1.90
Cash dividends per share	1.48	1.48	1.48	1.48	1.48
Balance Sheet Data:					
Cash and marketable securities	124,855	9,571	99,190	150,148	306,962
Return on average assets	35.5%	31.1%	20.5%	20.2%	13.2%
Total assets	\$ 668,973	\$ 537,721	\$ 656,274	\$ 921,822	\$1,090,309
Long-term debt	306,589	10,084	10,201	111,945	102,291
Total debt	308,199	161,465	110,873	174,407	108,133
Statement of Cash Flows Data:					
Net cash provided by operating activities of continuing operations	257,139	270,623	253,572	221,237	265,130
Free cash flow ⁽⁴⁾	123,491	140,075	97,894	30,907	54,641
Purchases of capital assets	40,708	28,775	48,483	76,795	90,807
Total debt to EBITDA ⁽²⁾	0.8	0.4	0.3	0.5	0.3
Total debt to operating income	0.9	0.5	0.4	0.5	0.4
EBIT ⁽³⁾ to interest expense	68.0	53.9	24.5	37.7	30.1
Operating income to interest expense	67.9	54.1	24.4	38.2	29.6
Free cash flow ⁽⁴⁾ to total debt	40.1%	86.8%	88.3%	17.7%	50.5%
Net cash provided by operating activities of continuing operations to total debt	83.4%	167.6%	228.7%	126.9%	245.2%
Other Data:					
Units (millions) ^{(5) (6)}	92.64	96.24	97.09	105.21	111.85
As of year-end:					
Number of employees - continuing operations	6,195	6,840	7,800	8,900	13,260
Number of printing facilities ⁽⁵⁾	14	14	14	14	19
Number of call center facilities ⁽⁵⁾	7	7	7	6	10

(1) Our results of operations for the year ended December 31, 2002 were impacted by the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Under this new statement, goodwill is no longer amortized, but is subject to impairment testing on at least an annual basis. Thus, we recorded no goodwill amortization expense during 2002. Goodwill amortization expense for the preceding four years was as follows: 2001 - \$6,188; 2000 - \$5,201; 1999 - \$726; 1998 - \$1,857.

(2) EBITDA is not a measure of financial performance under generally accepted accounting principles. We disclose EBITDA because it can be used to analyze profitability between companies and industries by eliminating the effects of financing (i.e., interest) and capital investments (i.e., depreciation and amortization). We continually evaluate EBITDA, as we believe that an increasing EBITDA depicts increased ability to attract financing and increases the valuation of our business. The ratio of debt to EBITDA illustrates to what degree we have borrowed against earnings. EBITDA is derived from operating income as follows:

	2002	2001	2000	1999	1998
Operating income	\$ 344,931	\$ 301,938	\$ 278,934	\$ 327,724	\$ 253,128
Other income (expense)	195	(1,188)	1,178	(3,775)	4,071
Depreciation	23,953	30,605	33,375	41,786	46,916
Amortization of intangibles	34,252	37,189	29,994	18,529	13,381
Amortization of goodwill	-	6,188	5,201	726	1,857
EBITDA	\$ 403,331	\$ 374,732	\$ 348,682	\$ 384,990	\$ 319,353

- (3) EBIT is not a measure of financial performance under generally accepted accounting principles. By excluding interest and income taxes, this measure of profitability can indicate whether a company's earnings are adequate to pay its debts. Thus, we believe it is an important measure to monitor. The measure of EBIT to interest expense illustrates how many times the current year's EBIT covers the current year's interest expense. Our committed lines of credit contain covenants requiring a minimum EBIT to interest expense ratio of 2.5 times. EBIT is derived from operating income as follows:

	2002	2001	2000	1999	1998
Operating income	\$ 344,931	\$ 301,938	\$ 278,934	\$ 327,724	\$ 253,128
Other income (expense)	195	(1,188)	1,178	(3,775)	4,071
EBIT	\$ 345,126	\$ 300,750	\$ 280,112	\$ 323,949	\$ 257,199

- (4) Free cash flow is not a measure of financial performance under generally accepted accounting principles. It represents the excess cash generated from operations after the purchase of capital assets and the payment of dividends. We disclose free cash flow because it is an important liquidity measure which we monitor on an on-going basis. The measure of free cash flow to debt is a liquidity measure which illustrates to what degree our free cash flow covers our existing debt. Free cash flow is derived from net cash provided by operating activities of continuing operations as follows:

	2002	2001	2000	1999	1998
Net cash provided by operating activities of continuing operations	\$ 257,139	\$ 270,623	\$ 253,572	\$ 221,237	\$ 265,130
Purchases of capital assets	(40,708)	(28,775)	(48,483)	(76,795)	(90,807)
Cash dividends paid to shareholders	(92,940)	(101,773)	(107,195)	(113,535)	(119,682)
Free cash flow	\$ 123,491	\$ 140,075	\$ 97,894	\$ 30,907	\$ 54,641

- (5) Information excludes divested businesses.

- (6) Units represent an equivalent quantity of checks sold calculated across all check-related product lines. Non-production and accessory products are excluded from the calculation of units.

Consolidated Balance Sheets

December 31,

(Dollars in thousands, except share par value)

	2002	2001
Current Assets:		
Cash and cash equivalents	\$ 124,855	\$ 9,571
Trade accounts receivable – net	32,925	37,703
Inventories and supplies	20,287	22,263
Other current assets	21,579	14,435
Total current assets	199,646	83,972
Long-term Investments	40,205	37,661
Property, Plant, and Equipment – Net	140,042	149,552
Property, Plant and Equipment Held for Sale – Net	–	1,517
Intangibles – Net	105,976	114,856
Goodwill	82,237	82,237
Other Non-current Assets	100,867	67,926
Total assets	\$ 668,973	\$ 537,721

Current Liabilities:

Accounts payable	\$ 57,857	\$ 52,834
Accrued liabilities	155,312	162,909
Short-term debt	–	150,000
Long-term debt due within one year	1,610	1,381
Total current liabilities	214,779	367,124

Long-term Debt 306,589 10,084

Deferred Income Taxes 54,453 44,890

Other Long-term Liabilities 28,836 37,018

Commitments and Contingencies (Note 13)

Shareholders' Equity:

Common shares \$1 par value (authorized:

500,000,000 shares; issued: 2002 - 61,445,894;

2001 - 64,101,957)

	61,446	64,102
Retained earnings	5,380	14,563
Unearned compensation	(24)	(60)
Accumulated other comprehensive loss	(2,486)	-
Total shareholders' equity	64,316	78,605
Total liabilities and shareholders' equity	\$ 668,973	\$ 537,721

See Notes to Consolidated Financial Statements

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Consolidated Statements of Income

Year Ended December 31,

(Dollars in thousands, except per share amounts)

	2002	2001	2000
Revenue	\$ 1,283,983	\$ 1,278,375	\$ 1,262,712
Cost of goods sold	435,794	453,818	453,023
Gross Profit	848,189	824,557	809,689
Selling, general and administrative expense	502,961	514,369	518,245
Goodwill amortization expense	-	6,188	5,201
Asset impairment and net disposition losses	297	2,062	7,309
Operating Income	344,931	301,938	278,934
Other income (expense)	195	(1,188)	1,178
Income from Continuing Operations Before Interest and Taxes	345,126	300,750	280,112
Interest expense	(5,079)	(5,583)	(11,436)
Interest income	675	2,367	4,753
Income from Continuing Operations Before Income Taxes	340,722	297,534	273,429
Provision for income taxes	126,448	111,634	103,957
Income from Continuing Operations	214,274	185,900	169,472
Discontinued Operations:			
Income from operations (net of income tax expense of \$5,173)	-	-	5,229
Costs of spin-off (net of income tax benefit of \$4,021)	-	-	(12,765)
Loss from Discontinued Operations	-	-	(7,536)
Net Income	\$ 214,274	\$ 185,900	\$ 161,936
Basic Earnings per Share:			
Income from continuing operations	\$ 3.41	\$ 2.72	\$ 2.34
Loss from discontinued operations	-	-	(0.10)
Basic earnings per share	\$ 3.41	\$ 2.72	\$ 2.24
Diluted Earnings per Share:			
Income from continuing operations	\$ 3.36	\$ 2.69	\$ 2.34
Loss from discontinued operations	-	-	(0.10)
Diluted earnings per share	\$ 3.36	\$ 2.69	\$ 2.24
Cash Dividends per Share	\$ 1.48	\$ 1.48	\$ 1.48

See Notes to Consolidated Financial Statements

Year Ended December 31,
(Dollars in thousands)

	2002	2001	2000
Net Income	\$214,274	\$185,900	\$161,936
Other Comprehensive (Loss) Income, Net of Tax:			
Loss on derivative instruments:			
Loss on derivative instruments arising during the year	(2,496)	—	—
Less reclassification of loss on derivative instruments from other comprehensive income to net income	10	—	—
Unrealized gains on securities:			
Unrealized holding gains arising during the year	—	417	728
Less reclassification adjustments for gains included in net income	—	(244)	(486)
Foreign currency translation adjustments	—	—	867
Other comprehensive (loss) income	(2,486)	173	1,109
Comprehensive Income	\$211,788	\$186,073	\$163,045

Related Tax Benefit (Expense) of Other Comprehensive (Loss) Income:

Loss on derivative instruments:			
Loss on derivative instruments arising during the year	\$ 1,530	\$ —	\$ —
Less reclassification of loss on derivative instruments from other comprehensive income to net income	(6)	—	—
Unrealized gains on securities:			
Unrealized holding gains arising during the year	—	(225)	(392)
Less reclassification adjustments for gains included in net income	—	131	262
Foreign currency translation adjustments	—	—	132

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows

Year Ended December 31,
(Dollars in thousands)

	2002	2001	2000
Cash Flows from Operating Activities:			
Net income	\$ 214,274	\$ 185,900	\$ 161,936
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations	—	—	7,536
Depreciation	23,953	30,605	33,375
Amortization of intangibles	34,252	37,189	29,994
Amortization of goodwill	—	6,188	5,201
Asset impairment and net disposition losses	297	2,062	7,309
Deferred income taxes	11,104	(3,441)	(679)
Other non-cash items, net	25,329	20,225	6,501
Changes in assets and liabilities, net of effects from acquisition and discontinued operations:			
Trade accounts receivable	4,778	8,302	16,767
Inventories and supplies	1,976	876	4,478
Prepaid expenses	(7,892)	2,052	1,906
Contract acquisition costs	(34,890)	(34,020)	(3,357)
Accounts payable	7,828	6,425	(11,906)
Accrued liabilities	(21,230)	15,452	(26,940)
Other assets and liabilities	(2,640)	(7,192)	21,451
Net cash provided by operating activities of continuing operations	257,139	270,623	253,572
Cash Flows from Investing Activities:			
Proceeds from sales of marketable securities	—	48,608	47,627
Purchases of marketable securities	—	(30,000)	(40,000)
Proceeds from sales of capital assets	844	1,469	14,469
Purchases of capital assets	(40,708)	(28,775)	(48,483)

Payment for acquisition, net of cash acquired	–	–	(95,991)
Loan to others	–	–	32,500
Other	(4,285)	(4,799)	(6,263)
Net cash used by investing activities of continuing operations	(44,149)	(13,497)	(96,141)
Cash Flows from Financing Activities:			
Net (payments) borrowings on short-term debt	(150,000)	150,000	(60,000)
Proceeds from long-term debt, net of debt issuance costs	295,722	–	–
Payments on long-term debt	(1,723)	(101,556)	(794)
Settlement of interest rate lock agreements	(4,026)	–	–
Change in book overdrafts	(2,805)	1,718	(8,849)
Payments to retire shares	(172,803)	(345,399)	–
Proceeds from issuing shares under employee plans	30,869	68,723	8,064
Cash dividends paid to shareholders	(92,940)	(101,773)	(107,195)
Net cash used by financing activities of continuing operations	(97,706)	(328,287)	(168,774)
Net Cash Used by Discontinued Operations	–	–	(32,360)
Net Increase (Decrease) in Cash and Cash Equivalents	115,284	(71,161)	(43,703)
Cash and Cash Equivalents: Beginning of year	9,571	80,732	124,435
End of year	\$ 124,855	\$ 9,571	\$ 80,732
Supplemental Information – Continuing Operations:			
Interest paid	\$ 4,162	\$ 9,036	\$ 12,169
Income taxes paid	\$ 116,500	\$ 106,951	\$ 93,593

See Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

Note One

Significant accounting policies

Consolidation

The consolidated financial statements include the accounts of Deluxe Corporation and all majority owned subsidiaries. All significant intercompany accounts, transactions and profits have been eliminated.

Cash and cash equivalents

We consider all cash on hand, money market funds and other highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value. As a result of our cash management system, checks issued but not presented to the banks for payment may create negative book cash balances. Such negative balances are included in accounts payable and totaled \$9.9 million as of December 31, 2002 and \$12.7 million as of December 31, 2001.

Marketable securities

Marketable securities consist of debt and equity securities. They are classified as available for sale and are carried at fair value, based on quoted market prices. Unrealized gains and losses, net of tax, are reported in accumulated other comprehensive income or loss in the shareholders' equity section of the consolidated balance sheets. Realized gains and losses and permanent declines in value are included in other income and expense in the consolidated statements of income. The cost of securities sold is determined using the specific identification method.

Trade accounts receivable

Trade accounts receivable are initially recorded at fair value upon the sale of goods or services to customers. They are stated net of allowances for uncollectible accounts which represent estimated losses resulting from the inability of customers to make the required payments. When determining the allowances for uncollectible accounts we take several factors into consideration including the overall composition of accounts receivable aging, our prior history of accounts receivable write-offs, the type of customer and our day-to-day knowledge of specific customers. Changes in the allowances for uncollectible accounts are recorded as bad debt expense and are included in selling, general and administrative (SG&A) expense in our consolidated statements of income.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for substantially all inventories.

Supplies

Supplies are stated at the lower of cost or market and consist of items not used directly in the production of goods, such as maintenance and janitorial supplies utilized in the production area. Cost is determined using the first-in, first-out (FIFO) method.

Long-term investments

As of December 31, 2002 and 2001, long-term investments consisted primarily of cash surrender values of life insurance contracts. The carrying amounts reported in the consolidated balance sheets for these investments approximate fair value.

Property, plant and equipment

Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are stated at historical cost. Buildings have been assigned 40-year lives and machinery and equipment have been assigned lives ranging from three to 11 years, with a weighted-average life of nine years as of December 31, 2002. These assets are generally depreciated using accelerated methods. Leasehold and building improvements are depreciated on the straight-line basis over the estimated useful life of the property or the life of the lease, whichever is shorter. Maintenance and repairs are expensed as incurred.

Property, plant and equipment held for sale

Due to the closing of check printing facilities within the Financial Services segment over the past several years, we have sold facilities which were vacated. These assets are stated at historical cost. As a result of sales of these facilities, we recognized net gains of \$46,000 in 2002, \$30,000 in 2001 and \$1.1 million in 2000. These amounts are included in asset impairment and net disposition losses in the consolidated statements of income.

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Intangibles

Intangible assets, which consist principally of internal-use software, are stated at historical cost. Amortization expense is generally determined on the straight-line basis over periods ranging from two to ten years, with a weighted-average life of six years as of December 31, 2002.

We capitalize costs of software developed or obtained for internal use, including website development costs, once the preliminary project stage has been completed, management commits to funding the project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized costs include only (1) external direct costs of materials and services consumed in developing or obtaining internal-use software, (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software project, and (3) interest costs incurred, when material, while developing internal-use software. Costs incurred in populating websites with information about the company or products are expensed as incurred. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. The carrying value of internal-use software is reviewed in accordance with our policy on impairment of long-lived assets and intangibles.

Impairment of long-lived assets and intangibles

We evaluate the recoverability of property, plant, equipment and identifiable intangibles not held for sale whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to, (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used or in its physical condition, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

We periodically evaluate the recoverability of property, plant, equipment and identifiable intangibles held for sale by comparing the asset's carrying amount with its fair value less costs to sell. Should the fair value less costs to sell be less than the carrying value of the long-lived asset, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset less costs to sell.

The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, was being amortized on the straight-line basis over periods ranging from 15 to 30 years. On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under this new statement, we no longer amortize goodwill, but instead test goodwill for impairment on at least an annual basis.

Impairment of goodwill

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, which we adopted in its entirety on January 1, 2002, we evaluate the carrying value of goodwill during the third quarter of each year and between

annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to, (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. Our evaluation of goodwill completed during 2002 in accordance with SFAS No. 142 resulted in no impairment losses. We also recorded no goodwill impairment losses during 2001 or 2000.

Contract acquisition costs

We capitalize certain contract acquisition costs related to signing or renewing contracts with our financial institution clients. These costs, which primarily consist of cash payments

made to financial institution clients by our Financial Services segment, are generally recorded as reductions of revenue on the straight-line basis over the related contract term. Currently, these amounts are being amortized over periods ranging from two to seven years, with a weighted-average life of four years as of December 31, 2002. The unamortized balances are included in other non-current assets in the consolidated balance sheets. Whenever events or changes occur that impact the related contract, including significant declines in the anticipated profitability, we evaluate the carrying value of the contract acquisition costs to determine if an impairment has occurred. As of December 31, 2002 and 2001, contract acquisition costs consisted of balances relating to numerous financial institutions. Should a financial institution cancel a contract prior to the agreement's termination date, or should the volume of orders realized through a financial institution fall below contractually-specified minimums, we generally have a contractual right to a refund of the remaining unamortized contract acquisition costs.

Advertising costs

Deferred advertising costs include materials, printing, separations and postage costs related primarily to direct response advertising programs of our Direct Checks segment. These costs are amortized as SG&A expense over periods (averaging 18 months) that correspond to the estimated revenue streams of the individual advertisements. The actual revenue streams are analyzed at least annually to monitor the propriety of the amortization periods. Judgment is required in estimating the future revenue streams, as check re-orders can span an extended period of time. Significant changes in the actual revenue streams would require the amortization periods to be modified, thus impacting the results of operations during the period in which the change occurred and in subsequent periods. Deferred advertising costs are included in other non-current assets in the consolidated balance sheets.

Major non-direct response advertising projects are expensed the first time the advertising takes place, while other costs of non-direct response advertising are expensed as incurred. Catalogs provided to financial institution clients of the Financial Services segment are accounted for as prepaid assets until they are shipped to financial institutions. The total amount of advertising expense for continuing operations was \$78.2 million in 2002, \$71.6 million in 2001 and \$67.6 million in 2000.

Restructuring charges

Over the past several years, we have recorded restructuring charges as a result of technological advances and cost management efforts. The primary component of these charges has been employee termination benefits paid under our on-going severance benefit plan. We record charges for these employee termination benefits in the period they become probable and reasonably estimable. When recording these charges, we are required to make estimates and assumptions as employees sometimes choose to voluntarily leave the company prior to their termination date, and thus, they receive no termination benefits. To the extent our assumptions and estimates differ from actual employee behavior, subsequent adjustments to restructuring charges may be required.

Deferred income taxes

Deferred income taxes result from temporary differences between the financial reporting basis of assets and liabilities and their respective tax reporting bases. Current deferred tax assets and liabilities are netted in the consolidated balance sheets, as are long-term deferred tax assets and liabilities. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Derivative financial instruments

During 2002, we used derivative financial instruments to manage interest rate exposures relating to the issuance of long-term debt (see Note 8). We do not use derivative financial instruments for trading or speculative purposes.

We recognize all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are recognized periodically either in income or in shareholders' equity as a component of accumulated other comprehensive income or loss, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portion of the change in the fair value of the hedged items that relate to the hedged risk. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other

comprehensive income or loss net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income.

Revenue recognition

Revenues are generally recognized when products are shipped or as services are performed. When products are shipped, title to the goods passes to the customer and the customer assumes the risks and rewards of ownership. Revenue includes amounts billed to customers for shipping and handling and pass-through costs, such as marketing materials for which our financial institution clients reimburse us. Costs incurred for shipping and handling are reflected in cost of goods sold. At times, a financial

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institution client may terminate its contract with us prior to the end of the contract term. In many of these cases, the financial institution must remit to us a contract buyout payment. Such payments are recorded as revenue when the termination agreement is executed, provided that we have no further service or contractual obligations and collection of the funds is assured.

Revenues are presented in the consolidated statements of income net of rebates, discounts and amortization of contract acquisition costs. These revenue reductions are discussed in our sales incentives and contract acquisition costs accounting policies. Additionally, reported revenues for our Financial Services segment do not reflect the full retail price paid by end-consumers to their financial institutions. These revenues reflect the amounts paid to us by our financial institution clients.

Sales incentives

We enter into contractual agreements with financial institution clients for rebates on certain products we sell. We record these amounts as reductions of revenue in the consolidated income statements and as accrued liabilities in the consolidated balance sheets. Rebates are recorded as the related revenue is recorded.

At times we may also sell products at discounted prices or provide free products to customers when they purchase a specified product. Discounts are recorded as reductions of revenue when the related revenue is recorded. The cost of free products is recorded as cost of goods sold when the revenue for the related purchase is recorded.

Employee stock-based compensation

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, we continue to account for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. All options issued under our stock incentive plan allow for the purchase of shares of common stock at prices equal to the stock's market value at the date of grant. Accordingly, no compensation expense has been recognized for stock options. Additionally, under our current employee stock purchase plan, eligible employees are able to purchase Deluxe common stock at 85% of the lower of its fair market value at the beginning or end of each six-month purchase period. No compensation expense is recognized for the difference between the employees' purchase price and the fair value of the stock. We disclose pro forma net income and earnings per share as if the fair value method of SFAS No. 123 had been used (see Note 11).

Earnings per share

Basic earnings per share is based on the weighted-average number of common shares outstanding during the year. Diluted earnings per share is based on the weighted-average number of common shares outstanding during the year, adjusted to give effect to common stock equivalents such as stock options and restricted stock units issued under our stock incentive plan (see Note 11) and shares contingently issuable under our officers' annual incentive compensation program.

Comprehensive income

Comprehensive income includes charges and credits to shareholders' equity that are not the result of transactions with shareholders. Our total comprehensive income consists of net income, gains and losses on derivative instruments, unrealized gains and losses on securities and foreign currency translation adjustments. The gains and losses on derivative instruments, unrealized gains and losses on securities and foreign currency translation adjustments are reflected as accumulated other comprehensive loss in the consolidated balance sheets and in the shareholders' equity statement presented in Note 15.

Reclassifications

Certain amounts reported in 2001 and 2000 have been reclassified to conform to the 2002 presentation. These changes had no impact on previously reported net income or shareholders' equity.

Use of estimates

We have prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. In this process, it is necessary for us to make certain assumptions and related estimates affecting the amounts reported in the consolidated financial statements and attached notes. These estimates and assumptions are developed based upon all information available using our best efforts. However, actual results can differ from assumed and estimated amounts.

New accounting pronouncements

On January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, in its entirety. This statement addresses accounting and financial reporting for goodwill and intangible assets. Under the new statement, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment testing on at least an annual basis. Other than goodwill, we have no intangible assets with indefinite

lives. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position as of January 1, 2002. In addition, the remaining useful lives of amortizable intangible assets were reviewed and deemed appropriate. The following information reflects our results of operations as they would have appeared had we not recorded goodwill amortization expense and its related tax effects during 2001 and 2000. Reported net income in 2000 includes the results of the eFunds

segment which are reflected as discontinued operations in our consolidated financial statements (see Note 17).

(Dollars in thousands, except per share amounts)	2002	2001	2000
Income from continuing operations, as reported	\$ 214,274	\$ 185,900	\$ 169,472
Add: Goodwill amortization expense, net of tax	–	3,979	3,311
Pro forma income from continuing operations	\$ 214,274	\$ 189,879	\$ 172,783
Net income, as reported	\$ 214,274	\$ 185,900	\$ 161,936
Add: Goodwill amortization expense, net of tax	–	3,979	8,037
Pro forma net income	\$ 214,274	\$ 189,879	\$ 169,973
Earnings per share from continuing operations:			
Basic - as reported	\$ 3.41	\$ 2.72	\$ 2.34
Basic - pro forma	3.41	2.77	2.39
Diluted - as reported	3.36	2.69	2.34
Diluted - pro forma	3.36	2.75	2.39
Earnings per share:			
Basic - as reported	\$ 3.41	\$ 2.72	\$ 2.24
Basic - pro forma	3.41	2.77	2.35
Diluted - as reported	3.36	2.69	2.24
Diluted - pro forma	3.36	2.75	2.35

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses the financial accounting and reporting for costs associated with exit or disposal activities and applies only to those activities initiated on or after the date of adoption. We adopted SFAS No. 146 on October 1, 2002 and thus, applied the requirements of this statement when reporting our results of operations for the fourth quarter of 2002.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. It also clarifies the requirements related to the recognition of liabilities by a guarantor at the inception of certain guarantees. We adopted the disclosure requirements of this interpretation on December 31, 2002 (see Note 13). The recognition provisions of the interpretation are applicable only to guarantees issued or modified after December 31, 2002. The only agreement subject to the requirements of this interpretation was the eFunds indemnification agreement (see Note 13). As of December 31, 2002, we had no other guarantees which fell within the scope of this interpretation.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation, as outlined in SFAS No. 123, *Accounting for Stock-Based Compensation*. This statement also amends the financial statement disclosure requirements relating to stock-based compensation. We currently have no plans to adopt the fair value method of accounting for stock-based compensation.

Note Two

Supplementary balance sheet information

Trade accounts receivable

Bad debt expense for continuing operations was \$3.0 million in 2002, \$3.6 million in 2001 and \$3.8 million in 2000. Net trade accounts receivable was comprised of the following at December 31:

(Dollars in thousands)	2002	2001
Trade accounts receivable	\$ 34,775	\$ 39,131
Allowance for uncollectible accounts	(1,850)	(1,428)
Trade accounts receivable – net	\$ 32,925	\$ 37,703

Inventories and supplies

Inventories and supplies were comprised of the following at December 31:

(Dollars in thousands)	2002	2001
Raw materials	\$ 2,833	\$ 3,073
Semi-finished goods	6,065	7,215
Finished goods	771	904

Total inventories	9,669	11,192
Supplies	10,618	11,071
Inventories and supplies	\$ 20,287	\$ 22,263

As of December 31, 2002, \$8.5 million of total inventories was accounted for under the LIFO method. As of December 31, 2001, \$9.7 million was accounted for under the LIFO method. LIFO inventories were \$3.0 million less than replacement cost at December 31, 2002 and \$3.5 million less than replacement cost at December 31, 2001.

During 2000, inventory quantities were reduced, which resulted in a liquidation of LIFO inventory layers carried at lower costs which prevailed in prior years. The effect of this liquidation was to decrease cost of goods sold by \$2.4 million and to increase income from continuing operations by \$1.5 million, or \$0.02 per share diluted. There were no significant liquidations of LIFO inventories in 2002 or 2001.

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Other current assets

Other current assets were comprised of the following at December 31:

(Dollars in thousands)	2002	2001
Prepaid expenses	\$ 11,889	\$ 3,108
Deferred income taxes	4,563	4,574
Other	5,127	6,753
Other current assets	\$ 21,579	\$ 14,435

Property, plant and equipment

Property, plant and equipment was comprised of the following at December 31:

(Dollars in thousands)	2002	2001
Land and land improvements	\$ 32,288	\$ 32,021
Buildings and building improvements	113,328	109,130
Machinery and equipment	289,947	301,814
Total	435,563	442,965
Accumulated depreciation	(295,521)	(293,413)
Property, plant and equipment – net	\$ 140,042	\$ 149,552

Property, plant and equipment held for sale

As of December 31, 2002 we had no property, plant or equipment held for sale. A gain of \$46,000 was realized during 2002 on the disposition of property held for sale at December 31, 2001. Property, plant and equipment held for sale was comprised of the following at December 31:

(Dollars in thousands)	2001
Land and land improvements	\$ 550
Buildings and building improvements	5,876
Machinery and equipment	1,227
Total	7,653
Accumulated depreciation	(6,136)
Property, plant and equipment held for sale – net	\$ 1,517

Intangibles

Intangibles were comprised of the following at December 31:

(Dollars in thousands)	2002			2001		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	\$ 235,252	\$ (132,784)	\$ 102,468	\$ 211,193	\$ (100,557)	\$ 110,636
Customer name list	5,050	(2,044)	3,006	5,050	(1,323)	3,727
Other	875	(373)	502	762	(269)	493
Intangibles	\$ 241,177	\$ (135,201)	\$ 105,976	\$ 217,005	\$ (102,149)	\$ 114,856

Total amortization of intangibles for continuing operations was \$34.3 million in 2002, \$37.2 million in 2001 and \$30.0 million in 2000. Based on the intangibles in service as of December 31, 2002, estimated amortization expense for each of the next five years ending December 31 is as follows:

(Dollars in thousands)

2003	\$ 32,887
2004	25,854
2005	19,848
2006	11,757
2007	2,334

The following intangible assets were acquired during the years indicated:

(Dollars in thousands)	2002		2001		2000	
	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period
Internal-use software	\$ 26,388	3 years	\$ 18,042	3 years	\$ 32,953	5 years
Customer name list	—	—	—	—	5,050	7 years
Other	165	3 years	—	—	701	5 years
Intangibles	\$ 26,553	3 years	\$ 18,042	3 years	\$ 38,704	5 years

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Goodwill

The entire amount of goodwill is included in the Direct Checks segment. Changes in the carrying amount of goodwill for the years ended December 31 were as follows:

(Dollars in thousands)

Balance, December 31, 1999	\$ 4,800
Goodwill acquired	88,826
Amortization of goodwill	(5,201)
Balance, December 31, 2000	88,425
Amortization of goodwill	(6,188)
Balance, December 31, 2001 and 2002	\$ 82,237

Other non-current assets

Other non-current assets as of December 31 were comprised of the following:

(Dollars in thousands)

	2002	2001
Contract acquisition costs, net	\$ 55,259	\$ 28,350
Deferred advertising costs	17,258	21,928
Prepaid post-retirement asset	16,330	12,116
Other	12,020	5,532
Other non-current assets	\$ 100,867	\$ 67,926

Accrued liabilities

Accrued liabilities as of December 31 were comprised of the following:

(Dollars in thousands)

	2002	2001
Wages, including vacation pay	\$ 33,517	\$ 26,513
Income taxes	27,688	39,426
Employee profit sharing and pension	27,049	29,734
Rebates	25,900	24,923
Other	41,158	42,313
Accrued liabilities	\$ 155,312	\$ 162,909

Note Three Earnings per share

The following table reflects the calculation of basic and diluted earnings per share from continuing operations:

(Dollars and shares in thousands, except per share amounts)

	2002	2001	2000
Earnings per share – basic:			
Income from continuing operations	\$ 214,274	\$ 185,900	\$ 169,472
Weighted average shares outstanding	62,823	68,441	72,324
Earnings per share – basic	\$ 3.41	\$ 2.72	\$ 2.34

Earnings per share – diluted:

Income from continuing operations	\$ 214,274	\$ 185,900	\$ 169,472
Weighted average shares outstanding	62,823	68,441	72,324
Dilutive impact of options	888	630	87
Shares contingently issuable	36	44	9
<hr/>			
Weighted average shares and potential dilutive shares outstanding	63,747	69,115	72,420
<hr/>			
Earnings per share – diluted	\$ 3.36	\$ 2.69	\$ 2.34

During 2002, 2001 and 2000, options to purchase a weighted-average of 1.2 million shares, 1.4 million shares and 5.4 million shares, respectively, were outstanding but were not included in the computation of diluted earnings per share. The exercise prices of the excluded options were greater than the average market price of Deluxe common shares during the respective periods.

Note Four Restructuring charges

During 2002, we recorded restructuring charges of \$1.5 million for employee severance relating primarily to manufacturing employees within the Financial Services segment and various functional areas within the Direct Checks segment. These reductions were the result of on-going cost management efforts and are expected to affect 121 employees. The reductions are expected to be completed during 2003. These restructuring charges are reflected in the 2002 consolidated statement of income as cost of goods sold of \$0.6 million and SG&A expense of \$0.9 million.

During 2001, we recorded restructuring charges of \$4.2 million for employee severance relating to customer service employees within the Business Services segment, mail center employees within the Financial Services segment and reductions encompassing various functional areas within both the Financial Services and Direct Checks segments. These reductions were

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the result of our on-going commitment to efficiency and cost management and are expected to affect 270 employees. The reductions are expected to be completed in early 2003. These restructuring charges are reflected in the 2001 consolidated statement of income as cost of goods sold of \$1.2 million and SG&A expense of \$3.0 million.

During 2000, we recorded restructuring charges of \$1.9 million within continuing operations for employee severance. During the second quarter of 2000, we announced a plan to outsource certain data entry functions to our discontinued operations. This outsourcing effort affected 155 employees. In the fourth quarter of 2000, we announced that we would be scaling back our PlaidMoon.com project (see Note 5). This decision resulted in the termination of 40 employees. Additionally, we reversed \$4.3 million of restructuring charges primarily relating to a previous initiative to reduce SG&A expense. The reversals were due to higher attrition than anticipated and the reversal of “early termination” payments to a group of employees. Under our severance program, employees are provided 60 days notice prior to being terminated. In certain situations, we ask the employees to leave immediately because they may have access to crucial infrastructure or information. In these cases, severance includes this additional amount. In certain situations, we subsequently decided to keep employees working for the 60-day period and thus, a reduction in the restructuring accruals was required since this pay was no longer severance, but an operating expense. These restructuring charges and reversals are reflected in the 2000 consolidated statement of income as a reduction in SG&A expense of \$2.4 million.

Restructuring accruals for employee severance costs of \$1.2 million as of December 31, 2002 and \$3.2 million as of December 31, 2001 are reflected in accrued liabilities in the consolidated balance sheets. The status of these restructuring accruals as of December 31, 2002 was as follows:

(Dollars in millions)	Previous initiatives ⁽¹⁾		2001 initiatives		2002 initiatives		Total	
	Amount	No. of employees affected	Amount	No. of employees affected	Amount	No. of employees affected	Amount	No. of employees affected
Balance, December 31, 1999	\$ 13.9	720	\$ –	–	\$ –	–	\$ 13.9	720
Restructuring charges	1.9	200	–	–	–	–	1.9	200
Restructuring reversals	(4.3)	(255)	–	–	–	–	(4.3)	(255)
Severance paid	(8.4)	(520)	–	–	–	–	(8.4)	(520)
Balance, December 31, 2000	3.1	145	–	–	–	–	3.1	145
Restructuring charges	–	–	4.2	287	–	–	4.2	287
Restructuring reversals	(0.4)	(28)	–	–	–	–	(0.4)	(28)
Severance paid	(2.7)	(117)	(1.0)	(124)	–	–	(3.7)	(241)
Balance, December 31, 2001	–	–	3.2	163	–	–	3.2	163
Restructuring charges	–	–	–	–	1.5	121	1.5	121
Restructuring reversals	–	–	(0.2)	(17)	–	–	(0.2)	(17)
Severance paid	–	–	(2.7)	(142)	(0.6)	(56)	(3.3)	(198)
Balance, December 31, 2002	\$ –	–	\$ 0.3	4	\$ 0.9	65	\$ 1.2	69

(1) Includes charges recorded for plans to close check printing plants, reduce corporate support functions, implement new processes in order processing, customer service and the post-press phase of check production and for the scaling back of PlaidMoon (see Note 5).

Note Five

Asset impairment losses

During 2000, we recorded asset impairment losses of \$9.7 million related to a discontinued e-commerce initiative. Earlier in 2000, we had announced an e-commerce growth strategy. One outcome of this strategy was PlaidMoon.com, an Internet-based business concept that allowed consumers to design and purchase personalized items. In October 2000, we announced that we were scaling back and repositioning the PlaidMoon.com business concept. Instead of being a stand-alone business as had been planned, PlaidMoon.com would be folded into the rest of our businesses. As a result of this decision, we completed an evaluation to determine to what extent the long-lived assets of the business could be utilized by our other businesses. This evaluation resulted in asset impairment losses of \$9.7 million, which are included in asset impairment and net disposition losses in the 2000 consolidated statement of income. The impaired assets consisted of internal-use software developed for use by the PlaidMoon.com website. The estimated fair value of the software was determined by calculating the present value of net cash flows expected to be generated by alternative uses of these assets.

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Note Six

Acquisition

On February 1, 2000, we acquired all of the outstanding shares of Designer Checks, Inc. for \$97.0 million in cash. Designer Checks produces specialty design checks and related products for direct sale to consumers. This acquisition was intended to enable our existing direct mail check business to secure future customer and revenue growth. The consolidated financial statements include the results of this business subsequent to its acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(Dollars in thousands)	February 1, 2000
Current assets	\$ 2,580
Property, plant and equipment	2,379
Intangibles	5,050
Goodwill	88,826
Other non-current assets	2,056
Total assets acquired	100,891
Current liabilities	(3,855)
Net assets acquired	\$ 97,036

The intangible assets acquired consisted of a customer name list which is being amortized on the straight-line basis over seven years. The entire amount of goodwill is included in the Direct Checks segment and is deductible for tax purposes.

Note Seven

Sale-leaseback transaction

During 1999, we sold five facilities in Shoreview, Minnesota to an unaffiliated third party. We provided short-term financing for \$32.5 million of the proceeds from this sale. This amount was repaid in full in 2000 and is reflected as loan to others in the 2000 consolidated statement of cash flows. We entered into leases for three of these facilities for periods ranging from five to ten years. Two of the leases were operating leases and one was a capital lease. The result of this sale was a \$17.1 million gain, of which \$10.6 million was deferred and is being recognized in income over the lease terms in the case of the operating leases and over the life of the capital asset in the case of the capital lease. The recognized portion of the deferred gain was \$0.9 million in 2002, \$1.7 million in 2001 and \$1.8 million in 2000. These amounts are included in asset impairment and net disposition losses in the consolidated statements of income.

Note Eight

Derivative financial instruments

During 2002, we entered into two forward rate lock agreements (the Lock Agreements) to effectively hedge, or lock-in, the annual interest rate on \$150.0 million of the \$300.0 million notes issued in December 2002 (see Note 13). Upon issuance of the notes, the Lock Agreements were terminated, yielding a deferred pre-tax loss of \$4.0 million, which is reflected in accumulated other comprehensive loss in our consolidated balance sheet and will be reclassified ratably to our statements of income as an increase to interest expense over the ten-year term of the notes.

Note Nine

Marketable securities

Proceeds from sales of marketable securities available for sale were \$48.6 million in 2001 and \$47.6 million in 2000. We realized gross gains of \$0.4 million in 2001 and \$0.7 million in 2000 on the sales of marketable securities. No losses on sales of marketable securities were realized during these periods and no sales of marketable securities occurred during 2002.

Note Ten
Provision for income taxes

The components of the provision for income taxes for continuing operations were as follows:

(Dollars in thousands)	2002	2001	2000
Current tax provision:			
Federal	\$ 92,587	\$ 99,762	\$ 90,533
State	13,072	14,032	8,320
Total	105,659	113,794	98,853
Deferred tax provision	8,561	(2,160)	5,104
Valuation allowance	12,228	—	—
Provision for income taxes	\$ 126,448	\$ 111,634	\$ 103,957

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The effective tax rate on pre-tax income from continuing operations differed from the U.S. federal statutory tax rate of 35% as follows:

(Dollars in thousands)	2002	2001	2000
Income tax at federal statutory rate	\$ 119,253	\$ 104,137	\$ 95,700
State income taxes net of federal income tax benefit	9,371	8,903	6,860
Valuation allowance	12,228	—	—
Resolution of tax contingency	(12,853)	—	—
Other	(1,551)	(1,406)	1,397
Provision for income taxes	\$ 126,448	\$ 111,634	\$ 103,957

During the fourth quarter of 2002, the Internal Revenue Service (IRS) completed its review of our income tax returns for 1996 through 1998. As a result, we reversed \$12.9 million of previously established income tax reserves. Certain IRS rules were clarified in a manner favorable to us, and the related reserves were no longer required. Substantially offsetting these reversals was a \$12.2 million charge for a valuation allowance relating to our deferred tax asset for capital loss carryforwards. At December 31, 2002, we had capital loss carryforwards of approximately \$33.0 million which expire in 2003. By the fourth quarter of 2002, the predominance of negative evidence indicated that it was more likely than not that the tax benefits associated with a majority of the capital loss carryforwards would not be realized as certain tax planning strategies upon which we intended to rely were no longer considered to be prudent or feasible.

Tax effected temporary differences which gave rise to deferred tax assets and liabilities at December 31 were as follows:

(Dollars in thousands)	2002		2001	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Capital assets	\$ —	\$ 44,826	\$ —	\$ 50,572
Capital loss carryforwards	12,528	—	9,929	—
Deferred advertising costs	—	6,310	—	8,201
Employee benefit plans	—	289	5,628	—
Inventories	3,243	—	3,230	—
Miscellaneous reserves and accruals	7,534	—	11,055	—
Prepaid services	—	10,391	—	9,952
All other	7,894	7,045	5,538	6,971
Total deferred taxes	31,199	68,861	35,380	75,696
Valuation allowance	(12,228)	—	—	—
Net deferred taxes	\$ 18,971	\$ 68,861	\$ 35,380	\$ 75,696

Note Eleven
Employee benefit and stock-based compensation plans

Stock purchase plan

In May 2002, our shareholders approved certain changes to our employee stock purchase plan which became effective as of February 1, 2002. The changes were made with the intention of qualifying the plan as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. Purchases under the plan are made semi-annually, with the first purchase occurring on July 31, 2002. Eligible employees are able to purchase Deluxe common stock at 85% of the lower of its fair market value at the beginning or end of each six-month purchase period. In accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, we do not recognize compensation expense for the difference between the employees' purchase price and the fair value of the stock. During 2002, 60,520 shares were issued under this amended plan at a price of \$33.06.

Through January 31, 2002, we maintained a non-qualified employee stock purchase plan that allowed eligible employees to purchase Deluxe common stock at 75% of its fair market value on the first business day following each three-month purchase period. Compensation expense recognized in continuing operations for the difference between the employees' purchase price and the fair value of the stock was \$0.3 million in 2002, \$1.2 million in 2001 and \$1.8 million in 2000. Under the plan, we issued 26,788 shares at a price of \$34.00 in 2002, 178,847 shares at prices ranging from \$16.16 to \$26.71 in 2001 and 434,337 shares at prices ranging from \$16.83 to \$20.58 in 2000.

Stock incentive plan

Under our stock incentive plan, stock-based awards may be issued to employees via a broad range of methods, including non-qualified or incentive stock options, restricted stock and restricted stock units, stock appreciation rights and other awards based on the value of Deluxe common stock. Options become exercisable in varying amounts generally beginning one year after the date of grant. Terms vary, but generally options may be exercised up to ten years following the date of grant. Our current stock incentive plan, which became effective on January 1, 2001, reserved 3.0 million shares of common stock for issuance under the plan. In January 2002, this amount was increased to 8.5 million shares. As of December 31, 2002, 6.2 million of these shares remained available for issuance. Our previous stock incentive plan reserved 7.0 million shares of common stock for issuance. Awards for 5.4 million of these shares were granted prior to the termination of the plan on December 31, 2000.

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In 1998, we adopted the DeluxeSHARES program. Under this program, options were awarded to substantially all employees (excluding foreign employees and employees of businesses held for sale), allowing them, subject to certain conditions, to purchase 100 shares of common stock at a converted exercise price of \$25.20 per share. The options became exercisable on January 30, 2001 and expired on January 30, 2003. Options for the purchase of 1.8 million shares of common stock were authorized under this program.

All options allow for the purchase of shares of common stock at prices equal to their market value at the date of grant. Information regarding the options issued under the current and all previous plans is as follows:

	Number of shares	Weighted-average exercise price
Outstanding at December 31, 1999	4,536,557	\$ 33.65
Granted	1,215,823	25.36
Canceled	(384,932)	33.84
Outstanding at December 31, 2000	5,367,448	24.33
Granted	1,071,599	20.35
Exercised	(2,678,560)	24.31
Canceled	(211,633)	25.90
Outstanding at December 31, 2001	3,548,854	23.05
Granted	1,251,349	47.64
Exercised	(1,150,888)	24.21
Canceled	(118,300)	29.46
Outstanding at December 31, 2002	3,531,015	\$ 31.17

Options for the purchase of 1,528,341 shares were exercisable at December 31, 2002 at a weighted-average exercise price of \$24.17, 1,949,079 were exercisable at December 31, 2001 at a weighted-average exercise price of \$25.01 and 3,271,030 were exercisable at December 31, 2000 at a weighted-average exercise price of \$25.05.

In connection with the spin-off of eFunds (see Note 17), options outstanding as of the spin-off record date were converted to options of Deluxe and options of eFunds. This conversion was calculated under a formula based on the market value of Deluxe's and eFunds' common stocks at the spin-off record date and was designed to maintain an equivalent intrinsic value for the option holder utilizing the criteria described in FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*. This conversion process resulted in an adjustment to the pricing of our options. The number of options and the remaining lives of the options were not adjusted. The weighted-average exercise prices shown in the table above reflect the option prices on the dates the indicated events occurred. Thus, the weighted-average exercise price of options outstanding at December 31, 2000 reflects this pricing adjustment. We did not record compensation expense as a result of this conversion process.

For options outstanding and exercisable at December 31, 2002, the adjusted exercise price ranges and average remaining lives were as follows:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted-average remaining life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price	
\$16.42 to \$21.99	1,286,751	7.64 years	\$ 19.87	481,960	\$ 19.71	
\$22.00 to \$27.99	1,015,900	3.81 years	25.71	1,015,900	25.71	
\$28.00 to \$47.67	1,228,364	9.19 years	47.52	30,481	43.24	
	3,531,015	7.07 years	\$ 31.17	1,528,341	\$ 24.17	

In addition to grants of restricted stock and restricted stock units made under our stock incentive plan, officers may elect to receive a portion of their compensation in the form of restricted stock. Related compensation expense for these restricted shares is recorded in the year prior to their issuance, as that is the period over which the employee provides the related services. We issued 61,785 restricted shares and restricted stock units at a weighted-average fair value of \$45.52 in 2002, 17,342 restricted shares and restricted stock units at a weighted-average fair value of \$25.87 in 2001 and 72,111 restricted shares and restricted stock units at a weighted-average fair value of \$25.55 in 2000. These awards generally vest over periods ranging from one to five years. Compensation expense recognized in continuing operations for these issuances was \$2.8 million in 2002 and 2001 and \$0.6 million in 2000.

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Pro forma net income and earnings per share has been determined as if we had accounted for our employee stock-based compensation under the fair value method. The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in valuing options issued:

	2002	2001	2000
Risk-free interest rate (%)	4.8	5.1	6.6
Dividend yield (%)	6.0	6.9	7.1
Expected volatility (%)	26.2	25.8	24.4
Weighted-average option life (years)	6.0	6.8	9.0

The weighted-average fair value of options granted was \$7.42 per share in 2002, \$2.82 per share in 2001 and \$3.57 per share in 2000. For purposes of pro forma disclosures, the estimated fair value of the options was recognized as expense over the options' vesting periods. Pro forma net income and earnings per share were as follows:

(Dollars in thousands, except per share amounts)	2002	2001	2000
Net income, as reported	\$ 214,274	\$ 185,900	\$ 161,936
Add: Employee stock-based compensation expense included in net income, net of tax	1,951	2,552	1,947
Deduct: Fair value employee stock-based compensation expense, net of tax	(5,239)	(5,654)	(6,331)
Pro forma net income	\$ 210,986	\$ 182,798	\$ 157,552
Earnings per share:			
Basic - as reported	\$ 3.41	\$ 2.72	\$ 2.24
Basic - pro forma	3.36	2.67	2.18
Diluted - as reported	3.36	2.69	2.24
Diluted - pro forma	3.32	2.64	2.18

Profit sharing, defined contribution and 401(k) plans

We maintain a profit sharing plan, a defined contribution pension plan and a plan established under section 401(k) of the Internal Revenue Code to provide retirement benefits for certain employees. These plans cover substantially all full-time and some part-time employees with at least 15 months of service. We also provide a cash bonus program which covers all employees.

Contributions to the profit sharing and defined contribution plans are made solely by Deluxe and are remitted to the plans' respective trustees. Benefits provided by the plans are paid from accumulated funds of the trusts. In 2002, 2001 and 2000, contributions to the defined contribution pension plan equaled 4% of eligible compensation. Contributions to the profit sharing plan vary based on the company's performance. Under the 401(k) plan, employees could contribute up to the lesser of \$11,000 or 10% of wages during 2002. We match 100% of the first 1% of wages contributed and 50% of the next 4% of wages contributed. All employee and employer contributions are remitted to the plans' respective trustees and benefits provided by the plans are paid from accumulated funds of the trusts. Payments made under the cash bonus program vary based on the company's performance and are paid in cash directly to employees.

Employees are provided a broad range of investment options to choose from in investing their profit sharing, defined contribution and 401(k) plan funds. Investing in Deluxe common stock is not one of these options, although funds selected by employees may at times hold Deluxe common stock.

Expense recognized in continuing operations in the consolidated statements of income for these plans was as follows:

(Dollars in thousands)	2002	2001	2000
Profit sharing/cash bonus plans	\$ 17,475	\$ 20,618	\$ 11,687
Defined contribution plan	8,925	9,100	9,531
401(k) plan	4,933	4,578	4,723

Deferred compensation plan

We have a non-qualified deferred compensation plan that allows eligible employees to defer a portion of their compensation. Participants can elect to defer up to a maximum of 100 percent of their base salary plus up to 50 percent of their bonus for the year. The compensation deferred under this plan is credited with earnings or losses measured by the mirrored rate of return on investments elected by plan participants. Each participant is fully vested in all deferred compensation and earnings. A participant may elect to receive deferred amounts in one payment or in monthly installments upon termination of employment or disability. Our total liability under this plan was \$7.7 million as of December 31, 2002 and \$11.0 million as of December 31, 2001. These amounts are reflected in accrued liabilities and other long-term liabilities in the consolidated balance sheets. We fund this liability through investments in company-owned life insurance policies. The cash surrender value of these policies is included in long-term investments in the consolidated balance sheets and was \$12.5 million as of December 31, 2002 and \$9.6 million as of December 31, 2001.

Voluntary employee beneficiary association trust

We have formed a voluntary employee beneficiary association (VEBA) trust to fund employee medical and severance costs. Contributions to the VEBA trust are tax deductible, subject to limitations contained in the Internal Revenue Code. VEBA

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assets primarily consist of fixed income investments. We made contributions to the VEBA trust of \$25.5 million in 2002, \$10.2 million in 2001 and \$13.5 million in 2000. The excess of assets in our VEBA trust over the amount of incurred but not reported claims was \$7.3 million as of December 31, 2002 and zero as of December 31, 2001. This amount is reflected in prepaid expenses within other current assets in our consolidated balance sheet as of December 31, 2002.

Note Twelve Post-retirement benefits

We provide certain health care benefits for a large number of retired employees. Employees included in the plan may become eligible for such benefits if they attain the appropriate years of service and age while working for Deluxe. During 2002, we eliminated retiree medical benefits for all new employees hired after December 31, 2001. During 2000, the plan was expanded to include certain employees of our Direct Checks segment who were not previously covered by the plan.

The following table summarizes the change in benefit obligation and plan assets during 2002 and 2001:

(Dollars in thousands)

Benefit obligation, December 31, 2000	\$	86,177
Service cost		1,639
Interest cost		6,246
Actuarial losses – net		9,263
Benefits paid from plan assets and general funds of the company		(8,503)
Benefit obligation, December 31, 2001		94,822
Service cost		1,876
Interest cost		6,650
Actuarial losses – net		25,392
Benefits paid from general funds of the company		(9,852)
Benefit obligation, December 31, 2002	\$	118,888
Fair value of plan assets, December 31, 2000	\$	79,450
Actual loss on plan assets		(14,928)
Benefits paid		(6,100)
Fair value of plan assets, December 31, 2001		58,422
Actual loss on plan assets		(7,104)
Fair value of plan assets, December 31, 2002	\$	51,318

The funded status of the plan was as follows at December 31:

(Dollars in thousands)

	2002	2001
Accumulated post-retirement benefit obligation	\$ 118,888	\$ 94,822
Less:		
Fair value of plan assets (debt and equity securities)	51,318	58,422
Unrecognized prior service cost	3,224	3,586
Unrecognized net actuarial loss	76,478	40,311
Unrecognized transition obligation	4,198	4,619
Prepaid post-retirement asset recognized in the consolidated balance sheets	\$ (16,330)	\$ (12,116)

The unrecognized net actuarial loss results from experience different from that assumed or from changes in assumptions. As of December 31, 2002, \$35.2 million resulted from differences between our expected long-term rate of return on plan assets and the actual return on plan assets. This amount was \$22.6 million as of December 31, 2001. Because this assumption takes a long-term view of investment returns, there may be differences between

the expected rate of return and the actual rate of return on plan assets in the short-term. As of December 31, 2002, \$15.3 million of the unrecognized net actuarial loss resulted from changes in our assumed health care inflation rate. This amount was \$7.0 million as of December 31, 2001. During both 2002 and 2001, we increased our health care inflation rate assumption to reflect the current trend of increasing medical costs. The remainder of the net actuarial loss amount primarily related to changes in the discount rate assumption, differences between our assumed medical costs and actual experience and changes in the employee population.

Net post-retirement benefit expense for the years ended December 31 consisted of the following components:

(Dollars in thousands)	2002	2001	2000
Service cost-benefits earned during the year	\$ 1,876	\$ 1,639	\$ 1,586
Interest cost on the accumulated post-retirement benefit obligation	6,650	6,246	5,873
Expected return on plan assets	(5,588)	(7,624)	(7,236)
Amortization of transition obligation	421	419	458
Amortization of prior service cost	362	363	186
Recognized amortization of net actuarial losses	1,917	29	127
Total post-retirement benefit expense	5,638	1,072	994
Curtailment gain	—	—	(883)
Net post-retirement benefit expense	\$ 5,638	\$ 1,072	\$ 111

As a result of employee reductions (see Note 4), we recognized a net post-retirement benefit curtailment gain of \$0.3 million in 2000. Additionally, in connection with the eFunds spin-off (see Note 17), eFunds terminated its post-retirement medical plan. We will continue to provide benefits to eFunds employees and retirees who were qualified for retiree medical

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benefits as of the spin-off date. We retained an obligation of \$0.1 million as of December 31, 2000 for these employees and retirees. A net post-retirement benefit curtailment gain of \$0.6 million was recorded at the spin-off date and was included in discontinued operations in the 2000 consolidated statement of income.

In measuring the accumulated post-retirement benefit obligation as of December 31, 2002, our initial health care inflation rate for 2003 was assumed to be 10.25% and our ultimate health care inflation rate for 2008 and beyond was assumed to be 5.0%. A one percentage point increase in the health care inflation rate for each year would increase the accumulated post-retirement benefit obligation by \$17.7 million and the service and interest cost components of the annual net post-retirement benefit expense by \$1.2 million. A one percentage point decrease in the health care inflation rate for each year would decrease the accumulated post-retirement benefit obligation by \$15.4 million and the service and interest cost components of the annual net post-retirement benefit expense by \$1.3 million. The discount rate used in determining the accumulated post-retirement benefit obligation was 6.75% as of December 31, 2002 and 7.25% as of December 31, 2001. The expected long-term rate of return on plan assets used to determine the net periodic post-retirement benefit expense was 8.75% in 2002 and 9.5% in 2001 and 2000. Prior service cost is amortized on the straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

Note Thirteen **Commitments and contingencies**

Debt

Long-term debt as of December 31 was as follows:

(Dollars in thousands)	2002	2001
5.0% senior, unsecured notes due December 15, 2012, net of discount	\$ 298,115	\$ —
Capital leases	10,084	11,465
Total long-term debt	308,199	11,465
Less amount due within one year	1,610	1,381
Long-term debt	\$ 306,589	\$ 10,084

In December 2002, we issued \$300.0 million of senior, unsecured notes (the Notes) maturing on December 15, 2012. The Notes were issued under our shelf registration statement covering up to \$300.0 million in medium-term notes, thereby exhausting that registration statement. Interest payments are due each June and December at an annual interest rate of 5.0%. Principal redemptions may be made at our election prior to their stated maturity. The Notes include covenants that place restrictions on the issuance of additional debt that would be senior to the Notes and the execution of certain sale-leaseback arrangements. The notes were issued at 99.369% of par value. The resulting discount of \$1.9 million will be amortized ratably as an increase to interest expense over the term of the Notes. Proceeds from the offering, net of offering costs, were \$295.7 million. The fair value of the Notes was estimated to be \$302.9 million at December 31, 2002, based on quoted market prices.

Our capital lease obligations bear interest at rates of 5.5% to 10.4% and are due through the year 2009. We have also entered into operating leases on certain facilities and equipment. Future minimum lease payments under

capital obligations and noncancelable operating leases as of December 31, 2002 were as follows:

(Dollars in thousands)	Capital Leases	Operating Leases
2003	\$ 2,567	\$ 5,428
2004	1,897	4,045
2005	1,897	2,867
2006	1,924	1,957
2007	2,004	180
2008 and thereafter	3,509	672
Total minimum lease payments	13,798	\$ 15,149
Less portion representing interest	3,714	
Present value of minimum lease payments	10,084	
Less current portion	1,610	
Long-term portion of obligation	\$ 8,474	

Total future minimum lease payments under noncancelable operating leases have not been reduced by minimum sublease rentals of \$5.5 million due in the future under noncancelable subleases.

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The composition of rental expense for the years ended December 31 was as follows:

(Dollars in thousands)	2002	2001	2000
Minimum rentals	\$ 10,195	\$ 11,102	\$ 11,156
Sublease rentals	(1,321)	(1,663)	(1,069)
Net rental expense	\$ 8,874	\$ 9,439	\$ 10,087

Depreciation of the assets under capital leases is included in depreciation expense in the consolidated statements of cash flows. The balance of leased assets as of December 31 was as follows:

(Dollars in thousands)	2002	2001
Buildings and building improvements	\$ 11,574	\$ 11,574
Machinery and equipment	1,846	1,943
Total	13,420	13,517
Accumulated depreciation	(5,839)	(4,091)
Net assets under capital leases	\$ 7,581	\$ 9,426

As of December 31, 2002, we had a \$300.0 million commercial paper program in place. The average amount of commercial paper outstanding during 2002 was \$152.9 million at a weighted-average interest rate of 1.77%. As of December 31, 2002, no commercial paper was outstanding. The average amount of commercial paper outstanding during 2001 was \$90.9 million at a weighted-average interest rate of 3.37%. As of December 31, 2001, \$150.0 million was outstanding at a weighted-average interest rate of 1.85%.

Also as of December 31, 2002, we had \$350.0 million available under two committed lines of credit. These lines are available for borrowing and as support for our commercial paper program. We have a \$175.0 million line of credit which expires in August 2003 and carries a commitment fee of six basis points (.06%). We also have a \$175.0 million line of credit which expires in August 2007 and carries a commitment fee of eight basis points (.08%). The credit agreements, which govern these lines of credit, contain customary covenants regarding earnings before interest and taxes (EBIT) to interest expense coverage and levels of subsidiary indebtedness. No amounts were drawn on these lines during 2002 and no amounts were outstanding as of December 31, 2002. Our previous committed line of credit expired in August 2002. No amounts were drawn on that line during 2002 or 2001, and no amounts were outstanding as of December 31, 2001.

We also had an uncommitted bank line of credit for \$50.0 million available at variable interest rates. No amounts were drawn on this line during 2002. The average amount drawn on this line of credit during 2001 was \$1.3 million at a weighted-average interest rate of 4.26%. As of December 31, 2002 and 2001, no amounts were outstanding under this line of credit.

Absent certain defined events of default under our committed credit facilities, there are no significant contractual restrictions on our ability to pay cash dividends.

Purchase obligations

Purchase obligations include amounts due under contracts with third party service providers. These contracts are primarily for information technology services, including software development and support services, and personal computer, telecommunications, network server and help desk services. Included in these amounts are contracts which were executed in conjunction with the spin-off of eFunds (see Note 17). The contracts with eFunds, which account for 19% of our total purchase obligations, were valued at going market rates and were reviewed by an

independent committee of outside directors formed to ensure the arms-length negotiation of the contracts. Additionally, purchase obligations include amounts due under royalty agreements and Direct Checks direct mail advertising agreements. As of December 31, 2002, our purchase obligations were as follows:

(Dollars in thousands)

2003	\$ 77,690
2004	51,238
2005	14,102
2006	212
Total	\$ 143,242

Certain of the contracts with third party service providers allow for early termination upon the payment of specified penalties. If we were to terminate these agreements, we would incur penalties of \$54.8 million as of December 31, 2002.

eFunds indemnification

In connection with the spin-off of eFunds (see Note 17), we agreed to indemnify eFunds for future losses arising from any litigation based on the conduct of eFunds' electronic benefits transfer and medical eligibility verification businesses prior to eFunds' initial public offering in June 2000 (see Note 15), and from certain future losses on identified loss contracts in excess of eFunds' accrual for contract losses as of April 30, 2000. The maximum contractual amount of litigation and contract losses for which we will indemnify eFunds is \$14.6 million. The agreement remains in effect until one year after the termination of the identified loss contracts or until all disputes have been

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settled. All identified loss contracts are scheduled to expire by 2006. Through December 31, 2002, no amounts have been paid or claimed under this agreement. This obligation is not reflected in the consolidated balance sheets, as it is not probable that any payment will occur.

Environmental matters

We are currently involved in environmental compliance, investigation and remediation activities at some of our current and former sites, primarily check printing facilities of our Financial Services segment. Remediation costs are accrued on an undiscounted basis when the obligations are either known or considered probable and can be reasonably estimated. These accruals are included in accrued liabilities and other long-term liabilities in the consolidated balance sheets. Accrued costs consist of direct costs of the remediation activities, primarily fees paid to outside engineering and consulting firms. Although recorded accruals include our best estimates, our total costs cannot be predicted with certainty due to various factors such as the extent of corrective action that may be required, evolving environmental laws and regulations and advances in environmental technology. During 2002, we purchased an environmental insurance policy which covers the costs of remediation activities at the identified sites and remains in effect for 30 years. Upon the purchase of this policy, we recorded receivables from the insurance company within other current assets and other non-current assets in amounts equal to our environmental accruals.

Litigation

We are a party to legal actions and claims arising in the ordinary course of business and have recorded SG&A expense within the appropriate business segment when the expected outcome of these matters is either known or considered probable and can be reasonably estimated. Based upon information presently available, we believe that our accruals for these routine actions and claims are adequate. Although recorded accruals include our best estimates, we cannot predict the resolution of these matters with certainty. We believe, however, that it is unlikely that any identified matters, either individually or in the aggregate, will have a material adverse effect on our annual results of operations, financial position or liquidity.

Note Fourteen

Common stock purchase rights

On February 5, 1988, we declared a distribution to shareholders of record on February 22, 1988, of one common stock purchase right for each outstanding share of common stock. These rights were governed by the terms and conditions of a rights agreement entered into as of February 12, 1988. That agreement was amended and restated as of January 31, 1997 and further amended as of January 21, 2000 (Restated Agreement).

Pursuant to the Restated Agreement, upon the occurrence of certain events, each right will entitle the holder to purchase one share of common stock at an exercise price of \$150. In certain circumstances described in the Restated Agreement, if (i) any person becomes the beneficial owner of 15% or more of the company's common stock, (ii) the company is acquired in a merger or other business combination or (iii) upon the occurrence of other events, each right will entitle its holder to purchase a number of shares of common stock of the company, or the acquirer or the surviving entity if the company is not the surviving corporation in such a transaction. The number of shares purchasable will be equal to the exercise price of the right divided by 50% of the then-current market price of one share of common stock of the company, or other surviving entity (i.e., at a 50% discount), subject to adjustments provided in the Restated Agreement. The rights expire January 31, 2007, and may be redeemed by the company at a price of \$.01 per right at any time prior to the occurrence of the circumstances described above.

Note Fifteen

Shareholders' equity

Shareholders' equity declined from \$417.3 million at December 31, 1999 to \$64.3 million at December 31, 2002, primarily as a result of the required accounting treatment for our share repurchase programs and the spin-off of eFunds in 2000 (see Note 17).

(Dollars and shares in thousands)	Common Shares			Retained earnings	Unearned compensation	Accumulated other comprehensive loss			Total shareholders' equity
	Number of shares	Par value	Additional paid in capital			Unrealized gain (loss) on marketable securities	Cumulative translation adjustment	Loss on derivatives	
December 31, 1999	72,020	\$ 72,020	\$ -	\$ 346,617	\$ (47)	\$ (415)	\$ (867)	\$ -	\$ 417,308
Net income	-	-	-	161,936	-	-	-	-	161,936
Adjustment for lag in financial reporting ⁽¹⁾	-	-	-	(1,125)	-	-	-	-	(1,125)
Cash dividends	-	-	-	(107,195)	-	-	-	-	(107,195)
Distribution of subsidiary stock to shareholders (see Note 17)	-	-	-	(253,990)	-	-	-	-	(253,990)
Gain on sale of subsidiary stock ⁽²⁾	-	-	30,495	-	-	-	-	-	30,495
Common stock issued	583	583	14,938	-	-	-	-	-	15,521
Common stock retired	(48)	(48)	(1,190)	-	-	-	-	-	(1,238)
Unearned compensation	-	-	-	-	(13)	-	-	-	(13)
Unrealized fair value adjustments	-	-	-	-	-	242	-	-	242
Translation adjustment	-	-	-	-	-	-	867	-	867
December 31, 2000	72,555	72,555	44,243	146,243	(60)	(173)	-	-	262,808
Net income	-	-	-	185,900	-	-	-	-	185,900
Cash dividends	-	-	-	(101,773)	-	-	-	-	(101,773)
Common stock issued	2,890	2,890	68,025	-	-	-	-	-	70,915
Tax benefit of stock option plans	-	-	6,300	-	-	-	-	-	6,300
Common stock repurchased ⁽³⁾	(11,332)	(11,332)	(118,260)	(215,807)	-	-	-	-	(345,399)
Other common stock retired	(11)	(11)	(308)	-	-	-	-	-	(319)
Unrealized fair value adjustments	-	-	-	-	-	173	-	-	173
December 31, 2001	64,102	64,102	-	14,563	(60)	-	-	-	78,605
Net income	-	-	-	214,274	-	-	-	-	214,274
Cash dividends	-	-	-	(92,940)	-	-	-	-	(92,940)
Common stock issued	1,255	1,255	30,295	-	-	-	-	-	31,550
Tax benefit of stock option plans	-	-	8,648	-	-	-	-	-	8,648
Common stock repurchased ⁽³⁾	(3,898)	(3,898)	(38,388)	(130,517)	-	-	-	-	(172,803)
Other common stock retired	(13)	(13)	(555)	-	-	-	-	-	(568)
Unearned compensation	-	-	-	-	36	-	-	-	36
Loss on derivatives	-	-	-	-	-	-	-	(2,486)	(2,486)
December 31, 2002	61,446	\$ 61,446	\$ -	\$ 5,380	\$ (24)	\$ -	\$ -	\$ (2,486)	\$ 64,316

(1) Prior to 2000, for purposes of consolidating a subsidiary based in India, we used financial statements with a November 30 fiscal period end. Effective January 1, 2000, this subsidiary changed its reporting dates to coincide with the rest of the company. The results of operations for this subsidiary for the month of December 1999 were excluded from the consolidated statements of income and were reflected as an adjustment to retained earnings during the first quarter of 2000.

(2) In June 2000, our eFunds subsidiary sold 5.5 million shares of its common stock to the public. Prior to this initial public offering (IPO), we owned 40 million, or 100%, of eFunds' total outstanding shares. Subsequent to the IPO, we continued to own 40 million shares of eFunds, representing 87.9% of eFunds' total outstanding shares. Proceeds from the offering, based on the offering price of \$13.00 per share, totaled \$71.5 million (\$64.5 million, net of offering expenses). The difference of \$30.5 million between the net proceeds from the offering and the carrying amount of our investment in eFunds was recorded as additional paid-in capital. No tax expense or deferred tax was provided on this amount, as we disposed of our ownership in eFunds in a tax-free manner (see Note 17).

(3) In January 2001, our board of directors approved a plan to repurchase up to 14 million shares of our common stock. These repurchases were completed in June 2002 at a cost of \$463.8 million. In August 2002, our board of directors approved the repurchase of an additional 12 million shares. Through December 31, 2002, we spent \$54.4 million to repurchase 1.2 million of these additional shares.

Note Sixteen

Business segment information

We operate three business segments: Financial Services, Direct Checks and Business Services. Financial Services sells checks, related products and check merchandising services to financial institutions. Direct Checks sells checks and related products directly to consumers through direct mail and the Internet. Business Services sells checks, forms and related products to small businesses and home offices through financial institution referrals and

via direct mail and the Internet. All three segments operate only in the United States. No single customer accounted for more than 10% of revenue in 2002, 2001 or 2000.

During 2000, we operated two business segments: Paper Payment Systems and eFunds. On December 29, 2000, we disposed of the eFunds segment via a spin-off transaction (see Note 17). As a result, in 2001 we reorganized our Paper Payment Systems segment into the three segments we operate today. The results of the eFunds segment are reflected as discontinued operations in the consolidated financial statements for the year ended December 31, 2000.

The accounting policies of the segments are the same as those described in Note 1. Corporate expenses are allocated to the segments based on segment revenues. This allocation includes expenses for various support functions such as executive management, human resources and finance and includes depreciation and amortization expense related to corporate assets. The corresponding corporate asset balances are not allocated to the segments. Corporate assets consist primarily of cash, investments and deferred tax assets relating to corporate activities.

We are an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations and the sharing of assets. Therefore, we do not represent that these segments, if operated independently, would report the operating income and other financial information shown.

(Dollars in thousands)	Reportable Business Segments					Consolidated
	Financial Services	Direct Checks	Business Services	Corporate/Unallocated		
Revenue from external customers:						
	2002	\$ 754,022	\$ 310,866	\$ 219,095	\$ -	\$ 1,283,983
	2001	768,499	305,637	204,239	-	1,278,375
	2000	794,628	278,348	189,736	-	1,262,712
Operating income (loss):						
	2002	180,999	92,415	71,517	-	344,931
	2001	167,721	75,365	58,852	-	301,938
	2000	174,276	64,980	50,363	(10,685)	278,934
Depreciation and amortization expense:						
	2002	46,151	7,652	4,402	-	58,205
	2001	53,432	15,129	5,421	-	73,982
	2000	51,465	12,499	4,606	-	68,570
Total assets:						
	2002	282,617	140,023	36,542	209,791	668,973
	2001	278,995	148,912	34,227	75,587	537,721
	2000	292,056	149,222	41,232	173,764	656,274
Capital purchases:						
	2002	29,401	3,496	4,979	2,832	40,708
	2001	20,461	5,475	2,378	461	28,775
	2000	29,219	5,482	1,347	12,435	48,483

Unallocated operating loss for 2000 represents asset impairment losses and restructuring charges relating to the scaling-back of PlaidMoon (see Notes 4 and 5).

Revenue by product was as follows:

(Dollars in thousands)	2002	2001	2000
Checks and related services	\$ 1,144,605	\$ 1,138,313	\$ 1,126,249
Other printed products	20,262	20,208	21,519
Accessories	119,116	119,854	114,944
Total revenue	\$ 1,283,983	\$ 1,278,375	\$ 1,262,712

Note Seventeen **Discontinued operations**

In January 2000, we announced that our board of directors approved a plan to combine our electronic payments, professional services and government services businesses into an independent, publicly-traded company to be called eFunds Corporation. We contributed ownership of various subsidiaries and certain assets and liabilities to eFunds on March 31, 2000. In June 2000, eFunds sold 5.5 million shares of its common stock to the public. On December 29, 2000, we distributed our 40 million shares of eFunds stock, representing 87.9% of

eFunds' then total outstanding shares, to all our shareholders of record on December 11, 2000. Each shareholder received .5514 eFunds share for each Deluxe share owned. Cash was issued in lieu of fractional shares. The net assets distributed to shareholders of \$254.0 million was reflected as a reduction of retained earnings. We received confirmation from the IRS that the spin-off transaction would be tax-free to us and to our shareholders for U.S. federal income tax purposes, except to the extent that cash was received in lieu of fractional shares. The results of

eFunds are reflected as discontinued operations in the consolidated financial statements for the year ended December 31, 2000.

On December 2, 2002, eFunds restated its results of operations for the years ended December 31, 2000 and 2001 and for the nine months ended September 30, 2002. eFunds also announced that the Securities and Exchange Commission is conducting an inquiry of eFunds and has requested information relating to various transactions that occurred in 2000 and 2001, including data license and software sales. Since we completed the spin-off of eFunds on December 29, 2000, eFunds' results of operations are not included in our consolidated financial statements for any period subsequent to December 31, 2000. Thus, these restatements have no impact on our financial position (i.e., balance sheet) as of December 31, 2000 or on our financial position or results of operations for any period subsequent to December 31, 2000. After reviewing the nature and scope of the transactions that occurred in 2000, as described in eFunds' amended annual report for the year ended December 31, 2001 on Form 10-K/A, we believe that the adjustments made by eFunds have a de minimis impact on our net income for the year ended December 31, 2000. Additionally, the adjustments have no effect on the results reported for our continuing operations. Accordingly, we have not revised our financial results for the year ended December 31, 2000. Furthermore, eFunds' historical results of operations have no bearing on our current or future results of operations, our business strategy or on our ability to generate cash for current or future uses.

The following are additional discontinued operations disclosures not included elsewhere in these notes to consolidated financial statements.

Results of discontinued operations

In January 2002, the Emerging Issues Task Force (EITF) published Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred* (formerly EITF Abstracts, Topic No. D-103). This EITF issue requires that reimbursements received for out-of-pocket expenses be classified as revenue. eFunds typically incurred telecommunications, network customer fees, travel, maintenance and repair, and other transaction costs that were billed to and reimbursed by customers. These reimbursements were previously classified as a reduction of cost of sales. In accordance with EITF Issue No. 01-14, these reimbursements have been reclassified to revenue and are reflected in eFunds' revenue from external customers reported below.

Revenue and loss from discontinued operations were as follows for the year ended December 31:

(Dollars in thousands)		2000
Revenue from external customers	\$	381,348
Pre-tax income from operations of discontinued operations before measurement date	\$	10,402
Pre-tax costs of spin-off		(16,786)
Income tax expense		(1,152)
Net loss from discontinued operations	\$	(7,536)

Pre-tax costs of the spin-off are net of pre-tax income of \$2.2 million for eFunds' results subsequent to the November 30, 2000 measurement date. This is the date on which our board of directors approved the spin-off. Costs of the spin-off also include amounts due to officers under executive employment agreements of \$7.2 million, losses of \$2.9 million on disposals of infrastructure assets not usable by us or by eFunds, as well as legal, consulting and accountants' fees.

Contract losses

During 2000, net contract loss charges of \$9.7 million were recorded. In April 2000, we completed negotiations with the prime contractor for a state coalition for which eFunds provided electronic benefits transfer services. Prior to this, we were operating without a binding, legally enforceable contract. We recorded an accrual for expected future losses on long-term service contracts of \$12.2 million to reflect the fact that there was now a definitive agreement with this contractor. Offsetting this charge was the reversal of \$2.5 million of previously recorded contract loss accruals. These reversals resulted from productivity improvements and cost savings from lower than anticipated telecommunications and interchange expenses.

Acquisition

During March 2000, we paid cash of \$20.0 million for an approximately 24% interest in a limited liability company that provides automated teller machine management and outsourcing services to retailers and financial institutions. Our share of the results of this business subsequent to its acquisition date is included in discontinued operations in the consolidated statements of income. The difference of \$20.0 million between the carrying value of the investment and the underlying equity in the net assets of the limited liability company was being amortized over 15 years.

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Report of Independent Accountants

To the Board of Directors and Shareholders of Deluxe Corporation:

In our opinion, the accompanying consolidated balance sheets as of December 31, 2002 and 2001 and the related consolidated statements of income, comprehensive income, and cash flows present fairly, in all material respects, the financial position of Deluxe Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial

statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
January 24, 2003

Independent Auditors' Report

Deluxe Corporation

We have audited the accompanying consolidated statements of income, comprehensive income, and cash flows of Deluxe Corporation and its subsidiaries for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations of Deluxe Corporation and its subsidiaries and their cash flows for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Minneapolis, Minnesota
January 25, 2001

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Summarized Quarterly Financial Data (Unaudited)

(Dollars in thousands, except per share amounts)

	2002 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 328,908	\$ 328,463	\$ 319,773	\$ 306,839
Gross profit	215,814	217,903	211,979	202,493
Net income	54,556	54,709	52,663	52,346(1)
Earnings per share:				
Basic	0.85	0.87	0.85	0.85(1)
Diluted	0.84	0.85	0.83	0.84(1)
Cash dividends per share	0.37	0.37	0.37	0.37
	2001 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 316,682	\$ 318,635	\$ 324,318	\$ 318,740
Gross profit	199,496	205,644	212,815	206,602
Net income	42,479	44,312	51,062	48,047
Earnings per share:				
Basic	0.59	0.64	0.76	0.74
Diluted	0.59	0.63	0.75	0.73
Cash dividends per share	0.37	0.37	0.37	0.37

(1) 2002 fourth quarter results include the reversal of \$12.9 million of previously established income tax reserves and a charge of \$12.2 million for a valuation allowance relating to our deferred tax asset for capital loss carryforwards.

DELUXE CORPORATION SUBSIDIARIES

Designer Checks, Inc. (Alabama)
Direct Checks Unlimited, LLC (Colorado)
DLX Check Printers, Inc. (Minnesota)
DLX Check Texas, Inc. (Minnesota)
Deluxe Financial Services, Inc. (Minnesota)
Deluxe Financial Services Texas, L.P. (Texas)
Deluxe Mexicana S.A. de C.V. (Mexico) (50% owned)
PPS Holding Company, Inc. (Minnesota)
PPS Services 1, Inc. (Minnesota)
PPS Services 2, Inc. (Minnesota)
Paper Payment Services, LLC (Minnesota)
Plaid Moon, Inc. (Minnesota)

POWER OF ATTORNEY

Each of the undersigned directors and officers of DELUXE CORPORATION, a Minnesota corporation, hereby constitutes and appoints Lawrence J. Mosner, Douglas J. Treff and Katherine L. Miller his true and lawful attorneys-in-fact, and each of them, with full power to act without the other, to sign the Company's annual report on Form 10-K for the year ended December 31, 2002, and any and all amendments to such report, and to file the same and any such amendment, with any exhibits, and any other documents required in connection with such filing, with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934.

	Date
/s/ Lawrence J. Mosner	3/11/03
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Lawrence J. Mosner, Director and Principal Executive Officer	
/s/ Douglas J. Treff	3/11/03
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Douglas J. Treff, Principal Financial Officer	
/s/ Katherine L. Miller	3/11/03
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Katherine L. Miller, Principal Accounting Officer	
/s/ Ronald E. Eilers	3/11/03
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Ronald E. Eilers, Director	
/s/ Barbara B. Grogan	3/11/03
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Barbara B. Grogan, Director	
/s/ Stephen P. Nachtsheim	3/11/03
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Stephen P. Nachtsheim, Director	
/s/ Robert C. Salipante	3/11/03
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Robert C. Salipante, Director	
/s/ Daniel D. Granger	3/11/03
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Daniel D. Granger, Director	
/s/ Cheryl Mayberry McKissack	3/11/03
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Cheryl Mayberry McKissack, Director	
/s/ Charles A. Haggerty	3/11/03
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Charles A. Haggerty, Director	
/s/ Martyn R. Redgrave	3/11/03
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Martyn R. Redgrave, Director	

CEO CERTIFICATION OF PERIODIC REPORT

I, Lawrence J. Mosner, Chief Executive Officer of Deluxe Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2003

/s/ Lawrence J. Mosner

Lawrence J. Mosner
Chief Executive Officer

CFO CERTIFICATION OF PERIODIC REPORT

I, Douglas J. Treff, Senior Vice President and Chief Financial Officer of Deluxe Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2003

/s/ Douglas J. Treff

Douglas J. Treff
Senior Vice President and
Chief Financial Officer

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information. We are filing this cautionary statement in connection with the Reform Act. When we use the words or phrases “should result,” “believe,” “intend,” “plan,” “are expected to,” “targeted,” “will continue,” “will approximate,” “is anticipated,” “estimate,” “project” or similar expressions in this Annual Report on Form 10-K, in future filings with the Securities and Exchange Commission (“the Commission”), in our press releases and in oral statements made by our representatives, they indicate forward-looking statements within the meaning of the Reform Act.

We want to caution you that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause them to be wrong. Some of these uncertainties and other factors are listed under the caption “Risk Factors” below (many of which have been discussed in prior filings with the Commission). Although we have attempted to compile a comprehensive list of these important factors, we want to caution you that other factors may prove to be important in affecting future operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or combination of factors may have on our business.

You are further cautioned not to place undue reliance on those forward-looking statements because they speak only of our views as of the date the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

RISK FACTORS

The paper check industry overall is a mature industry and if the industry declines faster than expected, it could have a materially adverse impact on our operating results.

Check printing is, and is expected to continue to be, an essential part of our business and the principal source of our operating income. We primarily sell checks for personal and small business use and believe that there will continue to be a substantial demand for these checks for the foreseeable future. However, according to our estimates, total checks written by individuals and small businesses continued to decline slightly in 2002, and the total number of personal, business and government checks written in the United States has been in decline since the mid-1990s. We believe that checks written by individuals and small businesses will continue to decline due to the increasing use of alternative payment methods, including credit cards, debit cards, smart cards, automated teller machines, direct deposit, electronic and other bill paying services, home banking applications and Internet-based payment services. However, the rate and the extent to which alternative payment methods will achieve consumer acceptance and replace checks cannot be predicted with certainty. A surge in the popularity of any of these alternative payment methods could have a material, adverse effect on the demand for checks and a material, adverse effect on our business, results of operations and prospects.

Our strategic initiatives may cost more than anticipated and may not be successful.

We are developing and evaluating plans and launching initiatives for future growth, including the development of additional products and services and the expansion of Internet commerce capabilities. These plans and initiatives will involve increased levels of investment. There can be no assurance that the amount of this investment will not exceed our expectations and result in materially increased levels of expense. The new products and services we develop may not meet acceptance in the marketplace. Also, Internet commerce initiatives involve new technologies and business methods and serve new or developing markets. There is no assurance that these initiatives will achieve targeted revenue, profit or cash flow levels or result in positive returns on our investment.

1

We face intense competition in all areas of our business.

Although we believe we are the leading check printer in the United States, we face considerable competition. In addition to competition from alternative payment systems, we also face considerable competition from other check printers in our traditional financial institution sales channel, from direct mail sellers of checks and from sellers of business checks and forms. Additionally, we face competition from check printing software vendors and, increasingly, from Internet-based sellers of checks to individuals and small businesses. From time to time, some of our competitors have reduced the prices of their products in an attempt to gain volume. The corresponding pricing pressure placed on us has resulted in reduced profit margins in the past and similar pressures can reasonably be expected in the future. We cannot assure you that we will be able to compete effectively against current and future competitors. Continued competition could result in price reductions, reduced margins, loss of customers and an increase in up-front cash payments to financial institutions upon contract execution or renewal.

Consolidation among financial institutions may adversely affect our ability to sell our products.

Financial institutions have undergone large-scale consolidation in the last few years, causing the number of financial institutions to decline, and this trend may continue. Margin pressures arise from such consolidation as merged entities seek not only the most favorable prices formerly offered to the predecessor institutions, but also additional discounts due to the greater volume represented by the combined entity. This concentration greatly increases the importance of retaining our major financial institution clients and attracting significant additional clients in an increasingly competitive environment. The increase in general negotiating leverage possessed by such consolidated entities also presents a risk that new and/or renewed contracts with these institutions may not be secured on terms as favorable as those historically negotiated with these clients. Although we devote considerable efforts towards the development of a competitively priced, high quality suite of products and services for the financial services industry, there can be no assurance that significant financial institution clients will be retained or that the loss of a significant client can be counterbalanced through the addition of new clients or by expanded sales to our remaining clients.

Forecasts involving future results reflect various assumptions that may prove to be incorrect.

From time to time, our representatives make predictions or forecasts regarding our future results, including, but not limited to, forecasts regarding estimated revenues, earnings or earnings per share. Any forecast regarding our future performance reflects various assumptions which are subject to significant uncertainties, and, as a matter of course, may prove to be incorrect. Further, the achievement of any forecast depends on numerous factors which are beyond our control. As a result, we cannot assure you that our performance will be consistent with any management forecasts or that the variation from such forecasts will not be material and adverse. You are cautioned not to base your entire analysis of our business and prospects upon isolated predictions, and are encouraged to use the entire available mix of historical and forward-looking information made available by us, and other information affecting us and our products and services, including the risk factors discussed here.

In addition, our representatives may occasionally comment publicly on the perceived reasonableness of published reports by independent analysts regarding our projected future performance. Such comments should not be interpreted as an endorsement or adoption of any given estimate or range of estimates or the assumptions and methodologies upon which such estimates are based. The methodologies we employ in arriving at our own internal projections and the approaches taken by independent analysts in making their estimates are likely different in many significant respects. We expressly disclaim any responsibility to advise analysts or the public markets of our views regarding the current accuracy of the published estimates of outside analysts. If you are relying on these estimates, you should pursue your own independent investigation and analysis of their accuracy and the reasonableness of the assumptions on which they are based.

Uncertainties exist regarding our share repurchase program.

In August 2002, we announced that our board of directors approved the repurchase of up to 12 million shares of our common stock. Stock repurchase activities are subject to certain pricing restrictions, stock market forces, management discretion and various regulatory requirements. As a result, there can be no assurance as to the timing and/or amount of shares that we may repurchase under the program.

2

Economic conditions within the United States could have an adverse effect on our results of operations.

We believe the slow-down in the United States economy is having a modest impact on our results of operations. As an example, there has been a softening in overall direct mail industry response rates causing some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements to reduce their circulation. This in turn, has had an adverse impact on response rates in our direct-to-consumer businesses and has resulted in increased advertising costs. We have also seen a decline in unit volume as low consumer confidence translates into less spending and thus, fewer checks written. A continued weak economy could cause this trend to continue, resulting in revenue shortfalls. To offset the impact of any such shortfalls, we may have to increase our marketing and sales efforts, which would result in increased expense. We may also have to take steps to further decrease our cost structure. We can provide no assurance that we would be able to sustain our current levels of profitability in such a situation.

Increased marketing, production and delivery costs could adversely affect our operating results.

Increases in production costs such as labor, paper and delivery could adversely affect our profitability. Events resulting in an inability of contractual service providers to perform their obligations, such as extended labor strikes, can also adversely impact our margins by requiring us to secure alternate providers at higher costs. In addition, the profitability of our Direct Checks segment depends in large part on our ability to secure adequate advertising media placements at acceptable rates, and there can be no assurances regarding the future cost and/or availability of suitable advertising media. Competitive pressures may inhibit our ability to reflect any of these increased costs in the prices of our products.

We may experience software defects that could harm our business and reputation.

We use sophisticated software and computing systems. We may experience difficulties in installing or integrating our technologies on platforms used by our customers or in new environments, such as the Internet. Errors or delays in the processing of check orders or other difficulties could result in lost customers, delay in

market acceptance, additional development costs, diversion of technical and other resources, negative publicity or exposure to liability claims.

We face uncertainty with respect to future acquisitions.

We have acquired complementary businesses in the past as part of our business strategy and may pursue acquisitions of complementary businesses in the future. We cannot predict whether suitable acquisition candidates can be acquired on acceptable terms or whether any acquired products, technologies or businesses will contribute to our revenues or earnings to any material extent. A significant acquisition could result in the incurrence of contingent liabilities or debt, or additional amortization expense relating to acquired intangible assets, and thus, could adversely affect our business, results of operations and financial condition. Additionally, the success of any acquisition would depend upon our ability to effectively integrate the acquired businesses into ours. The process of integrating acquired businesses may involve numerous risks, including, among others, difficulties in assimilating operations and products, diversion of management's attention from other business concerns, risks of operating businesses in which we have limited or no direct prior experience, potential loss of our key employees or key employees of acquired businesses, potential exposure to unknown liabilities and possible loss of our clients and customers or clients and customers of the acquired businesses.

We depend on a limited source of supply for our printing plate material and the unavailability of this material could have an adverse effect on our results of operations.

Our check printing operations utilize a paper printing plate material that is available from only a limited number of sources. We believe we have a reliable source of supply for this material and that we maintain an inventory sufficient to avoid any production disruptions in the event of an interruption of its supply. In the event, however, that our current supplier becomes unwilling or unable to supply the required printing plate material at an acceptable price and we are unable to locate a suitable alternative source within a reasonable time frame, we would be forced to convert our facilities to an alternative printing process. Any such conversion would require the unanticipated investment of significant sums and could result in production delays and loss of business.

3

We may be unable to protect our rights in intellectual property.

Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our intellectual property or otherwise independently develop substantially equivalent products and services. In addition, designs licensed from third parties account for an increasing portion of our revenues, and there can be no guarantee that such licenses will be available to us indefinitely or on terms that would allow us to continue to be profitable with those products. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm our business and ability to compete. We rely on a combination of trademark and copyright laws, trade secret protection and confidentiality and license agreements to protect our trademarks, software and know-how. We may be required to spend significant resources to protect our trade secrets and monitor and police our intellectual property rights.

Third parties may assert infringement claims against us in the future. In particular, there has been a substantial increase in applications for, and the issuance of, patents for Internet-related systems and business methods, which may have broad implications for all participants in Internet commerce. Claims for infringement of these patents are a common subject of litigation. If we become subject to an infringement claim, we may be required to modify our products, services and technologies or obtain a license to permit our continued use of those rights. We may not be able to do either of these things in a timely manner or upon reasonable terms and conditions. Failure to do so could seriously harm our business, operating results and prospects as a result of lost business, increased expense or being barred from offering our products or implementing our systems or other business methods. In addition, future litigation relating to infringement claims could result in substantial costs and a diversion of management resources. Adverse determinations in any litigation or proceeding could also subject us to significant liabilities and could prevent us from using or offering some of our products, services or technologies.

We are dependent upon third party providers for certain significant information technology needs.

We have entered into agreements with third party providers for the provision of information technology services, including software development and support services, and personal computer, telecommunications, network server and help desk services. In the event that one or more of these providers is not able to provide adequate information technology services, we would be adversely affected. Although we believe that information technology services are available from numerous sources, a failure to perform by one or more of our service providers could cause a disruption in our business while we obtain an alternative source of supply.

Legislation relating to consumer privacy protection could harm our business.

We are subject to regulations implementing the privacy requirements of the federal financial modernization law known as the Gramm-Leach-Bliley Act ("the Act"). The Act requires us to develop and implement policies to protect the security and confidentiality of consumers' nonpublic personal information and to disclose these policies to consumers before a customer relationship is established and annually thereafter. These regulations could have the effect of foreclosing future business initiatives.

The Act does not prohibit state legislation or regulations that are more restrictive on the collection and use of data. More restrictive legislation or regulations have been introduced in the past and could be introduced in the future in Congress and the states. We are unable to predict whether more restrictive legislation or regulations will be adopted in the future. Any future legislation or regulations could have a negative impact on our business, results of operations or prospects.

Laws and regulations may be adopted in the future with respect to the Internet, e-commerce or marketing practices generally relating to consumer privacy. Such laws or regulations may impede the growth of the Internet and/or use of other sales or marketing vehicles. As an example, new privacy laws could decrease traffic to our websites and decrease the demand for our products and services. Additionally, the applicability to the Internet of existing laws governing property ownership, taxation, libel and personal privacy is uncertain and may remain uncertain for a considerable length of time.

4

The Internal Revenue Service (IRS) may treat the spin-off of eFunds as taxable to us and to our shareholders if certain unanticipated events occur.

We received confirmation from the IRS that, for U.S. federal income tax purposes, the December 2000 spin-off of eFunds is tax-free to us and to our shareholders, except to the extent that cash was received in lieu of fractional shares. This confirmation is premised on a number of representations and undertakings made by us and by eFunds to the IRS, including representations with respect to each company's intention not to engage in certain transactions in the future. The spin-off may be held to be taxable to us and to our shareholders who received eFunds shares if the IRS determines that any of the representations made are incorrect or untrue in any respect, or if any undertakings made are not complied with. If the spin-off is held to be taxable, both Deluxe and our shareholders who received eFunds shares could be subject to a material amount of taxes. eFunds will be liable to us for any such taxes incurred to the extent such taxes are attributable to specific actions or failures to act by eFunds, or to specific transactions involving eFunds following the spin-off. In addition, eFunds will be liable to us for a portion of any taxes incurred if the spin-off fails to qualify as tax-free as a result of a retroactive change of law or other reason unrelated to the action or inaction of either us or eFunds. We cannot be certain of eFunds' ability to perform its indemnification obligations and such indemnification obligations are only for the benefit of Deluxe and not individual shareholders.

We may be subject to sales and other taxes which could have adverse effects on our business.

In accordance with current federal, state and local tax laws, and the constitutional limitations thereon, we currently collect sales, use or other similar taxes in state and local jurisdictions where our direct-to-consumer businesses have a physical presence. One or more state or local jurisdictions may seek to impose sales tax collection obligations on us and other out-of-state companies which engage in remote or online commerce. Further, tax law and the interpretation of constitutional limitations thereon is subject to change. In addition, any new operations of these businesses in states where they do not presently have a physical presence could subject shipments of goods by these businesses into such states to sales tax under current or future laws. If one or more state or local jurisdictions successfully asserts that we must collect sales or other taxes beyond our current practices, it could have a material, adverse affect on our business.

We may be subject to environmental risks.

Our check printing plants are subject to many existing and proposed federal and state regulations designed to protect the environment. In some instances, we owned and operated our check printing plants before the environmental regulations came into existence. We have sold former check printing plants to third parties and in some instances have agreed to indemnify the current owner of the facility for on-site environmental liabilities. In order to contain our risk, we have obtained insurance coverage related to the environmental status of these plants. We believe that the coverage is sufficient to avoid the future expenditure of material amounts, but unforeseen conditions could result in additional exposure at lesser levels.

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