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, 2001.

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. ü 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. ¨

The aggregate market value of the voting stock held by non-affiliates of the registrant is $3,080,990,634 based on the last sales price of the registrant's common stock on the New York Stock Exchange on March 6, 2002. The number of outstanding shares of the registrant's common stock as of March 6, 2002, was 64,262,626.

Documents Incorporated by Reference:

1. Portions of our annual report to shareholders for the fiscal year ended December 31, 2001, are incorporated by reference in Parts I and II.

2. Our definitive proxy statement to be filed within 120 days after our fiscal year-end is incorporated by reference in Part III.

PART I

Item 1. ***Narrative Description of 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 sell checks and related products to individuals and small businesses. In addition, we produce computer and business forms on a small quantity order basis, including continuous forms, deposit tickets, invoices, statements, tax forms and labels. Our checks and business forms are compatible with nearly all of today's off-the-shelf accounting software packages. We also sell accessories, such as checkbook covers, deskbooks and rubber stamps. In addition, we offer products and services to our financial institution clients and consumers, such as protection from check order fraud.

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, including, among others, automatic teller machines, credit cards, debit cards and electronic payment systems, such as electronic bill presentment and payment. However, the recently released Federal Reserve Bank Payment Study indicates that checks remain consumers' most preferred method of non-cash payment.

According to our estimates, the total number of checks written by individuals and small businesses, the primary purchasers of checks, declined slightly in 2001 compared to 2000. We believe that the number of checks written by individuals and small businesses 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 1997. We believe the decline in personal, business and government checks is due to the increasing use of the alternative payment methods, increasing use of direct deposits for payroll and government transfer payments, and changing payment practices at large businesses and government agencies. Another

planned Federal Reserve update in three to five years will provide more insight into check volumes and the trend for total checks written.

The most common method by which consumers order checks is through financial institutions. We believe such orders comprised approximately 70% of all check sales to individuals and small businesses in 2001. Orders originating in this manner are sourced through financial institutions such as banks, savings and loan institutions, credit unions, brokerages and other financial institutions. Competitive pressures have reduced margins on check orders obtained through financial institutions in recent years, largely as a result of consolidation in the financial institution industry. Merged entities are seeking 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.

The direct-to-the-consumer method of ordering checks emerged in the mid-1980s based upon consumer desire for lower-priced alternatives and better design selection compared to checks obtained through financial institutions. We believe that direct sales to individuals and small businesses increased slightly, year-over-year, from 1997 to 2001. Direct-to-the-consumer checks are marketed to individuals and small businesses primarily through newspapers, co-op advertisements and the Internet.

Deluxe's Products and Services

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 planned 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 our source provides a reliable supply of this material and that it maintains an inventory sufficient to avoid any production disruptions in the event of an interruption of its supply.

During 2001, we re-organized our one business segment, Paper Payment Systems, into three business segments: Financial Services, Direct Checks, and Business Services.

Financial Services

Financial Services provides checks, related products and program management services on behalf of financial institutions. Customers commonly submit initial check orders and reorders to their respective financial institutions, which then forward those requests to us. We ship the printed checks directly to the customer while we manage the merchandising and financial institution check program rules to ensure ultimate customer satisfaction and accuracy. Our charges are usually paid by electronic transfer directly from the customers' accounts. We typically produce and ship check orders within two days after the receipt of an order. We sold checks through approximately 10,000 financial institutions during 2001.

In line with our goal to be the best service provider to the financial services industry, we offer enhanced services such as customized reporting, file management and expedited

account conversion support, so that we and our financial institution clients can be as efficient and profitable as possible. These include our SecureMail℠ service, implemented in September 1999, that reduces our clients' and their customers' risks of check order fraud.

During 2001 we piloted our DeluxeSelect℠ program, which capitalizes on our knowledge and understanding of consumers' check buying preferences and effective check merchandising strategies. Through our DeluxeSelect℠ program, our financial institution clients have the option to rely on us to merchandise checks on their behalf. The benefits of this initiative include: 1) significant 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 see the value of our merchandising and check ordering process, and 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 on behalf of our financial institution clients.

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.

Direct Checks

Direct Checks sells checks and related products directly to consumers through direct mail and the Internet. We increased our direct-to-the-consumer focus in the 1980's in response to the changes in the industry, although we have been selling products directly to consumers since our first catalog was produced in 1918. We use a variety of direct marketing techniques to acquire new customers in this direct-to-the-consumer market, including freestanding inserts in newspapers and co-op advertising. We also use effective e-commerce strategies to direct traffic to our websites. We are now emphasizing telephone and Internet contacts because they provide a more efficient way of selling products than through the mail.

With three websites, *www.checksunlimited.com*, *www.designerchecks.com* and *www.checks.com*, over 15 percent of orders received by Direct Checks originate from customers using the Internet. We received almost two million Internet orders for our checks in 2001.

As part of our growth strategy, we acquired Designer Checks, Inc. in February 2000. This acquisition provided us with access to additional customers, increased capacity and new product configurations such as a side-tear option.

Business Services

Business Services sells checks, forms and related products to small offices/home offices on behalf of financial institutions and directly to customers via direct mail and the Internet. With a database of 1.4 million customers, Business Services sells over two million products annually.

Through a very successful business referral program, our financial institution clients refer new small business customers to us directly, via telephone, at the time of the new account opening. Once contacted by the small business customer, our call center associate spends time learning about their business and accounting requirements and helping 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 the financial institution and for Deluxe.

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 five percent of total orders for Business Services in 2001. 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.

Our Strategy

Given the challenges we have faced in growing revenue in light of the decline in the use of checks as a payment method, we have implemented measures to reduce costs of production and other cost management measures. In 1996, we announced a plan to close 21 of our financial institution check printing plants over a two-year period in order to better manage our cost structure. Four additional plant closings were announced in 1998. The plant closings were made possible by advancements in our telecommunications, order processing and printing technologies. By the end of 2000, all of the production functions in these 25 plants were closed. We have also outsourced many non-strategic areas, such as information technology (IT) application development, mail processing and certain data entry and accounting functions.

Our strategy is to strengthen our leading position in the markets in which we compete by continuing to use our business alignment model to keep our business focused and strong. Our business model consists of three primary elements: Deluxe’s shared values, our vision and our business objectives.

Our shared values are behavior related and drive how we conduct business across the entire corporation.

Our vision is to grow Deluxe by leveraging our core competencies of personalization, direct marketing and e-commerce.

Our business model contains five primary business objectives:

- revenue growth,
- increased client and customer loyalty,
- increased talent and diversity in our workforce,
- cost management, and
- product and process transformation that allows us to succeed under changing market conditions.

These objectives keep us focused over time on what we want to accomplish. Key elements of our strategy are to:

- *Leverage core competencies to develop new sources of revenue through new and expanding product offerings within our existing businesses.*

  Provide additional services and new products. We intend to sell additional services and new product offerings to our existing customers. For example, we recently introduced a line of Disney® check designs. This marks an industry first and the first time that Disney® characters have appeared on personal checks and related products.

  Pursue expanded product offering opportunities. We intend to maximize revenue per order by pursuing expanded product offering opportunities within our existing customer base. For example, our customers have specific preferences and requirements. When we take reorders from financial institution customers on behalf of the financial institution via the Internet or our voice response unit, we have an opportunity to focus on customer preferences and requirements. This allows us the opportunity to provide more products and services to them.

- *Further expand our presence on the Internet*. Consumers' willingness to do business via electronic methods is beneficial for us due to the accuracy, efficiency and convenience of this medium. In addition, the Internet allows us to connect directly with check writers, affording us the opportunity to improve product mix and customer satisfaction.

- *Invest in technology and processes that will lower our cost structure*. Although we do not believe that we will be able to achieve cost reductions of a magnitude similar to those achieved in recent years, we will continue to manage our costs carefully and to invest in technology and processes to increase operating efficiency in our business. In recent years we have implemented a number of programs to control expenses and increase efficiency, such as consolidating plants, improving production capacity,

- implementing electronic customer interfaces and outsourcing certain IT application development and mail processing functions.
- *Consider acquisitions that leverage core competencies, are accretive to earnings and generate cash from operating activities*. For example, we acquired Designer Checks, Inc. in February 2000, which contributed positive earnings and cash flow to our operations.

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 electronic payment systems such as automatic teller machines, credit cards, debit cards and electronic payment systems, such as electronic bill presentment and payment. Electronic commerce is evolving and intensely competitive. 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 to consumers.

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, and the corresponding pricing pressure placed on us has resulted in reduced profit margins. We have also experienced some loss of business due to our refusal to meet competitive prices that fell below our profitability targets. Similar pressures may result in margin reductions in the future.

Government Regulation

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

The regulations require some of our operating companies to provide a notice to our consumer customers to allow them an 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 consumer data in our businesses. However, the regulations allow us to transfer consumer information to process a transaction that a consumer requests and to protect the confidentiality of a consumer's records or to protect against or prevent actual or potential fraud, unauthorized transactions, claims or other liability. 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 their agreements with us that are intended to comply with their obligations under the Act and regulations.

Congress and many states are considering more stringent laws or regulations that, among other things, restrict the purchase, sale or sharing of non-public 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 program.

Laws and regulations may be adopted in the future with respect to the Internet, e-commerce and marketing practices generally relating to consumer privacy. Such laws or regulations may impede the growth of Internet business and/or the use of other sales and marketing platforms. As an example, new privacy laws could decrease traffic to our websites and the demand for our products. Moreover, 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 intellectual property. Intellectual property laws afford limited protection. It may be possible for a third party to copy our products and services or otherwise obtain and use our proprietary information without our permission. There is no assurance that our competitors will not independently develop products and services that are substantially equivalent or superior to our products and services. A growing percentage of our check revenues are coming from the sale of licensed product designs and our continued success in this area will depend in large part on our ability to maintain and secure such licenses on favorable terms.

Employees

As of December 31, 2001, we had approximately 6,840 full- and part-time employees employed within the United States. Of the total number of employees, 2,841 were engaged in production, 3,040 were engaged in customer and technical support services, 544 were engaged in sales and marketing and 415 were engaged in administrative and other functions. None of our employees are represented by a labor union, and we consider our employee relations to be good.

Other Financial Information

The information about segments and geographic areas appearing under the caption “Note 15: Business segment information” on pages 48 through 49 of the Annual Report is incorporated by reference.

Executive Officers of the Registrant

Our executive officers are elected by the board of directors each year. The term of office of each executive officer will expire at the annual meeting of the board of directors that will be held after the regular shareholders meeting on May 7, 2002. The executive officers and their positions are as follows:

Name	Age	Position	Officer Since
Lawrence J. Mosner	60	Chairman of the Board and Chief Executive Officer	1995
Ronald E. Eilers	54	President and Chief Operating Officer	1996
Stephen J. Berry	39	Senior Vice President, President—Direct Checks	2000
Guy C. Feltz	46	Senior Vice President, President—Deluxe Financial Services	2000
Anthony C. Scarfone	40	Senior Vice President, General Counsel and Secretary	2000
Warner F. Schlais	49	Senior Vice President and Chief Information Officer	2000
Richard L. Schulte	45	Senior Vice President, President—Deluxe Business Services	2000
Douglas J. Treff	44	Senior Vice President and Chief Financial Officer	2000
Gene H. Peterson	57	Vice President, eBusiness and Corporate Development	2000

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. From February to July 1997, Mr. Mosner was senior vice president of Deluxe and served as president of our Paper Payment Systems business unit. From November 1995 until February 1997, Mr. Mosner served as senior vice president of Deluxe and president of Deluxe Direct, Inc., a subsidiary that included all of our business units selling directly to individuals and small businesses.

Ronald E. Eilers has served as president and chief operating officer of Deluxe since December 29, 2000. From August 1997 to December 2000, Mr. Eilers was a senior vice president of Deluxe and managed our Paper Payment Systems business. From February 1997 to August 1997, Mr. Eilers was president of Deluxe Direct, Inc., a subsidiary of Deluxe, and from October 1996 was vice president of Deluxe Direct, Inc.

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, and from August 1996 to July 1997 was a marketing manager 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 is part of Deluxe's former subsidiary, eFunds. From May 1996 to May 1998, he served as president of Deluxe-HCL, an international joint venture of Deluxe.

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 and from April 1995 to December 1997 was our vice president of applications development.

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 Unlimited), 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. (Wilsons), a leather specialty apparel retailer. He was also appointed chief financial officer of Wilsons in May 1996.

Gene H. Peterson was named an executive officer of Deluxe in December 2000 and has served as vice president, eBusiness and corporate development since November 1999. From October 1997 until November 1999, Mr. Peterson was vice president of planning and development. From February 1996 to October 1997, he served as vice president of planning and development for our financial services division.

Item 2. ***Properties***

We conduct our operations in 22 principal facilities, 18 of which are used for production and service operations. These facilities are located in 15 states and total approximately 2,333,000 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, teleservice center and headquarters
Lancaster, California	68,539	Owned	Production, teleservice center and mail center
Des Plaines, Illinois	191,805	Owned	Production and distribution
Colorado Springs, Colorado	291,311	Owned	Production, administration, marketing and teleservice center
Dallas, Texas	53,490	Owned	Production
Greensboro, North Carolina	44,336	Owned	Production
Indianapolis, Indiana	43,969	Owned	Production
Lenexa, Kansas (2 locations)	321,080	Owned	Production and distribution
Mountain Lakes, New Jersey	62,961	Owned	Production
Pittsburgh, Pennsylvania	45,884	Owned	Production
Streetsboro, Ohio	115,205	Owned	Production
Salt Lake City, Utah	95,307	Owned	Production
Campbell, California	68,655	Owned	Production
Shoreview, Minnesota (2 locations)	189,338	September 2004	Administration
Shoreview, Minnesota	180,832	September 2009	Administration
Anniston, Alabama	83,400	June 2002	Production and teleservice center
Greensboro, North Carolina	65,340	September 2003	Teleservice center
Syracuse, New York	47,469	December 2004	Teleservice center
Phoenix, Arizona	50,337	June 2003	Teleservice 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, 2001 and 2000, 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, 2001, the number of shareholders of record was 11,462. 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. The 2000 per-share prices have been adjusted to reflect the spin-off of our subsidiary, eFunds Corporation, on December 29, 2000.

Stock Price Ranges (dollars)	High	Low	Close
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
2000			
Quarter 1	23.18	17.74	21.18
Quarter 2	21.23	18.65	18.84
Quarter 3	19.19	15.99	16.24
Quarter 4	20.20	15.89	20.20

Item 6. ***Selected Financial Data***

The information appearing under the caption "Five-year Summary" on page 28 of the 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 13 through 26 of the 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 26 of the Annual Report is incorporated by reference.

Item 8. ***Financial Statements and Supplementary Data***

The financial statements, notes and independent auditors’ reports on pages 29 through 51 of the Annual Report and the information appearing under the caption “Summarized Quarterly Financial Data” (unaudited) on page 52 of the Annual Report is incorporated by reference.

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

On March 16, 2001, we decided not to re-engage our independent auditors, Deloitte & Touche LLP (“Deloitte”) and appointed PricewaterhouseCoopers LLP (“PricewaterhouseCoopers”) as our new independent auditors for the fiscal year ending December 31, 2001. This determination followed our decision to seek competitive bids from independent accounting firms, including Deloitte, with respect to the engagement of independent accountants to audit the consolidated financial statements for the fiscal year ending December 31, 2001. The decision not to re-engage Deloitte and to engage PricewaterhouseCoopers was approved by the unanimous vote of our board of directors upon the recommendation of its audit committee. Our shareholders ratified the appointment of PricewaterhouseCoopers at our Annual Meeting on May 8, 2001.

The reports of Deloitte on the consolidated financial statements for the fiscal years ended December 31, 2000 and December 31, 1999 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the 2000 and 1999 fiscal years and the subsequent interim period through March 16, 2001, (i) there were no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its reports (a “Disagreement”) and (ii) there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K of the Securities and Exchange Commission (a “Reportable Event”).

We reported the change in accountants on Form 8-K on March 21, 2001. The Form 8-K contained a letter from Deloitte addressed to the Securities and Exchange Commission stating that it agreed with certain of the above statements, and had no reason to agree or disagree with the remaining statements.

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***

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

PART IV

Item 14. ***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:

Financial Statements	Page in Annual Report
Consolidated Balance Sheets at December 31, 2001 and 2000	29
Consolidated Statements of Income for each of the three years in the period ended December 31, 2001	30
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2001	30
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001	31
Notes to Consolidated Financial Statements	32 — 51
Reports of Independent Accountants	51
Supplemental Financial Information (Unaudited):	
Summarized Quarterly Financial Data	52
	Page in this Form 10-K
Consents of Independent Accountants to the incorporation by reference of their reports in our registration statements numbered 2-96963, 33-53585, 33-57261, 33-32279, 33-58510, 33-62041, 333-03625, 33-48967, 333-95739, 333-52452 and 333-52454	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

None.

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

Exhibit Number	Description	Method of Filing
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).	*
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	Indenture, relating to up to $300,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 (33-62041) filed with the Commission on August 23, 1995).	*
4.4	Credit Agreement dated as of August 24, 2001, among us, Bank One, N.A. as administrative agent, The Bank of New York as syndication agent and the other financial institutions party thereto, related to a $350,000,000 revolving credit agreement (incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2001).	*
10.1	Deluxe Corporation 2000 Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (“the September 2000 10-Q”) for the Quarter Ended September 30, 2000).	*

10.2	Deluxe Corporation 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the September 2000 10-Q).	*
10.3	Deluxe Corporation Deferred Compensation Plan (2001 Restatement), (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q ("the March 2001 10-Q") for the quarter ended March 31, 2001).	*
10.4	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).	*
10.5	Deluxe Corporation 1998 DeluxeSHARES Plan (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K ("the 1997 10-K") for the Year Ended December 31, 1997).	*
10.6	Description of Deluxe Corporation Non-employee Director Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K for the Year ended December 31, 1996).	*
10.7	Description of modification to the Deluxe Corporation Non-Employee Director Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the 1997 10-K).	*
10.8	Description of non-employee Director Compensation Arrangements (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K for the Year Ended December 31, 1999).	*
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	Severance Agreement entered into effective March 1, 2001 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, and Gene H. Peterson (incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K ("the 2000 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 2000 10-K).	*
10.14	Executive Retention Agreement between Deluxe and Lawrence J. Mosner dated April 2, 2001 (incorporated by reference to Exhibit 10.2 to the March 2001 10-Q).	*
10.15	Executive Retention Agreement entered into effective December 18, 2000 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 Gene H. Peterson (incorporated by reference to Exhibit 10.19 to the 2000 10-K).	*
10.16	First Amendment of the Deluxe Corporation Deferred Compensation Plan (2001 Restatement) (incorporated by reference to Exhibit 4.3 on Form S-8 filed January 7, 2002).	*
10.17	Deluxe Corporation Deferred Compensation Plan Trust (incorporated by reference to Exhibit 4.3 on Form S-8 filed January 7, 2002).	*
10.18	Amended and Restated 2000 Employee Stock Purchase Plan.	Filed herewith
10.19	First Amendment to the Deluxe Corporation Supplemental Benefit Plan (2001 Restatement).	Filed herewith

12.4	Statement re: computation of ratios.	Filed herewith
13	2001 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	Cautionary Statements and Risk Factors.	Filed herewith

* Incorporated by reference

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.

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

By: /s/ LAWRENCE J. MOSNER

Lawrence J. Mosner
Chairman of the Board of Directors and
Chief Executive Officer

Date: March 26, 2002

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, 2002.

Signature	Title
/s/ LAWRENCE J. MOSNER **Lawrence J. Mosner**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ DOUGLAS J. TREFF **Douglas J. Treff**	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* **Ronald E. Eilers**	Director
* **Barbara B. Grogan**	Director
* **Stephen P. Nachtsheim**	Director
* **Calvin W. Aurand, Jr.**	Director

Signature	Title
* Donald R. Hollis	Director
* Robert C. Salipante	Director
* Daniel D. Granger	Director
* Cheryl E. Mayberry	Director
* Charles A. Haggerty	Director
* Martyn R. Redgrave	Director

By: /s/ LAWRENCE J. MOSNER

Lawrence J. Mosner
Attorney-in-Fact

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 2-96963, 33-53585, 33-57261, 333-03625, 33-48967, 333-95739, 333-52452 and 333-52454 on Form S-8 and 33-32279, 33-58510 and 33-62041 on Form S-3 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, 2001.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
March 22, 2002

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, 33-57261, 333-03625, 33-48967, 333-95739, 333-52452 and 333-52454) and Form S-3 (No. 33-32279, 33-58510 and 33-62041) of Deluxe Corporation of our report dated January 25, 2002 relating to the 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 22, 2002

EXHIBIT INDEX

The following exhibits are filed as part of this report:

Exhibit Number	Description	Page Number
10.18	Amended and Restated 2000 Employee Stock Purchase Plan	
10.19	First Amendment to the Deluxe Corporation Supplemental Benefit Plan (2001 Restatement)	
12.4	Statement re: computation of ratios	
13	2001 Annual Report to shareholders	
21.1	Subsidiaries of the Registrant	
24.1	Power of attorney	
99.1	Cautionary Statements and Risk Factors	

EXHIBIT 10.18

DELUXE CORPORATION
2000
EMPLOYEE STOCK PURCHASE PLAN
(Amended and Restated)

Section 1. Purpose.

1.01 The Plan is designed to encourage employee stock ownership in Deluxe Corporation (the "Company") by providing Employees of the Company and Participating Subsidiaries with an opportunity to purchase Company Common Stock through voluntary payroll deductions. It is the purpose and policy of the Plan to foster ownership interest among employees, thus aligning the interests of employees with the interests of shareholders. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the provisions of the Plan shall be administered, interpreted and construed in a manner consistent with the requirements of that section of the Code.

Section 2. Certain Definitions.

2.01. **Business Day.** The term "Business Day" shall mean a day on which the New York Stock Exchange is open for trading.

2.02. **Company.** The term "Company" shall mean Deluxe Corporation, a Minnesota corporation.

2.03. **Current Compensation.** The term "Current Compensation" shall mean all regular wage, salary, and commission payments (including periodic sales commission bonuses) paid by the Company to a Participant in accordance with the terms of his or her employment, including payments made to him or her under the short term disability or paid time off plan of the Company or Participating Subsidiary of which the Participant is an employee in effect at the applicable time, but excluding all overtime earnings, bonus and other incentive payments and awards, and all other forms of extra compensation.

2.04. **Eligible Employee**. The term "Eligible Employee" shall mean all employees of the Company and its Participating Subsidiaries (including officers and directors who are also employees of the Company) whose regularly scheduled work week consists of at least twenty (20) hours and who have completed twelve (12) consecutive months of employment with the Company or its Participating Subsidiaries, provided that an approved leave of absence shall not be deemed to terminate an employee's continuous employment. Eligible Employees do not include seasonal or temporary employees or independent contractors.

2.05. **Excluded Subsidiary**. The term "Excluded Subsidiary" shall mean those subsidiaries of the Company that are designated as such by the Plan Administrator.

2.06. **Offering and Purchase Dates.** The first day of each Offering Period is the "Offering Date" for that Offering Period and the last day of each Offering Period is the "Purchase Date" for that Offering Period. In the event an Offering Date or Purchase Date does not fall on a Business Day, the next succeeding Business Day shall be deemed the Offering Date or Purchase Date, as applicable.

2.07. **Offering Periods.** The Plan shall have six-month offering periods to purchase Shares (the "Offering Periods"), with a new Offering Period commencing on February 1 and August 1 of each year beginning with February 1, 2002. Each Offering Period commencing on February 1 of any year shall end

on July 31 of that year, and each Offering Period commencing on August 1 of any year shall end on January 31 of the following year.

2.08. **Participant.** The term “Participant” shall mean an Eligible Employee of the Company or of its Participating Subsidiaries, who has elected to participate in the manner set forth in the Plan.

2.09. **Participating Subsidiaries**. The term “Participating Subsidiaries” shall mean each subsidiary of the Company that is not an Excluded Subsidiary.

2.10. **Plan.** The term “Plan” shall mean the Employee Stock Purchase Plan, the terms and provisions of which are set forth herein.

2.11. **Plan Administrator**. The term “Plan Administrator” shall mean the board of directors of the Company or any committee appointed by such board.

2.12. **Shares.** The term “Shares” shall mean the $1 par value Common Shares of the Company.

2.13. **Stock Purchase Account**. The term “Stock Purchase Account” means a current bookkeeping record maintained by the Company of cumulative payroll deductions made from the Current Compensation of each Participant in the Plan as reduced by amounts applied toward the purchase of Shares under the Plan.

Section 3. Election to Participate.

3.01. An Eligible Employee may elect to participate in the Plan by completing the form prescribed by the Plan Administrator or enrolling online to authorize regular payroll deduction from the employee’s Current Compensation, beginning with the first payroll period ending after an Offering Date, provided such authorization is received by the Company’s Human Resources Department in such time in advance of such Offering Date as may be prescribed by the Plan Administrator. Payroll deductions shall continue until the employee withdraws or ceases to be eligible to participate in the Plan.

3.02. Notwithstanding the provisions of Section 3.01, no Eligible Employee shall be granted any right to purchase Shares hereunder to the extent that:

(i) such employee, immediately after such a right to purchase is granted, would own, directly or indirectly, within the meaning of Section 423(b)(3) and Section 424(d) of the Internal Revenue Code of 1986, as amended, Shares possessing five percent (5%) or more of the total combined voting power or value of all the classes of the capital stock of the Company or of all of its affiliates or,

(ii) such employee’s rights to purchase stock under all employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company and its Subsidiaries accrues at a rate that exceeds $25,000 worth of stock (determined at the fair market value of the shares at the time such rights are granted) for each calendar year during which the rights to purchase such stock are outstanding at any time.

3.03. Employees of an Excluded Subsidiary shall not be eligible to participate in the Plan unless and until they transfer employment to the Company or a Participating Subsidiary or the Plan Administrator should re-designate the Excluded Subsidiary as a Participating Subsidiary. In any such event, the period during which an employee was employed by the Excluded Subsidiary shall be treated as employment by the

Company or a Participating Subsidiary for purposes of determining the employee's eligibility under Section 2.04 to participate in the Plan following such transfer or re-designation.

Section 4. Payroll Deductions and Stock Purchase Account.

4.01. A Participant may elect payroll deductions of any multiple of one percent (1%) not less than three percent (3%) nor more than ten percent (10%) of his or her Current Compensation. A Participant may, at any time, but only once in any twelve-month period, increase or reduce the percentage of his or her payroll deduction within the foregoing limitations by filing such form(s) as may be prescribed by the Plan Administrator indicating the change, such change to become effective with the first payroll period commencing on or after the receipt of the form(s) by the Company's Human Resources Department.

4.02. Payroll deductions shall be credited currently to the Participant's Stock Purchase Account. A Participant may not make any separate cash payment into his or her Stock Purchase Account.

4.03. No interest will be paid upon payroll deductions or upon any amount credited to, or on deposit in, an employee's Stock Purchase Account.

Section 5. Purchase of Shares.

5.01. On each Purchase Date, each Participant shall automatically have purchased for him or her that number of whole Shares, not less than one, as can be purchased with the amount in his or her Stock Purchase Account on such Purchase Date.

5.02. Beginning with the first Purchase Date in 2002, the per-Share purchase price of Shares purchased shall be the lower of eighty-five percent (85%) of the fair market value on the Offering Date of such Offering Period or eighty-five percent (85%) of the fair market value on the Purchase Date of such Offering Period, rounded up to the next higher full cent. The fair market value on any day means the closing price of the Shares on that day, as reported in the *Wall Street Journal, Midwest Edition*.

Section 6. Stock Purchase Account Balance.

6.01. Any funds remaining in a Participant's Stock Purchase Account after the purchase of Shares on a Purchase Date, not to exceed an amount less than purchase price of one Share on the Purchase Date, shall remain in his or her Stock Purchase Account and be applied toward the purchase of Shares on the next Purchase Date, unless the Participant withdraws from the Plan.

Section 7. Withdrawal from the Plan.

7.01. A Participant may, at any time, by completing the form(s) prescribed by the Plan Administrator, withdraw from the Plan and cease making any further payroll deductions. In such event, the Company shall refund, within thirty (30) days, the entire balance, if any, in the employee's Stock Purchase Account. Once an employee withdraws from the Plan, or his or her employment is terminated, the employee shall not be eligible to re-enter the Plan for a period of six (6) months. For purposes of the foregoing sentence, a transfer of an employee to an Excluded Subsidiary or a designation of such employee's employer as an Excluded Subsidiary shall not be deemed a termination of employment requiring the employee to accrue an additional year of service time in the event the employee thereafter transfers to a Participating Subsidiary or the designation of such employee's employer is subsequently changed to a Participating Subsidiary.

7.02. Participation in the Plan shall cease upon the date of a Participant's termination of employment, death, transfer to status other than an Eligible Employee, transfer to an Excluded Subsidiary or a change in the designation of a Participant's employer to an Excluded Subsidiary, and any amounts theretofore credited to the individual's Stock Purchase Account shall be refunded within thirty (30) days to the former

Participant or to his or her estate. An approved leave of absence shall not be deemed a termination of employment for purposes of this section 7.02.

Section 8. Transferability.

8.01. Stock purchase benefits granted hereunder may not be assigned, transferred, pledged or hypothecated (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition or levy of attachment or similar process upon the stock purchase benefits shall be null and void and without effect.

8.02. The funds accumulated in a Stock Purchase Account may not be assigned, transferred, pledged or hypothecated in any way, and any attempted assignment, transfer, pledge, hypothecation or other disposition of the funds accumulated in the Stock Purchase Account shall be null and void and without effect.

8.03. The Plan Administrator may, from time to time, establish or modify minimum required holding periods for Shares purchased by all Participants under the Plan and, in connection therewith, may establish such rules and regulations as it determines to be necessary or appropriate for the administration of such minimum holding periods. Without limiting the generality of the authority herein, the Plan Administrator may require that the Shares issued under the Plan be restricted or bear a legend against transfer or by requiring periodic certifications by Participants concerning compliance with such minimum required holding periods. The establishment of or any change to any minimum required holding period shall be made effective on an Offering Date, and notice thereof shall be given to all Participants at least thirty (30) days prior to such Offering Date by such means as the Plan Administrator determines to be appropriate in the circumstances. The failure of a Participant to receive any such notice shall not affect the establishment of any such minimum holding period or any change thereto with respect to that or any other Participant.

Section 9. Share Certificates.

9.01. Shares purchased under the Plan may be originally issued in certificated or uncertificated form, as determined by the Plan Administrator. Shares issued under the Plan may contain restrictions against transfer (including applicable legends to that effect) as provided in Section 8.03.

9.02. The Company shall not be required to issue or deliver any Shares purchased unless such issuance and delivery comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities and Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company will use its best efforts to accomplish such registration, if and to the extent required or determined desirable, not later than a reasonable time following a Purchase Date, and issuance of Shares may be deferred until such registration is accomplished.

9.03. An employee shall have no interest in the Shares purchased until a Share certificate representing the same is issued or an appropriate book-entry is made with the transfer agent for the Shares reflecting such purchase

9.04. The Share certificates or book-entries representing Shares purchased under the Plan shall be registered in the name of the Participant or jointly in the name of the Participant and another person, as the Participant may direct.

Section 10. Effective Date and Amendment or Termination of Plan.

10.01. The Plan shall become effective on the date fixed by the board of directors of the Company, and shall be submitted to the shareholders of the Company for approval in compliance with Section 423 of the Code at the next annual meeting of shareholders of the Company thereafter. If the Plan is not so approved, then the Plan shall continue to operate under such terms and conditions as the Plan Administrator may thereafter authorize, including without limitation, with a discount to fair market value of less than or greater than eighty-five percent (85%).

10.02. The board of directors of the Company may at any time terminate the Plan or amend the Plan in any respect; provided, however, that, if the Plan receives the requisite approval of shareholders under Section 423 of the Code, the Plan may not be amended in any way that will cause rights issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in Section 423 of the Code or any successor thereto, including, without limitation, shareholder approval if required.

Section 11. Plan Administrator.

11.01. In administering the Plan, it will be necessary to follow various laws and regulations. It may be necessary from time to time to change or waive requirements of the Plan to conform with law, to meet special circumstances not anticipated or covered in the Plan, or to carry on successful operations of the Plan. Therefore, the Company reserves the right, exercisable by the Plan Administrator, to make variations in the provisions of the Plan for such purposes and to determine any questions which may arise regarding interpretation and application of the provisions of the Plan. The determination of the Plan Administrator as to the interpretation and operation of the Plan shall be final and conclusive, provided that any such determination by a committee appointed by the board of directors of the Company shall be subject to review by such board.

Section 12. Stock Dividend or Reclassification, Merger, or Consolidation.

12.01. Upon the payment of any stock dividend, or the occurrence of a stock split, reverse stock split or reclassification by way of split-up in the number of Shares of the Company, the total number of Shares authorized by Section 13.01 to be sold under the Plan shall be adjusted accordingly.

12.02. If the Company is merged into or consolidated with one or more corporations during the Plan, appropriate adjustments shall be made to give effect thereto on a equitable basis in terms of issuance of Shares of the corporation surviving the merger or of the consolidated corporation, as the case may be.

Section 13. Shares to be Sold.

13.01. Subject to the terms of Section 12.01, the number of Shares authorized to be sold under the Plan during the period commencing on February 1, 2000, shall not exceed 5 million.

Section 14. Notices.

14.01. Notices to the Company pertaining to the Plan may be addressed as follows:

Deluxe Corporation
Attention: Human Resource Department
Post Office Box 64235
St. Paul, MN 55164-0235

EXHIBIT 10.19

CERTIFICATION

I, Anthony C. Scarfone, do hereby certify that I am the Secretary of DELUXE CORPORATION, a Minnesota corporation, and that by action of the Board of Directors of said corporation taken on October 26, 2001, the “FIRST AMENDMENT OF DELUXE CORPORATION SUPPLEMENTAL BENEFIT PLAN (2001 Restatement)” was approved and adopted. I further certify that the document hereto attached is a true and correct copy of said amendment.

October 31, 2001

FIRST AMENDMENT
OF
DELUXE CORPORATION

SUPPLEMENTAL BENEFIT PLAN
(2001 Restatement)

The "Deluxe Corporation Supplemental Benefit Plan" adopted by Deluxe Corporation, a Minnesota corporation, effective November 8, 1984, and which is presently maintained under a document entitled "DELUXE CORPORATION SUPPLEMENTAL BENEFIT PLAN (2001 Restatement") (hereinafter referred to the "Plan Statement"), is hereby amended in the following respects:

1. CHANGE IN CONTROL. Effective for any change in control occurring on or after January 1, 2002, Section 14 of the Plan Statement shall be amended to read in full as follows:

SECTION 14

MERGER, CONSOLIDATION OR ACQUISITION

Notwithstanding any other provision of this Plan, a Participant or Beneficiary will receive a distribution of his or her entire Supplemental Account if a Change in Control occurs. Distribution of the entire Supplemental Account shall be made on the date of the Change in Control. Such distribution shall be made in a single lump sum payment. A "Change in Control" shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities, excluding, at the time of their original acquisition, from the calculation of securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates or in connection with a transaction described in clause (i) of paragraph (c) below; or

(b) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on January 1, 2002, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at

least two-thirds (2/3) of the directors then still in office who either were directors on January 1, 2002, or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger or consolidation of the Company or any Affiliate with any other entity, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Affiliate, at least 65% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(d) the shareholders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 65% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions. Solely for purposes of this Section 14, the following words and phrases shall have the following meanings:

14.1. **Affiliate**—means a company controlled directly or indirectly by the Company, where "control" shall mean the right, either directly or indirectly, to elect a majority of the directors thereof without the consent or acquiescence of any third party.

14.2. **Beneficial Owner**—a "beneficial owner" within the meaning of Rule 13d-3 under the Exchange Act.

14.3. **Exchange Act**—the Securities Exchange Act of 1934, as amended from time to time.

14.4. **Person**—a "person" within the meaning of Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

2. FUNDING OF THE PLAN. Effective October 26, 2001, Section 5.5 of the Plan Statement shall be amended to read in full as follows:

5.5. **Unsecured Interest**. The obligation of the Company to make payments under this Plan constitutes only the unsecured (but legally enforceable) promise of the Company to make such payments. The Participant shall have no lien, prior claim or other security interest in any property of the Company. The Company is not required to establish or maintain any fund, trust or account (other than a bookkeeping account or reserve) for the purpose of funding or paying the benefits promised under this Plan. If any such fund, trust (including any rabbi trust) or account is established, no Participant shall have any lien, prior claim, security interest or beneficial interest in any property therein. The Company will pay the cost of this Plan out of its general assets. All references to accounts, accruals, gains, losses, income, expenses, payments, custodial funds and the like are included merely for the purpose of measuring the Employers' obligation to Participants in this Plan and shall not be construed to impose on the Employers the obligation to create any separate fund for purposes of this Plan.

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

, 2001

DELUXE CORPORATION

By: ____________________

Its ____________________

EXHIBIT 12.4

DELUXE CORPORATION

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
Earnings:					
Income from continuing operations before income taxes	$ 297,534	$ 273,429	$ 322,582	$ 256,305	$ 147,682
Interest expense (excluding capitalized interest)	5,583	11,436	8,589	8,550	7,289
Portion of rent expense under long-term operating leases representative of an interest factor	3,540	3,520	7,728	8,859	8,732
Amortization of debt expense	176	464	263	122	122
Total earnings	$ 306,833	$ 288,849	$ 339,162	$ 273,836	$ 163,825
Fixed charges:					
Interest expense (including capitalized interest)	5,583	$ 11,436	$ 9,662	$ 9,941	$ 8,209
Portion of rent expense under long-term operating leases representative of an interest factor	3,540	3,520	7,728	8,859	8,732
Amortization of debt expense	176	464	263	122	122
Total fixed charges	$ 9,299	$ 15,420	$ 17,653	$ 18,922	$ 17,063
Ratio of earnings to fixed charges	33.0	18.7	19.2	14.5	9.6

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Profile

During 2001, we re-organized our one business segment, Paper Payment Systems, into three business segments: Financial Services, Direct Checks and Business Services. Financial Services provides checks, related products and program management services on behalf of 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 offices/home offices on behalf of financial institutions and directly to customers 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. The results of the eFunds segment are reflected as discontinued operations in our consolidated financial statements.

During 1999, we also operated NRC Holding Corporation, a collections business. This business was sold in December 1999.

Unusual Charges and Credits

Over the past three years, we had charges for restructurings, asset impairments and other developments. These items have had a significant impact on our results of operations and financial position over this period of time. The significant items recorded in 2001, 2000 and 1999, on a pre-tax basis, were:

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
Continuing operations:			
Net restructuring charges (reversals)	$ 3,804	$ (2,253)	$ (8,155)
Asset impairment losses	—	9,740	—
Gain on sale of business	—	—	(19,770)
Total continuing operations	3,804	7,487	(27,925)
Discontinued operations:			
Costs of spin-off	—	16,786	—
Contract losses	—	9,700	8,208
Restructuring charges (reversals)	—	555	(2,399)
Legal proceedings	—	—	(2,094)
Asset impairment losses	—	—	492
Total discontinued operations	—	27,041	4,207
Total charges (gains)	$ 3,804	$ 34,528	$ (23,718)

The above items are reflected in the consolidated statements of income as follows:

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
Continuing operations:			
Cost of goods sold	$ 1,198	$ —	$ (1,950)
Selling, general and administrative expense	2,606	(2,371)	(3,863)
Asset impairment and disposition losses (gains)	—	9,858	(2,342)
Gain on sale of business	—	—	(19,770)
Total continuing operations	3,804	7,487	(27,925)
Discontinued operations	—	27,041	4,207
Total charges (gains)	$ 3,804	$ 34,528	$ (23,718)

For more information about these items, see Notes 4, 5, 6 and 16 to the consolidated financial statements.

Results of Operations

The following table presents, for the periods indicated, the relative composition of selected statement of income data:

	Year Ended December 31,					
	2001		2000		1999	
	$	% of Revenue	$	% of Revenue	$	% of Revenue
	(Dollars in thousands, except revenue per unit amounts)					
Continuing operations:						
Revenue from external customers:						
Financial Services	$ 768,499	—	$ 794,628	—	$ 840,662	—
Direct Checks	305,637	—	278,348	—	217,378	—
Business Services	204,239	—	189,736	—	181,684	—
All others/unallocated	—	—	—	—	124,074	—
Total	$1,278,375	—	$1,262,712	—	$1,363,798	—
Gross profit	824,557	64.5%	809,689	64.1%	806,023	59.1%
Selling, general and administrative expense	514,369	40.2%	518,245	41.0%	506,490	37.1%
Other operating expense (income)[1]	8,250	0.6%	12,510	1.0%	(28,191)	(2.1)%
Operating income:						
Financial Services	$ 167,721	21.8%	$ 174,276	21.9%	$ 196,156	23.3%
Direct Checks	75,365	24.7%	64,980	23.3%	51,998	23.9%
Business Services	58,852	28.8%	50,363	26.5%	57,909	31.9%
All others/unallocated	—	—	(10,685)	—	21,661	17.5%
Total	$ 301,938	23.6%	$ 278,934	22.1%	$ 327,724	24.0%
On-going operations[2]:						
Revenue from external customers:						
Financial Services	$ 768,499	—	$ 794,628	—	$ 840,662	—
Direct Checks	305,637	—	278,348	—	217,378	—
Business Services	204,239	—	189,736	—	181,684	—
Total	$1,278,375	—	$1,262,712	—	$1,239,724	—
Units (millions)[3]	96.24	—	97.09	—	105.21	—
Revenue per unit	$ 13.28	—	$ 13.01	—	$ 11.78	—
Gross profit	824,557	64.5%	809,689	64.1%	775,479	62.6%
Selling, general and administrative expense	514,369	40.2%	518,245	41.0%	478,425	38.6%
Other operating expense (income)[1]	8,250	0.6%	12,510	1.0%	(9,009)	(0.7)%
Operating income:						
Financial Services	$ 167,721	21.8%	$ 174,276	21.9%	$ 196,156	23.3%
Direct Checks	75,365	24.7%	64,980	23.3%	51,998	23.9%
Business Services	58,852	28.8%	50,363	26.5%	57,909	31.9%
All others/unallocated	—	—	(10,685)	—	—	—
Total	$ 301,938	23.6%	$ 278,934	22.1%	$ 306,063	24.7%

[1] Other operating expense (income) consists of goodwill amortization expense, asset impairment and disposition losses (gains) and gain on sale of business.

[2] 1999 results exclude our collections business which was sold in December 1999. The results of this business for 1999 were (dollars in millions): Revenue from external customers $124.1; Gross profit $30.6; Selling, general and administrative expense $28.1; Other operating income $19.2; and Operating income $21.7.

[3] An equivalent quantity of checks calculated across all check-related product lines. Non-production and accessory products are excluded from the calculation of units.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

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%, while unit volume decreased 0.9%. The increase in revenue resulted from growth in both the Direct Checks and Business Services segments, partially offset by decreased revenue for the Financial Services segment. The following table shows revenue by segment for 2001 and 2000:

	2001		2000	
	Revenue	%	Revenue	%
	(Dollars in thousands)			
Financial Services	$ 768,499	60.1%	$ 794,628	62.9%
Direct Checks	305,637	23.9	278,348	22.1
Business Services	204,239	16.0	189,736	15.0
Total	$ 1,278,375	100.0%	$ 1,262,712	100.0%

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 higher priced products.

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 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.

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.

Gross Profit

Gross profit increased $14.9 million, or 1.8%, to $824.6 million for 2001 from $809.7 million for 2000. As a percentage of revenue, 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 Expense

Selling, general and administrative (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 relating 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 affect 287 employees and are expected to be substantially completed during the first quarter of 2002. 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 attrition and the reversal of early termination payments to a group of employees.

Asset Impairment and Disposition Losses (Gains)

The net losses 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 a portion 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 above 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 web site. 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 a portion of the deferred gain resulting from a 1999 sale-leaseback transaction with an unaffiliated third party.

Interest Expense

Interest expense decreased $5.8 million to $5.6 million for 2001 from $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 our $100.0 million of unsecured and unsubordinated notes which carried interest at 8.55%.

Provision for Income Taxes

Our effective tax rate for 2001 was 37.5% 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 operating income and the decrease in interest expense discussed above.

Diluted Net Income Per Share From Continuing Operations

Diluted net income per share from continuing operations increased to $2.69 for 2001 from $2.34 for 2000. In addition to the increase in income from continuing operations discussed above, our average shares outstanding also decreased significantly 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 repurchased 11.3 million shares. The change in average shares outstanding resulting from the share repurchases, offset by the impact of shares issued under employee stock purchase and incentive plans, resulted in a $0.12 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.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenue

Revenue decreased $101.1 million, or 7.4%, to $1,262.7 million for 2000 from $1,363.8 million for 1999. Our collections business, which was sold in December 1999, had revenue of $124.1 million for 1999. With this revenue excluded from 1999, revenue increased $23.0 million, or 1.9%, in 2000. Revenue per unit increased 10.4%, while unit volume decreased 7.7%. The increase in revenue resulted from growth in both the Direct Checks and Business Services segments, partially offset by decreased revenue for the Financial Services segment. The following table shows revenue by segment for 2000 and 1999:

	2000		1999	
	Revenue	%	Revenue	%
	(Dollars in thousands)			
Financial Services	$ 794,628	62.9%	$ 840,662	61.7%
Direct Checks	278,348	22.1	217,378	15.9
Business Services	189,736	15.0	181,684	13.3
Divested business	—	—	124,074	9.1
Total	$ 1,262,712	100.0%	$ 1,363,798	100.0%

Financial Services revenue decreased $46.1 million, or 5.5%, to $794.6 million for 2000 from $840.7 million for 1999. The decrease was due primarily to the loss of financial institution clients resulting from bank consolidations and competitive pricing which fell below our revenue and profitability per unit targets. Partially offsetting this decrease were price increases, increased financial institution conversion revenue and sales of higher priced products.

Direct Checks revenue increased $60.9 million, or 28.0%, to $278.3 million for 2000 from $217.4 million for 1999. The increase was due to the acquisition of Designer Checks in February 2000 and a price increase. Designer Checks contributed revenue of $55.9 million in 2000. Partially offsetting these increases were fewer new customer acquisitions due to reduced marketing spending.

Business Services revenue increased $8.0 million, or 4.4%, to $189.7 million for 2000 from $181.7 million for 1999. The increase was primarily due to financial institution referrals through which we sell directly to consumers. This allows us to pursue opportunities to sell additional products.

Gross Profit

Gross profit increased $3.7 million, or 0.5%, to $809.7 million for 2000 from $806.0 million for 1999. As a percentage of revenue, gross margin increased to 64.1%

for 2000 from 59.1% for 1999. Excluding our collections business which was sold in December 1999, gross profit increased $34.2 million and our 1999 gross margin percentage was 62.6%. The improvement over 1999 was due to process improvements, the loss of lower margin financial institution clients due to bank consolidations and competitive pricing, and increased revenue per unit. We continued to see cost savings from check printing plant closings, as well as general production efficiencies, including reduced inventory and supplies levels and improved production workflow. The last of the scheduled check printing plant closings was completed during the first quarter of 2000, and two facilities were consolidated into one at the end of the second quarter of 2000.

Selling, General and Administrative Expense

SG&A expense increased $11.7 million, or 2.3%, to $518.2 million for 2000 from $506.5 million for 1999. As a percentage of revenue, SG&A expense increased to 41.0% for 2000 from 37.1% for 1999. Excluding our collections business which was sold in December 1999, SG&A expense increased $39.8 million, or 8.3% in 2000 and our 1999 SG&A expense as a percentage of revenue was 38.6%. The increase in SG&A expense was due to the acquisition of Designer Checks in February 2000, increased spending on e-commerce capabilities for existing businesses, as well as start-up costs relating 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 1999.

Goodwill Amortization Expense

Goodwill amortization expense increased to $5.2 million for 2000 from $0.7 million for 1999. The increase was due to the Designer Checks acquisition in February 2000.

Asset Impairment and Disposition Losses (Gains)

2000 results included asset impairment losses of $9.7 million discussed above under the discussion of 2001 results as compared to 2000, partially offset by gains from capital asset sales and the recognition of a portion of the deferred gain resulting from a 1999 sale-leaseback transaction with an unaffiliated third party. 1999 results included gains from the sales of six closed check printing facilities, as well as a gain of $6.9 million resulting from a sale-leaseback transaction with an unaffiliated third party under which we sold five facilities located in Shoreview, Minnesota and entered into leases for three of the facilities for periods ranging from five to 10 years.

Interest Expense

Interest expense increased $2.8 million to $11.4 million for 2000 as compared to $8.6 million for 1999. This was due to higher levels of borrowings in 2000 than in 1999. During 2000, we had an average of $18.8 million drawn on our lines of credit, as well as an average of $6.2 million of commercial paper outstanding. During 1999, we had an average of $13.8 million drawn on our lines of credit and no commercial paper outstanding.

Provision for Income Taxes

Our effective tax rate for continuing operations was 38.0% for 2000 compared to 36.7% for 1999.

Income From Continuing Operations

Income from continuing operations decreased $34.8 million to $169.5 million for 2000 from $204.3 million for 1999. Our improved gross profit was more than offset by the impact of increased spending on e-commerce initiatives and $9.7 million of asset impairment losses relating to PlaidMoon. Additionally, 1999 results included a $19.8 million gain from the sale of our collections business.

Diluted Net Income Per Share From Continuing Operations

Diluted net income per share from continuing operations decreased to $2.34 for 2000 from $2.65 for 1999. Partially offsetting the decrease in income from continuing operations discussed above, our average shares outstanding also decreased significantly from 1999 due to our 1999 share repurchase program. During 1999, we repurchased 9.5 million shares. The change in average shares outstanding resulting from these share repurchases, offset by the impact of shares issued under employee stock purchase and incentive plans, resulted in a $0.14 increase in 2000 earnings per share as compared to 1999.

Discontinued Operations

Loss from discontinued operations was $7.5 million for 2000 compared to a loss of $1.3 million for 1999. These losses represent 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.

Segment Disclosures

Financial Services Segment

Our Financial Services segment provides checks, related products and program management services on behalf of financial institutions. We sold checks through approximately 10,000 financial institutions during 2001. Additionally, we offer enhanced services to our financial institution clients, such as customized reporting, file management, expedited account conversion support, fraud prevention and check merchandising. The following table shows the results of this segment for the last three years:

	2001	2000	1999
		(Dollars in thousands)	
Revenue	$ 768,499	$ 794,628	$ 840,662
Operating income	167,721	174,276	196,156
% of revenue	21.8%	21.9%	23.3%

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 higher priced products. Financial Services revenue decreased $46.1 million, or 5.5%, to $794.6 million for 2000 from $840.7 million for 1999. The decrease was due primarily to the loss of financial institution clients resulting from bank consolidations and competitive pricing which fell below our revenue and profitability per unit targets. Partially offsetting this decrease were price increases, increased financial institution conversion revenue and sales of higher priced products.

Financial Services operating income decreased $6.6 million, or 3.8%, to $167.7 million for 2001 from $174.3 million for 2000. The $26.1 million decrease in revenue was partially offset by productivity improvements and cost management measures. Operating income decreased $21.9 million, or 11.2%, to $174.3 million for 2000 from $196.2 million for 1999. The $46.1 million revenue decrease was partially offset by process improvements and efficiencies and the loss of lower margin financial institution clients.

Direct Checks Segment

Our Direct Checks segment 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-the-consumer market, including freestanding inserts in newspapers and co-op advertising. We also use e-commerce strategies to direct traffic to our web sites. Our Direct Checks segment sells under the Checks Unlimited and Designer Checks brand names. The following table shows the results of this segment for the last three years:

	2001	2000	1999
		(Dollars in thousands)	
Revenue	$ 305,637	$ 278,348	$ 217,378
Operating income	75,365	64,980	51,998
% of revenue	24.7%	23.3%	23.9%

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 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. Direct Checks revenue increased $60.9 million, or 28.0%, to $278.3 million for 2000 from $217.4 million for 1999. The increase was due to the acquisition of Designer Checks in February 2000 and a price increase. Designer Checks contributed revenue of $55.9 million in 2000. Partially offsetting these increases were fewer new customer acquisitions due to reduced marketing spending.

Direct Checks operating income increased $10.4 million, or 16.0%, to $75.4 million for 2001 from $65.0 million for 2000. The $27.3 million increase in revenue, as well as cost management efforts, were partially offset by increased marketing costs relating to new customer acquisition. Operating income increased $13.0 million, or 25.0%, to $65.0 million for 2000 from $52.0 million for 1999. The $60.9 million revenue increase was partially offset by the operating expenses of Designer Checks, which was acquired in February 2000, and increased spending on e-commerce initiatives.

Business Services Segment

Our Business Services segment sells checks, forms and related products to small offices/home offices on behalf of financial institutions and directly to customers 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 the new account opening. We also use a variety of direct marketing techniques to acquire customers and as part of our e-commerce retailing strategies, we have offered customers access to our

small business web site. The following table shows the results of this segment for the last three years:

	2001	2000	1999
		(Dollars in thousands)	
Revenue	$ 204,239	$ 189,736	$ 181,684
Operating income	58,852	50,363	57,909
% of revenue	28.8%	26.5%	31.9%

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. Business Services revenue increased $8.0 million, or 4.4%, to $189.7 million for 2000 from $181.7 million for 1999. The increase was primarily due to the success of our financial institution referrals program.

Business Services operating income increased $8.5 million, or 16.9%, to $58.9 million for 2001 from $50.4 million for 2000. The $14.5 million increase in revenue, as well as cost management efforts, were partially offset by increased commissions relating to our financial institution referral program. Operating income decreased $7.5 million, or 13.0%, to $50.4 million for 2000 from $57.9 million for 1999. The $8.0 million revenue increase was offset by commissions relating to our financial institution referral program, as well as increased spending on e-commerce initiatives.

Liquidity, Capital Resources and Financial Condition

As of December 31, 2001, we had cash and cash equivalents of $9.6 million. The following table shows our cash flow activity for the last three years and should be read in conjunction with our consolidated statements of cash flows:

	Year Ended December 31,		
	2001	2000	1999
		(Dollars in thousands)	
Continuing operations:			
Net cash provided by operating activities	$ 270,623	$ 253,572	$ 221,237
Net cash (used) provided by investing activities	(13,497)	(96,141)	72,637
Net cash used by financing activities	(328,287)	(168,774)	(337,287)
Net cash used by continuing operations	(71,161)	(11,343)	(43,413)
Net cash used by discontinued operations	—	(32,360)	(97,981)
Net decrease in cash and cash equivalents	$ (71,161)	$ (43,703)	$ (141,394)

During 2001, net cash provided by operating activities of $270.6 million was primarily generated by earnings before interest, taxes, depreciation and amortization of intangibles (EBITDA[1]) of $374.7 million, increases in accounts payable and miscellaneous operating expense accruals and a reduction in trade accounts receivable. These operating cash inflows were utilized primarily to fund income tax payments of $107.0 million and contract acquisition payments made to our financial institution clients. 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 stock issued under employee stock purchase and incentive plans enabled us to spend $345.4 million on share repurchases, to make payments on long-term debt of $101.6 million, to pay dividends of $101.8 million and to purchase capital assets of $28.8 million.

During 2000, net cash provided by operating activities of $253.6 million was primarily generated by EBITDA of $348.7 million and a $16.8 million reduction in trade accounts receivable. We were able to increase the level of trade accounts receivable settled via Automated Clearing House (ACH) processing, resulting in quicker collection of receivables. Partially offsetting these cash inflows were income tax payments of $93.6 million and reductions in accounts payable and miscellaneous operating expense accruals. Net cash provided by operating activities during 2000, cash on hand at December 31, 1999, and $47.0 million of cash generated through sales of capital assets and the collection of a loan receivable enabled us to pay dividends of $107.2 million, to acquire Designer Checks for $96.0 million, to payoff short-term debt of $60.0 million, to purchase capital assets of $48.5 million and to fund $32.4 million to our discontinued operations.

We believe that important measures of our financial strength are the ratios of earnings before interest and taxes (EBIT) to interest expense and free cash flow to debt. Free cash flow represents net cash provided by operating activities of continuing operations less purchases of capital assets and cash dividends paid to shareholders. EBIT to interest expense was 53.9 times for 2001, 24.5 times for 2000 and 37.7 times for 1999. Our committed and uncommitted lines of credit contain covenants requiring a minimum EBIT to interest expense ratio of 2.5 times. 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 decrease in

[1] EBITDA, which is not a measure of financial performance or liquidity under generally accepted accounting principles, is provided because it is used by certain investors when analyzing our financial position and performance. Because of the variety of methods used by companies and analysts to calculate EBITDA, and the fact that EBITDA calculations may not accurately measure a company's ability to meet debt service requirements, caution should be used in relying on any EBITDA presentation. We see value in disclosing EBITDA for the financial community and believe that an increasing EBITDA depicts increased ability to attract financing and increased valuation of our business.

2000, as compared to 1999, was a result of higher interest expense in 2000 due to higher debt levels and lower EBIT in 2000 due to increased spending on e-commerce initiatives, asset impairment losses and a gain from the sale of our collections business in 1999. Free cash flow to debt was 86.8% for 2001, 88.3% for 2000 and 17.7% for 1999. The decrease in 2001, as compared to 2000, was due to the higher level of debt as of December 31, 2001 as compared to December 31, 2000, as a result of cash required 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 above under Results of Operations. The increase in 2000, as compared to 1999, was due primarily to a $67.0 million increase in free cash flow in 2000 due to the lower level of capital asset purchases, severance payments and dividends in that year.

We currently have a $300.0 million commercial paper program in place. Our commercial paper program carries a credit rating of A1/P1. We believe that the risk of a downgrade of our short-term credit rating is low. If for any reason we were unable to access the commercial paper markets, we would rely on our committed line of credit for liquidity. 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%. The average amount of commercial paper outstanding during 2000 was $6.2 million at a weighted-average interest rate of 6.56%. There was no outstanding commercial paper at December 31, 2000. The average period our commercial paper issuances were outstanding was four days during 2001 and five days during 2000.

We currently have available $350.0 million under a committed line of credit which expires in August 2002 and $50.0 million under an uncommitted line of credit. The committed line of credit supports our commercial paper program and is available for borrowing. We expect to be able to renew this line during 2002 at generally the same terms. The commitment fee on this line is seven basis points. The agreements which govern both the committed and uncommitted lines of credit contain customary covenants regarding EBIT to interest expense coverage and levels of subsidiary indebtedness. The risk of violating our financial covenants is low. During 2001, no amounts were drawn on our committed line of credit. The average amount drawn on this line during 2000 was $18.8 million at a weighted-average interest rate of 6.26%. As of December 31, 2001 and 2000, no amounts were outstanding under the committed line of credit. The average amount drawn on the uncommitted line of credit during 2001 was $1.3 million at a weighted-average interest rate of 4.26%. The average amount drawn on these lines during 2000 was $33,000 at a weighted-average interest rate of 6.38%. As of December 31, 2001 and 2000 there was no outstanding balance under our uncommitted line of credit.

We have a shelf registration in place for the issuance of up to $300.0 million in medium-term notes. These notes could be used for general corporate purposes, including working capital, capital asset purchases, possible acquisitions and repayment or repurchase of outstanding indebtedness and other securities of Deluxe. As of December 31, 2001 and 2000, no such notes were issued or outstanding.

As of December 31, 2001, our minimum contractual cash commitments were as follows:

	Total	2002	2003	2004	2005	2006	Thereafter
				(Dollars in thousands)			
Capital lease obligations	$ 16,271	$ 2,473	$ 2,567	$ 1,897	$ 1,897	$ 1,924	$ 5,513
Operating lease obligations	18,980	6,144	5,158	6,260	390	178	850
Other contractual cash commitments	110,804	69,691	25,766	12,309	3,038	—	—
Total	$ 146,055	$ 78,308	$ 33,491	$ 20,466	$ 5,325	$ 2,102	$ 6,363

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. 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.

Other contractual cash commitments represent the minimum cash committed under contracts with third party service providers. These contracts are primarily for information technology services, including software development and support services, and personal computer, asset management, telecommunications, network server and help desk services. Included in these amounts are contracts which were executed in conjunction with the spin-off of eFunds. The contracts with eFunds, which account for approximately 35% of our total other contractual cash commitments, 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.

Also in conjunction with the spin-off of eFunds, 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, and from certain future losses on identified loss contracts. The maximum contractual amount of litigation and contract losses for which we will indemnify eFunds is $14.6 million. Through December 31, 2001, 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 at this time that any payment will occur.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are 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 we use 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 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, restructuring charges, litigation, environmental and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be 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. These estimates and judgments 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 our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Long-lived Assets

As of December 31, 2001, we had property, plant and equipment, including assets held for sale, of $151.1 million, intangible assets of $114.9 million and goodwill of $82.2 million. In addition to the original cost of these assets, their recorded value is impacted by a number of policy elections, including estimated useful lives, depreciation or amortization methodologies, 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. 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 one to 10 years. 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 will no longer amortize goodwill, but instead will test goodwill for impairment on at least an annual basis.

We periodically evaluate the recoverability of property, plant, equipment and identifiable intangibles not held for sale by measuring the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. When the asset being evaluated was acquired in a purchase business combination in which goodwill was recorded, a pro rata portion of the goodwill value is included in the carrying amount of the asset. This pro rata portion of goodwill is based on the relative fair values at the date of acquisition of the long-lived assets and identifiable intangibles acquired. 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 pro rata portion of any goodwill allocated to the asset would be eliminated before recording any reduction of the original carrying amount of the asset.

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. If a large segment or separable group of assets which were acquired in a purchase business combination are held for sale, all of the unamortized goodwill associated with those assets is included in the carrying amount of the assets for purposes of this evaluation. Should the fair value less costs to sell be less than the carrying value of the long-lived asset(s), an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset(s) exceeds the fair value of the asset(s) less costs to sell. The unamortized goodwill associated with those assets would be eliminated before recording any reduction in the original carrying value of the asset(s).

We evaluate the carrying value of goodwill at an enterprise level when events or changes in circumstances at the businesses to which the goodwill relates indicate that the carrying amount may not be recoverable. Such circumstances could include, but are not limited to, (1) a current period operating or cash flow loss combined with a history of operating or cash flow losses, (2) a forecast that demonstrates continuing losses, (3) a significant adverse change in legal factors or in business climate, or (4) an adverse action or assessment by a regulator. In evaluating the recoverability of enterprise goodwill, we measure the carrying amount of the goodwill against the estimated undiscounted future net cash flows of the businesses to which the goodwill relates. In determining the future net cash flows, we look to historical results and current forecasts. The estimated net cash flows include the effects of income tax payments and interest charges. Should the sum of the expected future net cash flows be less than the carrying value of the goodwill, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the net book value of the related businesses exceeds the fair value of these businesses.

Contract Acquisition Costs

We capitalize certain contract acquisition costs related to signing or renewing contracts with our financial institution clients. These prepaid discounts, which primarily consist of cash payments made to the financial institutions, are amortized as a reduction of revenue on the straight-line basis over the related contract term. Currently, these amounts are being amortized over periods ranging from one to six years. 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.

Deferred Advertising Costs

Deferred advertising costs include materials, printing, separations and postage. These costs are amortized over periods (averaging 18 months) that correspond to the estimated revenue streams of the individual advertisements. The actual revenue streams are analyzed annually to monitor the propriety of the amortization periods. 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.

Post-retirement Benefits

Our post-retirement benefit costs and liabilities are calculated utilizing various actuarial assumptions and methodologies. These calculations are based on many assumptions including, but not limited to, the discount rate, the expected return on plan assets and the expected health care cost trend rate. The discount rate assumption is based upon 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 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. If the assumptions utilized in determining our post-retirement benefit costs and liabilities differ from actual events, our results of operations for future periods could be impacted.

Restructuring Charges

Over the past several years, we have recorded significant restructuring charges as a result of check printing plant closings, technological advances and cost management efforts. The primary component of these charges has been employee termination benefits. We record charges for employee termination benefits in the period management approves the plan, provided all of the following conditions are met: (1) management has the appropriate level of authority to involuntarily terminate employees, commits the company to the plan of termination and establishes the benefits that current employees will receive upon termination, (2) the termination

benefit arrangement is communicated to employees in sufficient detail to allow them to determine the benefits they would receive if terminated, (3) the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions and their locations and (4) the period of time to complete the plan of termination indicates that significant changes to the plan are not likely.

Management is required to make estimates and assumptions in calculating restructuring charges, as many times employees choose to voluntarily leave the company prior to their termination date, and thus, they receive no termination benefits. To the extent management's assumptions and estimates differ from actual employee behavior, subsequent adjustments to restructuring charges may be required.

Litigation

We are parties in legal actions and claims arising in the ordinary course of business and have recorded expenses 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.

Environmental

We are currently involved in environmental compliance, investigation and remediation activities at some of our current and former sites. Remediation costs are accrued on an undiscounted basis when the obligations are either known or considered probable and can be reasonably estimated. Accrued costs consist of direct costs of the remediation activities, primarily fees paid to outside engineering and consulting firms. Based upon information presently available, we believe that our accruals for future environmental costs are adequate. 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. 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.

Income Taxes

As part of the process of 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 us 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 sheet. 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 management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

As of December 31, 2001, we had net capital loss carryforwards of $27.0 million which expire in 2003. We have concluded that it is more likely than not that there will be sufficient future capital gains to fully utilize this loss carryforward. Thus, no tax valuation allowance has been recorded. Should we fail to generate a sufficient amount of capital gains to fully utilize this loss carryforward, additional tax expense could be recognized in our consolidated financial statements.

Recent Developments

In January 2001, we announced that our board of directors approved a stock repurchase program, authorizing the repurchase of up to 14 million shares of Deluxe common stock. At that time, we announced that we expected to complete these repurchases over a 12- to 18-month period. As part of the 14 million share repurchase program, in May 2001, we adopted a plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. This plan has been extended into 2002 and permits us to purchase shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the days or weeks immediately preceding our quarterly earnings releases.

Under the share repurchase program, we spent $345.4 million to repurchase 11.3 million shares through December 31, 2001. Our shareholders' equity declined from $262.8 million at December 31, 2000 to $78.6 million at December 31, 2001, primarily as a result of these share repurchases. The required accounting treatment for the repurchases is to reduce shareholders' equity. We funded these repurchases by

utilizing cash generated from operations and by issuing commercial paper. As of December 31, 2001, $150.0 million of commercial paper was outstanding. The market value of Deluxe was approximately $2.7 billion as of December 31, 2001, calculated at the December 31, 2001 closing market price of $41.58 per share with 64.1 million shares outstanding.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No.141, *Business Combinations*, which addresses accounting and financial reporting for business combinations. We adopted this statement in its entirety on January 1, 2002. The adoption of this statement had no impact on our results of operations or financial position and resulted in no adjustment to previously recorded intangibles or goodwill.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which addresses accounting and financial reporting for goodwill and intangible assets. 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. We adopted this statement in its entirety on January 1, 2002. Other than goodwill, we have no intangible assets with indefinite lives. As of December 31, 2001, the net book value of goodwill was $82.2 million. Goodwill amortization expense reflected in continuing operations was $6.2 million in 2001, $5.2 million in 2000 and $0.7 million in 1999. The results of operations for future periods will not include this amortization expense. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position.

The following pro forma information reflects our results of operations as they would have appeared had we not recorded goodwill amortization and its related tax effects:

	2001	2000	1999
		(Dollars in thousands, except per share amounts)	
Reported income from continuing operations	$ 185,900	$ 169,472	$ 204,321
Add back: Goodwill amortization	3,979	3,311	726
Adjusted income from continuing operations	$ 189,879	$ 172,783	$ 205,047
Diluted earnings per share:			
Reported income from continuing operations	$ 2.69	$ 2.34	$ 2.65
Add back: Goodwill amortization	.06	.05	.01
Adjusted income from continuing operations	$ 2.75	$ 2.39	$ 2.66

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. We adopted this statement on January 1, 2002. Adoption of this statement did not have an impact on our results of operations or financial position.

In December 2001, our board of directors approved certain changes to our employee stock purchase plan which became effective as of February 1, 2002. The changes were made with a view toward qualifying the plan as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code. To secure qualified status for the plan, we will be presenting the plan to the shareholders for approval at the May shareholders meeting. Purchases under the plan are now made semi-annually, rather than quarterly. Beginning with purchases made on July 31, 2002, employees will 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 Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, under the new plan we will no longer recognize compensation expense for the difference between the employees’ purchase price and the fair value of the stock. Compensation expense recognized in continuing operations for our previous employee stock purchase plan was $1.2 million in 2001, $1.8 million in 2000 and $4.1 million in 1999.

Effective January 1, 2002, we eliminated retiree medical benefits for all new employees. This change had no impact on current retirees or those employed with the company as of December 31, 2001. Over time, this change will result in lower expense for our post-retirement health care plan.

Outlook

As of December 31, 2001, the slowdown in the United States economy had limited impact on our results of operations. We do not expect to see a significant impact in 2002, assuming no further deterioration in the economy. While we cannot predict what impact a prolonged war on terrorism will have on the United States economy, our plan is to manage expenses, continue to invest in our business and purchase capital assets when they will reduce operating costs, increase productivity or profitably increase revenue.

While the check printing industry is mature, our existing leadership position in the marketplace contributes to our financial strength. The Federal Reserve

Bank Payment Study released in 2001 indicates that checks remain consumers' most preferred method of non-cash payment. While we do expect checks written to continue to decline, taking this preference into consideration, we expect to see both revenue and profit growth opportunities in the years ahead as we focus on adding value to our customers and clients and investing in new check and non-check product initiatives.

We expect revenue for 2002 to be up slightly as compared to 2001. We did obtain additional financial institution business in the last half of 2001, which we should see the benefit of in the first half of 2002. Our Financial Services segment will also be focusing on closing consumers' "preference gap." Many consumers purchase our basic check product without decorative backgrounds, monograms or personalized slogans. When these consumers are made aware of all the other options available to them, they frequently choose another check style which increases our revenue and profit per unit. Additionally, we anticipate continued growth for our direct-to-consumer businesses as we continue to expand our Internet presence and focus on new product innovations and customer retention. These increases are expected to be offset by overall decline in the check printing industry and the competitive pricing pressure we continue to face in the Financial Services segment.

We expect 2002 income from continuing operations to also be up slightly from 2001. We anticipate that increases in revenue and savings from cost management measures will be partially offset by increased delivery costs, investments in new product initiatives and higher interest expense due to cash required for our share repurchase plan. Additionally, we expect expense for our post-retirement health care plan to increase approximately $5.0 million in 2002, compared to 2001. This is due primarily to increasing medical costs and the downturn in the United States stock market in the last half of 2001. 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 significantly during 2001, the expected return on these assets for 2002 is expected to be much lower than in previous years. We anticipate our 2002 effective tax rate to be 38.0%.

Because of the current attractiveness of short-term interest rates, we anticipate utilizing our commercial paper program, along with cash generated from operations, to fund planned share repurchases, dividend payments, capital asset purchases, additional contract acquisition payments related to signing or renewing contracts with financial institutions and new product initiatives in 2002.

We currently anticipate completing our 2001 share repurchase program during 2002. If the remaining 2.7 million shares available for purchase under our share repurchase program are purchased within the 12- to 18-month timeframe originally anticipated, our reported 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 ratios of EBIT to interest expense and free cash flow to debt, we would not expect our borrowing capacity to be negatively impacted.

We expect to spend approximately $40.0 million on capital assets during 2002. Approximately half is expected to be devoted to maintenance of our businesses with the remainder targeted for strategic initiatives to drive revenue growth or reduce costs. 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 business strategy. Our strategy is to:

- Leverage our core competencies of personalization, direct marketing and e-commerce to expand the opportunities in our existing businesses.

- Invest in our existing businesses by adding services and expanding product offerings.

- Consider acquisitions expected to leverage our core competencies and be accretive to earnings and cash flow per share.

- Invest in technology and processes that will lower our cost structure and enhance our revenue opportunities.

In line with this strategy, we have expanded our product offerings by introducing new licensed check designs such as Disney. Additionally, both Direct Checks and Business Services have had success in leveraging our e-commerce capabilities. Internet orders for Direct Checks increased 73% during 2001 as compared to 2000, while Business Services' Internet orders increased 94% during the same period.

We continue to invest in our businesses, particularly as it relates to our use of the Internet. Currently we are developing a browser based application solution to allow financial institution clients to inquire and purchase our check products from their desktops. The software modifications, upgrades, fixes, etc. will be provided remotely, allowing our clients ease of use. Additionally, we are continuing to build an electronic order processing capability for multiple channels. We expect that we

will be able to increase consumer satisfaction, both with us and our financial institution clients, and sell products which result in higher revenue and profit per unit by interacting directly with consumers in all of our businesses. We also anticipate investing in new, non-check product offerings that closely leverage our core competencies.

We will also continue to invest in areas of the business where we can reduce costs and increase productivity. For example, we have tested a concept called cellular manufacturing in our check printing facilities. Within the cellular manufacturing environment, a group of employees work 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 see an improvement in quality, performance and output levels. By the end of 2002, we expect to convert almost all of our Financial Services check printing facilities to cellular manufacturing.

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "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 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 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, which 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 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 99.1 to our Form 10-K for the year ended December 31, 2001, 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. During 2001, we did not engage in speculative transactions nor did we hold or issue financial instruments for trading purposes. We continue to utilize commercial paper to fund working capital requirements and share repurchases. We also have various lines of credit available, as well as a shelf registration for the issuance of up to $300.0 million in medium-term notes. The nature and amount of debt outstanding can be expected to vary as a result of future business requirements, market conditions and other factors. As of December 31, 2001, we had $150.0 million of commercial paper outstanding at a weighted-average interest rate of 1.85%. The carrying value of this debt approximates its fair value due to its short-term duration. 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 $0.9 million in 2001, $0.3 million in 2000, and $0.3 million in 1999. Other than capital lease obligations, we had no long-term debt outstanding as of December 31, 2001.

As of December 31, 2001, our investment portfolio consisted of only one government agency debt security with a cost and fair value of $5.1 million. Due to its short-term duration, it was classified as cash and cash equivalents on the December 31, 2001 consolidated balance sheet. This security, like all fixed income instruments, is subject to interest rate risk and would decline in value if market interest rates increase. However, we held this fixed income investment until maturity and therefore did not recognize an adverse impact on income or cash flows.

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. These systems produce records adequate for preparation of financial information. We believe our systems are effective, and the costs of the systems do not exceed the benefits obtained.

The audit committee of the board of directors has reviewed the financial data included in this report. The audit committee is composed entirely of outside directors and meets periodically with our internal auditors, management and the independent public accountants on financial reporting matters. The independent public accountants have free access to meet with the audit committee, without the presence of management, to discuss their audit results and opinions on the quality of financial reporting.

The role of the independent public 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.

Deluxe recognizes its responsibility for conducting its affairs according to the highest standards of personal and corporate conduct.

By: /s/ LAWRENCE J. MOSNER

Chairman of the Board of Directors
and Chief Executive Officer

By: /s/ DOUGLAS J. TREFF

Senior Vice President
and Chief Financial Officer

January 25, 2002

FIVE-YEAR SUMMARY

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars in thousands, except per share amounts)				
STATEMENT OF INCOME DATA:					
Revenue	$ 1,278,375	$ 1,262,712	$ 1,363,798	$ 1,673,715	$ 1,699,086
As a percentage of revenue:					
Gross profit	64.5%	64.1%	59.1%	56.3%	55.3%
Selling, general and administrative expense	40.2%	41.0%	37.1%	40.7%	41.3%
Operating income	23.6%	22.1%	24.0%	15.1%	8.9%
Earnings before interest, taxes, depreciation and amortization of intangibles	374,732	348,682	384,990	319,353	204,849
Earnings before interest and taxes	300,750	280,112	323,949	257,199	146,454
Income from continuing operations	185,900	169,472	204,321	153,566	69,034
Per share—basic	2.72	2.34	2.66	1.90	0.84
Per share—diluted	2.69	2.34	2.65	1.90	0.84
Cash dividends per share	1.48	1.48	1.48	1.48	1.48
BALANCE SHEET DATA:					
Return on average assets	31.1%	20.5%	20.2%	13.2%	4.0%
Total assets	537,721	656,274	921,822	1,090,309	1,080,516
Long-term debt	10,084	10,201	111,945	102,291	105,415
Total debt	161,465	110,873	174,407	108,133	110,744
STATEMENT OF CASH FLOWS DATA:					
Net cash provided by operating activities of continuing operations	270,623	253,572	221,237	265,130	261,481
Purchases of capital assets	28,775	48,483	76,795	90,807	91,515
Free cash flow(1)	140,075	97,894	30,907	54,641	48,645
Debt to earnings before interest, taxes, depreciation and amortization of intangibles	0.4	0.3	0.5	0.3	0.5
Earnings before interest and taxes to interest expense	53.9	24.5	37.7	30.1	20.1
Free cash flow to debt	86.8%	88.3%	17.7%	50.5%	43.9%
OTHER DATA:					
Units (millions)(2) (3)	96.24	97.09	105.21	111.85	— (4)
As of year-end:					
Number of employees—continuing operations	6,840	7,800	8,900	13,260	16,910
Number of production facilities(2)	13	13	13	16	21
Number of teleservice facilities(2)	7	7	6	10	20

(1) Net cash provided by operating activities of continuing operations less purchases of capital assets and cash dividends paid to shareholders.

(2) Information excludes divested businesses.

(3) An equivalent quantity of checks calculated across all check-related product lines. Non-production and accessory products are excluded from the calculation of units.

(4) Information is not available.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
	(Dollars in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,571	$ 80,732
Marketable securities	—	18,458
Trade accounts receivable-net	37,703	46,005
Inventories	11,192	11,309
Supplies	11,071	11,830
Deferred income taxes	4,574	7,403
Prepaid expenses	3,108	5,023
Other current assets	6,753	6,997
Total current assets	83,972	187,757
LONG-TERM INVESTMENTS	37,661	35,555
PROPERTY, PLANT, AND EQUIPMENT—NET	149,552	170,516
PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE—NET	1,517	3,440
INTANGIBLES—NET	114,856	134,373
GOODWILL—NET	82,237	88,425
OTHER NON-CURRENT ASSETS	67,926	36,208
Total assets	$ 537,721	$ 656,274
CURRENT LIABILITIES:		
Accounts payable	$ 52,834	$ 44,692
Accrued liabilities:		
Wages, including vacation pay	26,513	24,840
Employee profit sharing and pension	29,734	21,194
Accrued income taxes	39,426	37,234
Accrued rebates	24,923	24,968
Other	42,313	40,286
Short-term debt	150,000	—
Long-term debt due within one year	1,381	100,672
Total current liabilities	367,124	293,886
LONG-TERM DEBT	10,084	10,201
DEFERRED INCOME TAXES	44,890	51,070
OTHER LONG-TERM LIABILITIES	37,018	38,309
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
SHAREHOLDERS' EQUITY:		
Common shares $1 par value (authorized: 500,000,000 shares; issued: 2001 — 64,101,957; 2000 — 72,555,474)	64,102	72,555
Additional paid-in capital	—	44,243
Retained earnings	14,563	146,243
Unearned compensation	(60)	(60)
Accumulated other comprehensive income	—	(173)
Total shareholders' equity	78,605	262,808
Total liabilities and shareholders' equity	$ 537,721	$ 656,274

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands, except per share amounts)		
REVENUE	$ 1,278,375	$ 1,262,712	$ 1,363,798
Cost of goods sold	453,818	453,023	557,775
GROSS PROFIT	824,557	809,689	806,023
Selling, general and administrative expense	514,369	518,245	506,490
Goodwill amortization expense	6,188	5,201	726
Asset impairment and disposition losses (gains)	2,062	7,309	(9,147)
Gain on sale of business	—	—	(19,770)
OPERATING INCOME	301,938	278,934	327,724
Interest expense	(5,583)	(11,436)	(8,589)
Interest income	2,367	4,753	7,222
Other income (expense)	(1,188)	1,178	(3,775)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	297,534	273,429	322,582
Provision for income taxes	111,634	103,957	118,261
INCOME FROM CONTINUING OPERATIONS	185,900	169,472	204,321
DISCONTINUED OPERATIONS:			
Income (loss) from operations (net of income tax expense of $5,173 and $3,372, respectively)	—	5,229	(1,299)
Costs of spin-off (net of income tax benefit of $4,021)	—	(12,765)	—
LOSS FROM DISCONTINUED OPERATIONS	—	(7,536)	(1,299)
NET INCOME	$ 185,900	$ 161,936	$ 203,022
BASIC NET INCOME PER SHARE:			
Income from continuing operations	$ 2.72	$ 2.34	$ 2.66
Loss from discontinued operations	—	(0.10)	(0.01)
Basic net income per share	$ 2.72	$ 2.24	$ 2.65
DILUTED NET INCOME PER SHARE:			
Income from continuing operations	$ 2.69	$ 2.34	$ 2.65
Loss from discontinued operations	—	(0.10)	(0.01)
Diluted net income per share	$ 2.69	$ 2.24	$ 2.64
CASH DIVIDENDS PER SHARE	$ 1.48	$ 1.48	$ 1.48

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
NET INCOME	$ 185,900	$ 161,936	$ 203,022
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Foreign currency translation adjustments	—	867	(555)
Unrealized gains on securities:			
Unrealized holding gains arising during the year	417	728	4
Less reclassification adjustments for gains included in net income	(244)	(486)	(489)
Other comprehensive income (loss)	173	1,109	(1,040)
COMPREHENSIVE INCOME	$ 186,073	$ 163,045	$ 201,982
RELATED TAX BENEFIT (EXPENSE) OF OTHER COMPREHENSIVE INCOME (LOSS):			
Foreign currency translation adjustments	$ —	$ 132	$ 333
Unrealized gains on securities:			
Unrealized holding gains arising during the year	(225)	(392)	(2)
Less reclassification adjustments for gains included in net income	131	262	263

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
		(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 185,900	$ 161,936	$ 203,022
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations	—	7,536	1,299
Depreciation	30,605	33,375	41,786
Amortization of intangibles and goodwill	43,377	35,195	19,255
Asset impairment and disposition losses (gains)	2,062	7,309	(9,147)
Gain on sale of business	—	—	(19,770)
Deferred income taxes	(3,441)	(679)	54,948
Other non-cash items, net	13,857	6,501	10,251
Changes in assets and liabilities, net of effects from acquisition, sale of business and discontinued operations:			
Trade accounts receivable	8,301	16,767	20,277
Inventories	117	2,207	381
Accounts payable	6,425	(11,906)	2,178
Accrued wages, employee profit sharing and pension	9,317	(5,866)	(17,602)
Restructuring accruals	111	(11,834)	(32,596)
Other assets and liabilities	(26,008)	13,031	(53,045)
Net cash provided by operating activities of continuing operations	270,623	253,572	221,237
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of marketable securities	48,608	47,627	32,775
Purchases of marketable securities	(30,000)	(40,000)	(17,915)
Proceeds from sales of capital assets	1,469	14,469	65,663
Purchases of capital assets	(28,775)	(48,483)	(76,795)
Payment for acquisition, net of cash acquired	—	(95,991)	—
Net proceeds from sales of businesses, net of cash sold	—	—	99,475
Loan to others	—	32,500	(32,500)
Other	(4,799)	(6,263)	1,934
Net cash (used) provided by investing activities of continuing operations	(13,497)	(96,141)	72,637
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (payments) on short-term debt	150,000	(60,000)	60,000
Payments on long-term debt	(101,556)	(794)	(5,793)
Change in book overdrafts	1,718	(8,849)	6,325
Payments to retire shares	(345,399)	—	(313,492)
Proceeds from issuing shares under employee plans	68,723	8,064	29,208
Cash dividends paid to shareholders	(101,773)	(107,195)	(113,535)
Net cash used by financing activities of continuing operations	(328,287)	(168,774)	(337,287)
NET CASH USED BY DISCONTINUED OPERATIONS	—	(32,360)	(97,981)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,161)	(43,703)	(141,394)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR	80,732	124,435	265,829
END OF YEAR	$ 9,571	$ 80,732	$ 124,435
SUPPLEMENTAL INFORMATION— CONTINUING OPERATIONS:			
Interest paid	$ 9,036	$ 12,169	$ 8,329
Income taxes paid	$ 106,951	$ 93,593	$ 62,793

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 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 $12.7 million as of December 31, 2001 and $11.0 million as of December 31, 2000.

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 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.

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, 2001 and 2000, long-term investments consist of cash surrender values of insurance contracts and other long-term investments. These investments are carried at cost or amortized cost which approximates their fair values.

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 with 40-year lives and machinery and equipment with lives of three to 11 years 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 and are currently holding for sale the facilities which were vacated. These assets are stated at historical cost. As a result of sales of these facilities, we recognized net gains of $30,000 in 2001, $1.1 million in 2000 and $2.9 million in 1999. These amounts are included in asset impairment and disposition losses (gains) in the consolidated statements of income.

Intangibles

Intangible assets, which consist principally of internal-use software and a customer name list, are stated at historical cost. Amortization expense is generally determined on the straight-line basis over periods of one to 10 years.

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 of 15 to 30 years. On January 1, 2002, we adopted Statement of Financial Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under this new statement, we will no longer amortize goodwill, but instead will test goodwill for impairment on at least an annual basis.

Capitalization of Internal-use Software

We capitalize costs of software developed or obtained for internal use 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. 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.

Web Site Development Costs

We capitalize costs associated with the development of web sites in accordance with our policy on capitalization of internal-use software. Costs incurred in populating the site with information about the company or products available to customers are expensed as incurred.

Impairment of Long-Lived Assets and Intangibles

We periodically evaluate the recoverability of property, plant, equipment and identifiable intangibles not held for sale by measuring the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. When the asset being evaluated was acquired in a purchase business combination in which goodwill was recorded, a pro rata portion of the goodwill value is included in the carrying amount of the asset. This pro rata portion of goodwill is based on the relative fair values at the date of acquisition of the long-lived assets and identifiable intangibles acquired. 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 pro rata portion of any goodwill allocated to the asset would be eliminated before recording any reduction of the original carrying amount of the asset.

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. If a large segment or separable group of assets which were acquired in a purchase business combination are held for sale, all of the unamortized goodwill associated with those assets is included in the carrying amount of the assets for purposes of this evaluation. Should the fair value less costs to sell be less than the carrying value of the long-lived asset(s), an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset(s) exceeds the fair value of the asset(s) less the costs to sell. The unamortized goodwill associated with those assets would be eliminated before recording any reduction in the original carrying value of the asset(s).

We evaluate the carrying value of goodwill at an enterprise level when events or changes in circumstance at the businesses to which the goodwill relates indicate that the carrying amount may not be recoverable. Such circumstances could include, but are not limited to, (1) a current period operating or cash flow loss combined with a history of operating or cash flow losses, (2) a forecast that demonstrates continuing losses, (3) a significant adverse change in legal factors or in business climate, or (4) an adverse action or assessment by a regulator. In evaluating the recoverability of enterprise goodwill, we measure the carrying amount of the goodwill against the estimated undiscounted future net cash flows of the businesses to which the goodwill relates. In determining the future net cash flows, we look to historical results and current forecasts. The estimated net cash flows include the effects of income tax payments and interest charges. Should the sum of the expected future net cash flows be less than the carrying value of the goodwill, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the net book value of the related businesses exceeds the fair value of these businesses.

Deferred Advertising Costs

Deferred advertising costs include materials, printing, separations and postage required to produce newspaper and magazine inserts, direct mail advertisements and catalogs for products sold directly to consumers. These costs are amortized over periods (averaging 18 months) that correspond to the estimated revenue streams of the individual advertisements. The actual revenue streams are analyzed annually to monitor the propriety of the amortization periods. 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. Sales materials are charged to expense when no longer owned or expected to be used. Deferred advertising is included in other non-current assets on the consolidated balance sheets. Costs of nondirect response advertising are expensed as incurred. The total amount of advertising expense for continuing operations was $71.6 million in 2001, $67.6 million in 2000 and $49.8 million in 1999.

Contract Acquisition Costs

We capitalize certain contract acquisition costs related to signing or renewing contracts with our financial institution clients. These prepaid discounts, which primarily consist of cash payments made to the financial institutions, are amortized as a reduction of revenue on the straight-line basis over the related contract term. Currently, these amounts are being amortized over periods ranging from one to six years. 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.

Restructuring Charges

Over the past several years, we have recorded significant restructuring charges as a result of check printing plant closings, technological advances and cost management efforts. The primary component of these charges has been employee termination benefits. We record charges for employee termination benefits in the period management approves the plan, provided all of the following conditions are met: (1) management has the appropriate level of authority to involuntarily terminate employees, commits the company to the plan of termination and establishes the benefits that current employees will receive upon termination, (2) the termination benefit arrangement is communicated to employees in sufficient detail to allow them to determine the benefits they would receive if terminated, (3) the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions and their locations and (4) the period of time to complete the plan of termination indicates that significant changes to the plan are not likely.

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.

Revenue Recognition

We record revenue for the majority of our operations as 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.

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 and record a liability reflected as accrued rebates on the consolidated balance sheets. Since the rebate amounts are determined when the contract is entered into, reductions of revenue are recorded when the related revenue is recorded.

At times we also sell products at discounted prices, issue coupons and provide free products to customers when they purchase a specified product. The discount and coupon amounts 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 our employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation cost has been recognized for fixed stock options issued under our stock incentive plan. We disclose pro forma net income and net income per share as if the fair value method of SFAS No. 123 had been used (see Note 10).

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, foreign currency translation adjustments and unrealized gains and losses on securities. The foreign currency translation adjustments and unrealized gains and losses on securities are reflected as accumulated other comprehensive income in the consolidated balance sheets and in the shareholders' equity statement presented in Note 14.

Reclassifications

Certain amounts reported in 2000 and 1999 have been reclassified to conform with the 2001 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 management 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 management's best efforts. However, actual results can differ from assumed and estimated amounts.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, which addresses accounting and financial reporting for business combinations. We adopted this statement in its entirety on January 1, 2002. The adoption of this statement had no impact on our results of operations or financial position and resulted in no adjustment to previously recorded intangibles or goodwill.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which addresses accounting and financial reporting for goodwill and intangible assets. 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. We adopted this statement in its entirety on January 1, 2002. Other than goodwill, we have no intangible assets with indefinite lives. As of December 31, 2001, the net book value of goodwill was $82.2 million. Goodwill amortization expense reflected in continuing operations was $6.2 million in 2001, $5.2 million in 2000 and $0.7 million in 1999. The results of operations for future periods will not include this amortization expense. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position.

The following unaudited, pro forma supplemental information is presented due to our adoption of SFAS No. 142 on January 1, 2002. It reflects our results of operations as they would have appeared had we not recorded goodwill amortization and its related tax effects. Reported net income in 2000 and 1999 includes the results of the eFunds segment which are reflected as discontinued operations in our consolidated financial statements (see Note 16).

	2001	2000	1999
		(Dollars in thousands, except per share amounts)	
Reported income from continuing operations	$ 185,900	$ 169,472	$ 204,321
Add back: Goodwill amortization	3,979	3,311	726
Adjusted income from continuing operations	$ 189,879	$ 172,783	$ 205,047
Reported net income	$ 185,900	$ 161,936	$ 203,022
Add back: Goodwill amortization	3,979	8,037	3,664
Adjusted net income	$ 189,879	$ 169,973	$ 206,686
Basic earnings per share:			
Reported income from continuing operations	$ 2.72	$ 2.34	$ 2.66
Add back: Goodwill amortization	.05	.05	.01
Adjusted income from continuing operations	$ 2.77	$ 2.39	$ 2.67
Reported net income	$ 2.72	$ 2.24	$ 2.65
Add back: Goodwill amortization	.05	.11	.04
Adjusted net income	$ 2.77	$ 2.35	$ 2.69
Diluted earnings per share:			
Reported income from continuing operations	$ 2.69	$ 2.34	$ 2.65
Add back: Goodwill amortization	.06	.05	.01
Adjusted income from continuing operations	$ 2.75	$ 2.39	$ 2.66
Reported net income	$ 2.69	$ 2.24	$ 2.64
Add back: Goodwill amortization	.06	.11	.04
Adjusted net income	$ 2.75	$ 2.35	$ 2.68

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. We adopted this statement on January 1, 2002. Adoption of this statement did not have an impact on our results of operations or financial position.

NOTE 2 SUPPLEMENTARY BALANCE SHEET INFORMATION

Trade Accounts Receivable

Bad debt expense for continuing operations was $3.6 million in 2001, $3.8 million in 2000 and $3.1 million in 1999. Net trade accounts receivable was comprised of the following at December 31:

2001	2000

	(Dollars in thousands)	
Trade accounts receivable	$ 39,131	$ 47,420
Allowance for doubtful accounts	(1,428)	(1,415)
Trade accounts receivable—net	$ 37,703	$ 46,005

Inventories

As of December 31, 2001, $9.7 million of our inventory balance was accounted for under the LIFO method. As of December 31, 2000, $9.2 million was accounted for under the LIFO method. LIFO inventories were approximately $3.5 million less than replacement cost at December 31, 2001 and $2.7 million less than replacement cost at December 31, 2000. Inventories were comprised of the following at December 31:

	2001	2000
	(Dollars in thousands)	
Raw materials	$ 3,073	$ 3,628
Semi-finished goods	7,215	6,504
Finished goods	904	1,177
Inventories	$ 11,192	$ 11,309

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 2001 or 1999.

Property, Plant and Equipment

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

	2001	2000
	(Dollars in thousands)	
Land and land improvements	$ 32,021	$ 31,859
Buildings and building improvements	109,130	104,713
Machinery and equipment	301,814	321,356
Total	442,965	457,928
Accumulated depreciation	(293,413)	(287,412)
Property, plant and equipment—net	$ 149,552	$ 170,516

Property, Plant and Equipment Held for Sale

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

	2001	2000
	(Dollars in thousands)	
Land and land improvements	$ 550	$ 880
Buildings and building improvements	5,876	9,135
Machinery and equipment	1,227	1,825
Total	7,653	11,840
Accumulated depreciation	(6,136)	(8,400)
Property, plant and equipment held for sale—net	$ 1,517	$ 3,440

Intangibles and Goodwill

Intangibles and goodwill were comprised of the following at December 31:

	2001			2000		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net Carrying amount
			(Dollars in thousands)			
Intangibles:						
Internal-use software	$ 211,193	$ (100,557)	$ 110,636	$ 195,515	$ (66,226)	$ 129,289
Customer name list	5,050	(1,323)	3,727	5,050	(601)	4,449
Other	762	(269)	493	762	(127)	635
Intangibles	$ 217,005	$ (102,149)	$ 114,856	$ 201,327	$ (66,954)	$ 134,373
Goodwill	$ 96,826	$ (14,589)	$ 82,237	$ 96,826	$ (8,401)	$ 88,425

Total amortization of intangibles and goodwill for continuing operations was $43.4 million for 2001, $35.2 million for 2000 and $19.3 million for 1999.

The following intangible assets were acquired during the years indicated:

	2001		2000		1999	
	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period

	(Dollars in thousands)					
Intangibles:						
Internal-use software	$18,042	3 years	$32,953	5 years	$38,304	6 years
Customer name list	—	—	5,050	7 years	—	—
Other	—	—	701	5 years	—	—
Intangibles	$18,042	3 years	$38,704	5 years	$38,304	6 years
Goodwill	$ —	—	$88,826	15 years	$ —	—

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 are 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	$ 82,237

Other Non-Current Assets

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

	2001	2000
	(Dollars in thousands)	
Contract acquisition costs	$ 28,350	$ 4,111
Deferred advertising costs	21,928	17,089
Prepaid post-retirement asset	12,116	10,786
Other	5,532	4,222
Other non-current assets	$ 67,926	$ 36,208

NOTE 3 EARNINGS PER SHARE

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

	Year Ended December 31,		
	2001	2000	1999
	(Dollars and shares in thousands, except per share amounts)		
Income from continuing operations per share—basic:			
Income from continuing operations	$ 185,900	$ 169,472	$ 204,321
Weighted average shares outstanding	68,441	72,324	76,710
Income from continuing operations per share—basic	$ 2.72	$ 2.34	$ 2.66
Income from continuing operations per share—diluted:			
Income from continuing operations	$ 185,900	$ 169,472	$ 204,321
Weighted average shares outstanding	68,441	72,324	76,710
Dilutive impact of options	630	87	273
Shares contingently issuable	44	9	26
Weighted average shares and potential dilutive shares outstanding	69,115	72,420	77,009
Income from continuing operations per share—diluted	$ 2.69	$ 2.34	$ 2.65

During 2001, 2000 and 1999, options to purchase a weighted-average number of shares of 1.4 million, 5.4 million and 2.0 million, 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 4 RESTRUCTURING CHARGES

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 a result of our on-going commitment to efficiency and cost management and are expected to affect 287 employees. The reductions are expected to be substantially completed during the first quarter of 2002. These restructuring charges are reflected in the 2001 consolidated statement of income as cost of goods sold of $1.2 million and selling, general and administrative (SG&A) expense of $3.0 million.

During 2000, we recorded restructuring charges of $2.0 million within continuing operations. 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 our previous initiative to reduce SG&A expense. This was 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 and a decrease in asset impairment and disposition losses (gains) of $0.1 million.

During 1999, restructuring charges of $9.8 million were reversed within continuing operations. The majority of this amount related to our initiatives to reduce SG&A expense and to discontinue production of direct mail products. The excess accrual amount occurred when we determined that we could use a greater portion of the direct mail production assets in our on-going operations than was originally anticipated, as well as changes in the SG&A expense reduction initiative due to our 1999 reorganization into four independently operated business units. The remainder of the accrual reversal related to planned reductions within the Financial Services segment. Closing check printing plants experienced higher attrition rates than anticipated, resulting in lower severance payments than originally estimated. Also during 1999, we recorded restructuring charges of $0.8 million for employee severance and $0.8 million for estimated losses on asset dispositions related to the planned closing of one collections office and planned employee reductions in another collections office within the collections business which we sold in 1999 (see Note 6). These accrual reversals and the new restructuring charges are reflected in the 1999 consolidated statement of income as a reduction in cost of goods sold of $2.0 million, a reduction in SG&A expense of $3.9 million and a reduction in asset impairment and disposition losses (gains) of $2.3 million.

Restructuring accruals for employee severance costs of $3.2 million as of December 31, 2001 and $3.1 million as of December 31, 2000 are reflected in other accrued liabilities in the consolidated balance sheets. The status of these accruals as of December 31, 2001 was as follows:

	Check Printing Plant Closings/Other[1]		SG&A Reductions & Direct Mail Production[2]		Other[3]		Total	
	Amount	No. of employees affected	Amount	No. of employees affected	Amount	No. of employees affected	Amount	No. of employees affected
	(Dollars in millions)							
Balance, December 31, 1998	$ 23.0	2,190	$ 18.0	785	$ —	—	$ 41.0	2,975
Restructuring charges	—	—	—	—	0.8	70	0.8	70
Restructuring reversals	(2.9)	(375)	(5.1)	(230)	—	—	(8.0)	(605)
Sale of business	—	—	—	—	(0.1)	—	(0.1)	—
Severance paid	(13.6)	(1,375)	(5.5)	(275)	(0.7)	(70)	(19.8)	(1,720)
Balance, December 31, 1999	6.5	440	7.4	280	—	—	13.9	720
Restructuring charges	—	—	0.1	5	1.8	195	1.9	200
Restructuring reversals	(0.6)	(70)	(3.5)	(125)	(0.2)	(60)	(4.3)	(255)
Severance paid	(5.1)	(300)	(2.5)	(120)	(0.8)	(100)	(8.4)	(520)
Balance, December 31, 2000	0.8	70	1.5	40	0.8	35	3.1	145
Restructuring charges	—	—	—	—	4.2	287	4.2	287
Restructuring reversals	—	(15)	(0.3)	(13)	(0.1)	—	(0.4)	(28)
Severance paid	(0.8)	(55)	(1.2)	(27)	(1.7)	(159)	(3.7)	(241)
Balance, December 31, 2001	$ —	—	$ —	—	$ 3.2	163	$ 3.2	163

1 Includes charges recorded in 1996 and 1998 for plans to close check printing plants and charges recorded in 1996 and 1997 for reductions in corporate support functions, implementation of a new order processing and customer service system and implementation of process improvements in the post-press phase of check production. As of December 31, 2000, all charges recorded in 1996 and 1997 had been fully utilized.

2 Includes charges recorded in 1998 for the Company's initiatives to reduce SG&A expense and to discontinue production of direct mail products.

3 Includes charges recorded in 1999 for a collection center closing and reductions, charges recorded in 2000 for the outsourcing of certain data entry functions and the scaling-back of PlaidMoon and charges recorded in 2001 for various reductions. As of December 31, 2001, the remaining accruals related only to the charges recorded in 2001.

We also had restructuring accruals for estimated losses on asset dispositions which were fully utilized by December 31, 2000. Their status through that date was as follows:

	Check Printing Plant Closings[1]	Discontinuance of Direct Mail Production	Collection Center Closing/ Reductions	Total
		(Dollars in millions)		
Balance, December 31, 1998	$ 4.9	$ 1.9	$ —	$ 6.8
Restructuring charges	—	—	0.8	0.8
Restructuring reversals	—	(1.8)	—	(1.8)
Sale of business	—	—	(0.2)	(0.2)
Losses realized	(3.8)	(0.1)	(0.6)	(4.5)
Balance, December 31, 1999	1.1	—	—	1.1
Restructuring charges	0.1	—	—	0.1
Losses realized	(1.2)	—	—	(1.2)
Balance, December 31, 2000	$ —	$ —	$ —	$—

1 Includes charges recorded in 1996 for the plan to close 21 check printing plants.

NOTE 5 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 the 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. The impaired assets consisted of internal-use software developed for use by the PlaidMoon.com web site. 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.

NOTE 6 BUSINESS COMBINATION AND DIVESTITURE

2000 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 enabled 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:

	February 1, 2000
	(Dollars in thousands)
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.

The following summarized, unaudited, pro forma results of operations for 2000 and 1999 assume the acquisition of Designer Checks occurred as of the beginning of the period:

	2000	1999
	(Dollars in thousands, except per share amounts)	
Revenue	$ 1,267,996	$ 1,414,597
Income from continuing operations	168,680	206,251
Net income	161,144	204,952
Per share data:		
Income from continuing operations:		
basic	2.33	2.69
diluted	2.33	2.68
Net income:		
basic	2.23	2.67
diluted	2.23	2.66

1999 Divestitures

During 1999, we sold substantially all of the assets of NRC Holding Corporation and all of the outstanding stock of United Creditors Alliance International Limited, our collections businesses. The cash proceeds, net of cash sold, from the sales of these businesses was $74.4 million. The 1999 consolidated statement of income reflects a net gain of $19.8 million on these sales. The consolidated financial statements include the results of these businesses through their sale dates. These businesses contributed revenue of $124.1 million in 1999.

NOTE 7 SALE-LEASEBACK TRANSACTION

During 1999, we entered into a $42.5 million sale-leaseback transaction with an unaffiliated third party. We sold five facilities in Shoreview, Minnesota and entered into leases for three of these facilities for periods ranging from five to 10 years. Two of the leases are operating leases and one is a capital lease. The result of this sale was a $17.1 million gain, of which $10.6 million was deferred and is being amortized 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 $1.7 million in 2001, $1.8 million in 2000 and $0.4 million in 1999. These amounts are included in asset impairment and disposition losses (gains) in the consolidated statements of income. We provided short-term financing for $32.5 million of the proceeds from this sale. This amount, which was repaid in full, is reflected as loan to others in the 2000 and 1999 consolidated statements of cash flows.

NOTE 8 MARKETABLE SECURITIES

On December 31, 2000, investments classified as available for sale consisted of debt securities issued by the U.S. Treasury and other government agencies with a cost of $18.7 million, unrealized holding losses of $0.2 million and a fair value of $18.5 million.

Proceeds from sales of marketable securities available for sale were $48.6 million in 2001, $47.6 million in 2000 and $32.8 million in 1999. We realized gross gains of $0.4 million in 2001, $0.7 million in 2000 and $0.8 million in 1999 on the sales of marketable securities. No losses on sales of marketable securities were realized during these periods.

NOTE 9 PROVISION FOR INCOME TAXES

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

	2001	2000	1999
		(Dollars in thousands)	
Current tax provision:			
Federal	$ 99,762	$ 90,533	$ 61,268
State	14,032	8,320	10,710
Total	113,794	98,853	71,978
Deferred tax provision:			
Federal	(1,825)	2,870	42,797
State	(335)	2,234	3,486
Total	$ 111,634	$ 103,957	$ 118,261

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

	2001	2000	1999
		(Dollars in thousands)	
Income tax at federal statutory rate	$ 104,137	$ 95,700	$ 112,904
State income taxes net of federal income tax benefit	8,903	6,860	9,227
Other	(1,406)	1,397	(3,870)
Provision for income taxes	$ 111,634	$ 103,957	$ 118,261

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

	2001		2000	
	Deferred tax asset	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
		(Dollars in thousands)		
Capital assets	$ —	$ 50,572	$ —	$ 57,104
Capital loss carryforwards	9,929	—	9,188	—
Deferred advertising costs	—	8,201	—	6,408
Employee benefit plans	5,628	—	11,319	—
Inventory	3,230	—	2,058	—
Miscellaneous reserves and accruals	11,055	—	11,204	—
Prepaid services	—	9,952	—	13,929
All other	5,538	6,971	5,440	5,435
Total deferred taxes	$ 35,380	$ 75,696	$ 39,209	$ 82,876

At December 31, 2001, the Company had capital loss carryforwards of $27.0 million which expire in 2003.

NOTE 10 EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

Stock Purchase Plan

For the years reported, 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 $1.2 million in 2001, $1.8 million in 2000 and $4.1 million in 1999. Under the plan, we issued 178,847 shares at prices ranging from $16.16 to $26.71 in 2001, 434,337 shares at prices ranging from $16.83 to $20.58 in 2000 and 568,107 shares at prices ranging from $20.95 to $27.57 in 1999.

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 beginning generally one year after the date of grant. Terms vary, but generally options may be exercised up to ten years following the date of grant. The plan was amended in 1996 to reserve an aggregate of 7.0 million shares of common stock for issuance under the plan. Awards for 5.4 million of these shares were granted prior to the termination of the plan on December 31, 2000. Our 2000 stock incentive plan, which was effective on January 1, 2001, reserved 3.0 million shares of common stock for issuance under the plan. Through December 31, 2001, 1.1 million of these shares had been awarded.

In 1998, we adopted the DeluxeSHARES program. Under this program, options were awarded to substantially all of our 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 expire 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, 1998	4,622,262	$ 33.10
Granted	1,231,053	35.72
Exercised	(481,340)	30.62
Canceled	(835,418)	35.41
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

Options for the purchase of 1,949,079 shares were exercisable at December 31, 2001 at a weighted-average exercise price of $25.01, 3,271,030 were exercisable at December 31, 2000 at a weighted-average exercise price of $25.05 and 1,905,060 were exercisable at December 31, 1999 at a weighted-average exercise price of $33.04.

In connection with the spin-off of eFunds (see Note 16), 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 stock 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 a compensation charge as a result of this conversion process.

For options outstanding and exercisable at December 31, 2001, the adjusted exercise price ranges and average remaining lives were as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$16.42 to $21.99	1,732,073	8.60 years	$19.95	283,264	$20.01
$22.00 to $27.99	1,764,936	4.92 years	25.81	1,623,869	25.68
$28.00 to $35.03	51,845	3.12 years	32.64	41,946	32.74
	3,548,854	6.69 years	$23.05	1,949,079	$25.01

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 17,342 restricted shares and restricted stock units at a weighted-average fair value of $25.87 in 2001, 72,111 restricted shares and restricted stock units at a weighted-average fair value of $25.55 in 2000 and 106,815 restricted shares and restricted stock units at a weighted-average fair value of $34.78 in 1999. 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 2001, $0.6 million in 2000 and $2.2 million in 1999.

Pro forma net income and net income 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:

	2001	2000	1999
Risk-free interest rate (%)	5.1	6.6	6.7
Dividend yield (%)	6.9	7.1	4.6
Expected volatility (%)	25.8	24.4	24.0
Weighted-average option life (years)	6.8	9.0	9.0

The weighted-average fair value of options granted was $2.82 per share in 2001, $3.57 per share in 2000 and $8.24 per share in 1999. 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 net income per share were as follows:

	2001	2000	1999
	(Dollars in thousands, except per share amounts)		
Net income:			
As reported	$ 185,900	$ 161,936	$ 203,022
Pro forma	182,798	157,552	197,555
Net income per share—basic:			
As reported	$ 2.72	$ 2.24	$ 2.65
Pro forma	2.67	2.18	2.58
Net income per share—diluted:			
As reported	$ 2.69	$ 2.24	$ 2.64
Pro forma	2.64	2.18	2.57

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. We also provide a cash bonus program. These plans cover substantially all full-time and some part-time employees with at least 15 months of service.

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 2001, 2000 and 1999, contributions to the defined contribution pension plan equaled 4% of eligible compensation. Contributions to the profit sharing plans vary based on the company's performance.

Under the 401(k) plan, employees were able to contribute up to the lesser of $10,500 or 10% of their wages during 2001. This limit was raised to the lesser of $11,000 or 10% of wages for 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.

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.

Payments made under the cash bonus program vary based on the company's performance and are paid directly to employees.

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

	2001	2000	1999
		(Dollars in thousands)	
Continuing operations:			
Profit sharing/cash bonus plans	$ 20,618	$ 11,687	$ 12,793
Defined contribution plan	9,100	9,531	12,355
401(k) plan	4,578	4,723	6,464

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 $11.0 million as of December 31, 2001 and $12.3 million as of December 31, 2000. These amounts are reflected in accrued wages and other long-term liabilities in the consolidated balance sheets. We fund a portion of this liability through investments in life insurance policies. The cash surrender value of these policies is included in long-term investments in the consolidated balance sheets and was $9.6 million as of December 31, 2001 and $6.1 million as of December 31, 2000.

NOTE 11 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 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 2001 and 2000:

	(Dollars in thousands)
Benefit obligation, December 31, 1999	$ 80,855
Service cost	1,586
Interest cost	5,873
Plan amendments	3,459
Actuarial losses—net	2,329
Effect of curtailment	(1,837)
Benefits paid from plan assets and general funds of the company	(6,088)
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
Fair value of plan assets, December 31, 1999	$ 72,264
Actual return on plan assets	11,386
Benefits paid	(4,200)
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

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

	2001	2000
	(Dollars in thousands)	
Accumulated post-retirement benefit obligation	$ 94,822	$ 86,177
Less:		
Fair value of plan assets (debt and equity securities)	58,422	79,450
Unrecognized prior service cost	3,586	3,949
Unrecognized net actuarial loss	40,311	8,526
Unrecognized transition obligation	4,619	5,038
Prepaid post-retirement asset recognized in the consolidated balance sheets	$ (12,116)	$ (10,786)

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

	2001	2000	1999
		(Dollars in thousands)	
Service cost-benefits earned during the year	$ 1,639	$ 1,586	$ 1,694
Interest cost on the accumulated post-retirement benefit obligation	6,246	5,873	5,286
Expected return on plan assets	(7,624)	(7,236)	(6,126)
Amortization of transition obligation	419	458	586
Amortization of prior service cost	363	186	257
Recognized amortization of net actuarial losses	29	127	290
Net post-retirement benefit cost	1,072	994	1,987
Curtailment gain	—	(883)	(1,242)
Total post-retirement benefit cost	$ 1,072	$ 111	$ 745

As a result of employee reductions (see Note 4), we recognized a net post-retirement benefit curtailment gain of $0.3 million in 2000 and $1.2 million in 1999. Additionally, in connection with the eFunds spin-off (see Note 16), eFunds terminated its post-retirement medical plan. We will continue to provide benefits to eFunds employees and retirees who were qualified for retiree medical 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, 2001, our initial health care inflation rate for 2002 was assumed to be 9% and our ultimate health care inflation rate for 2007 and beyond was assumed to be 5%. A one percentage point increase in the health care inflation rate for each year would increase the accumulated post-retirement benefit obligation by approximately $14.1 million and the service and interest cost components of the net post-retirement benefit cost by approximately $1.1 million. A one percentage point decrease in the health care inflation rate for each year would decrease the accumulated post-retirement benefit obligation by approximately $12.3 million and the service and interest cost components of the net post-retirement benefit cost by approximately $1.2 million. The discount rate used in determining the accumulated post-retirement benefit obligation was 7.25% as of December 31, 2001 and 7.5% as of December 31, 2000. The expected long-term rate of return on plan assets used to determine the net periodic post-retirement benefit cost was 9.5% in 2001, 2000 and 1999.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Debt

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

	2001	2000
	(Dollars in thousands)	
8.55% unsecured and unsubordinated notes due February 15, 2001	$ —	$ 100,000
Capital leases	11,465	10,873
Total long-term debt	11,465	110,873
Less amount due within one year	1,381	100,672
Long-term debt	$ 10,084	$ 10,201

In February 1991, we issued $100.0 million of 8.55% unsecured and unsubordinated notes due February 15, 2001. The notes were not redeemable prior to maturity. The fair value of these notes was estimated to be $100.2 million at December 31, 2000, based on quoted market prices. These notes were paid in full in February 2001, utilizing cash on hand.

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, 2001 are as follows:

	Capital Leases	Operating Leases
	(Dollars in thousands)	
2002	$ 2,473	$ 6,144
2003	2,567	5,158
2004	1,897	6,260
2005	1,897	390
2006	1,924	178
2007 and thereafter	5,513	850
Total minimum lease payments	16,271	$ 18,980
Less portion representing interest	4,806	
Present value of minimum lease payments	11,465	
Less current portion	1,381	
Long-term portion of obligation	$ 10,084	

Rent expense charged to continuing operations was $10.6 million in 2001, $10.6 million in 2000 and $23.2 million in 1999.

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:

	2001	2000
	(Dollars in thousands)	
Buildings and building improvements	$ 11,574	$ 11,574
Machinery and equipment	1,943	—
Total	13,517	11,574
Accumulated depreciation	(4,091)	(1,933)
Net assets under capital leases	$ 9,426	$ 9,641

As of December 31, 2001, we had both committed and uncommitted bank lines of credit. The credit agreements which govern these lines of credit contain customary covenants regarding interest coverage and levels of subsidiary indebtedness. These lines of credit could be withdrawn if we failed to comply with these covenants. The commitment fee on the committed line of credit is seven basis points.

Our committed line of credit for $350.0 million was available for borrowing and as support for our $300.0 million commercial paper program. This line expires in August 2002. No amounts were drawn on this line during 2001. The average amount drawn on this line during 2000 was $18.8 million at a weighted-average interest rate of 6.26%. As of December 31, 2001 and 2000, no amounts were outstanding under this line of credit. 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%. The average amount of commercial paper outstanding during 2000 was $6.2 million at a weighted-average interest rate of 6.56%. There was no outstanding commercial paper at December 31, 2000.

Our uncommitted bank line of credit for $50.0 million was available at variable interest rates. The average amount drawn on this line during 2001 was $1.3 million at a weighted-average interest rate of 4.26%. The average amount drawn on this line during 2000 was $33,000 at a weighted-average interest rate of 6.38%. As of December 31, 2001 and 2000 there was no outstanding balance under this line of credit.

We have a shelf registration in place for the issuance of up to $300.0 million in medium-term notes. These notes could be used for general corporate purposes, including working capital, capital asset purchases, possible acquisitions and repayment or repurchase of outstanding indebtedness and other securities of Deluxe. As of December 31, 2001 and 2000, no such notes were issued or outstanding.

Absent certain defined events of default under our $350.0 million committed credit facility, there are no significant contractual restrictions on our ability to pay cash dividends.

Other Contractual Cash Commitments

Other contractual cash commitments represent the minimum cash committed under contracts with third party service providers. These contracts are primarily for information technology services, including software development and support services, and personal computer, asset management, 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 16). The contracts with eFunds, which account for approximately 35% of our total other contractual commitments, 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. As of December 31, 2001, other minimum contractual cash commitments were as follows:

	(Dollars in thousands)
2002	$ 69,691
2003	25,766
2004	12,309
2005	3,038
Total	$ 110,804

eFunds Indemnification

In connection with the spin-off of eFunds (see Note 16), 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 14), and from certain future losses on identified loss contracts. The maximum contractual amount of litigation and contract losses for which we will indemnify eFunds is $14.6 million. Through December 31, 2001, 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 at this time that any payment will occur.

Environmental

We are currently involved in environmental compliance, investigation and remediation activities at some of our current and former sites. Remediation costs are accrued on an undiscounted basis when the obligations are either known or considered probable and can be reasonably estimated. Accrued costs consist of direct costs of the remediation activities, primarily fees paid to outside engineering and consulting firms. Based upon information presently available, we believe that our accruals for future environmental costs are adequate. 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. 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.

Litigation

We are parties in legal actions and claims arising in the ordinary course of business and have recorded expenses 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 13 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 14 SHAREHOLDERS' EQUITY

Shareholders' equity declined from $606.6 million at December 31, 1998 to $78.6 million at December 31, 2001, primarily as a result of the required accounting treatment for our 1999 and 2001 share repurchase programs and the spin-off of eFunds in 2000 (see Note 16).

	Common shares					Accumulated Other Comprehensive Income	
	Number of shares	Par value	Additional paid-in capital	Retained earnings	Unearned compensation	Unrealized gain (loss) on marketable securities	Cumulative translation adjustment
	(Dollars in thousands)						
Balance, December 31, 1998	80,481	$ 80,481	$ 6,822	$ 519,742	$ (238)	$ 70	$ (312)
Net income	—	—	—	203,022	—	—	—
Cash dividends	—	—	—	(113,535)	—	—	—
Common stock issued	1,112	1,112	34,733	—	—	—	—
Tax benefit of stock option plans	—	—	1,113	—	—	—	—
Common stock repurchased	(9,543)	(9,543)	(41,337)	(262,612)	—	—	—
Other common stock retired	(30)	(30)	(1,331)	—	—	—	—
Unearned compensation	—	—	—	—	191	—	—
Unrealized fair value adjustments	—	—	—	—	—	(485)	—
Translation adjustment	—	—	—	—	—	—	(555)
Balance, December 31, 1999	72,020	72,020	—	346,617	(47)	(415)	(867)
Net income	—	—	—	161,936	—	—	—
Adjustment for lag in financial reporting[1]	—	—	—	(1,125)	—	—	—
Cash dividends	—	—	—	(107,195)	—	—	—
Distribution of subsidiary stock to shareholders (see Note 16)	—	—	—	(253,990)	—	—	—
Gain on sale of subsidiary stock[2]	—	—	30,495	—	—	—	—
Common stock issued	583	583	14,938	—	—	—	—
Common stock retired	(48)	(48)	(1,190)	—	—	—	—
Unearned compensation	—	—	—	—	(13)	—	—
Unrealized fair value adjustments	—	—	—	—	—	242	—
Translation adjustment	—	—	—	—	—	—	867
Balance, December 31, 2000	72,555	72,555	44,243	146,243	(60)	(173)	—
Net income	—	—	—	185,900	—	—	—
Cash dividends	—	—	—	(101,773)	—	—	—
Common stock issued	2,890	2,890	68,025	—	—	—	—
Tax benefit of stock option plans	—	—	6,300	—	—	—	—
Common stock repurchased[3]	(11,332)	(11,332)	(118,260)	(215,807)	—	—	—
Other common stock retired	(11)	(11)	(308)	—	—	—	—
Unrealized fair value adjustments	—	—	—	—	—	173	—
Balance, December 31, 2001	64,102	$ 64,102	$ —	$ 14,563	$ (60)	$ —	$ —

[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 16).

[3] In January 2001, our board of directors approved a plan to repurchase up to 14 million shares of our common stock. At that time, it was announced that these repurchases would be completed within a 12- to 18-month period. Through December 31, 2001, we spent $345.4 million to repurchase 11.3 million shares.

NOTE 15 BUSINESS SEGMENT INFORMATION

During 2001, we re-organized our one business segment, Paper Payment Systems, into three business segments: Financial Services, Direct Checks and Business Services. Financial Services sells checks, related products and program management services on behalf of 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 offices/home offices on behalf of financial institutions and directly to customers 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 2001, 2000 or 1999.

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 16). The results of the eFunds segment are reflected as discontinued operations in our consolidated financial statements.

During 1999, we also operated NRC Holding Corporation, a collections business. This business was sold in December 1999 (see Note 6). The results of this business are not included in our reportable business segments, but are included in the reconciliations to consolidated amounts.

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.

	Reportable Business Segments				
	Financial Services	Direct Checks	Business Services	All Others/ Unallocated	Consolidated
			(Dollars in thousands)		
Revenue from external customers:					
2001	$ 768,499	$ 305,637	$ 204,239	$ —	$1,278,375
2000	794,628	278,348	189,736	—	1,262,712
1999	840,662	217,378	181,684	124,074	1,363,798
Operating income (loss):					
2001	167,721	75,365	58,852	—	301,938
2000	174,276	64,980	50,363	(10,685)	278,934
1999	196,156	51,998	57,909	21,661	327,724
Depreciation and amortization expense:					
2001	53,432	15,129	5,421	—	73,982
2000	51,465	12,499	4,606	—	68,570
1999	50,806	3,101	5,084	2,050	61,041
Total assets:					
2001	278,995	148,912	34,227	75,587	537,721
2000	292,056	149,222	41,232	173,764	656,274
1999	354,530	58,639	46,852	461,801	921,822
Capital purchases:					
2001	20,461	5,475	2,378	461	28,775
2000	29,219	5,482	1,347	12,435	48,483
1999	60,618	9,673	2,746	3,758	76,795

All Others/Unallocated operating loss for 2000 represents asset impairment losses and restructuring charges relating to the scaling-back of PlaidMoon (see Notes 4 and 5). All Others/Unallocated total assets as of December 31, 1999 includes net assets of discontinued operations of $195.0 million (see Note 16).

Revenue by product was as follows:

	2001	2000	1999
		(Dollars in thousands)	
Checks and related services	$ 1,138,313	$ 1,126,249	$ 1,113,143
Other printed products	20,208	21,519	23,757
Accessories	119,854	114,944	102,824
Divested businesses	—	—	124,074
Total revenue	$ 1,278,375	$ 1,262,712	$ 1,363,798

NOTE 16 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 Internal Revenue Service 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 all periods presented.

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

Results of Discontinued Operations

Revenue and loss from discontinued operations were as follows:

	Year Ended December 31,	
	2000	1999
	(Dollars in thousands)	
Revenue from external customers	$ 358,609	$ 293,502
Pre-tax income from operations of discontinued operations before measurement date	$ 10,402	$ 2,073
Pre-tax costs of spin-off	(16,786)	—
Income tax expense	1,152	3,372
Net loss from discontinued operations	$ (7,536)	$ (1,299)

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 and 1999, the results of discontinued operations includes charges for expected future losses on long-term service contracts of the electronic benefits transfer business.

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.

During 1999, contract loss charges of $8.2 million were recorded. A majority of the charges resulted from the conclusion of negotiations with a prime contractor regarding the timing and costs of transitioning switching services from eFunds to a new processor. Also, lower than projected actual transaction volumes (primarily related to states fully rolled-out in 1999) contributed to changes in the estimates underlying previously recorded charges.

Restructuring Charges

During 2000, the results of discontinued operations included restructuring charges of $0.6 million for administrative reductions. These charges assumed the termination of 31 employees.

During 1999, the results of discontinued operations included reversals of restructuring charges of $2.4 million relating to our 1998 initiative to reduce SG&A expense and our 1996 plan to reduce our international workforce. The reduction in the SG&A expense initiative accrual was due to higher than anticipated attrition, resulting in severance payments to 37 fewer employees than originally anticipated. Also, prior to 1999, we were planning on divesting our international operations. In 1999, we decided to retain these operations, thus, planned reductions within that business were canceled.

The following table summarizes the changes in discontinued operations restructuring accruals during 2000 and 1999:

	2000		1999	
	Amount	Number of employees affected	Amount	Number of employees affected
	(Dollars in millions)			
Balance—beginning of year	$ 1.2	6	$ 4.7	186
Adjustments to accruals	.6	31	(2.4)	(162)
Severance paid	(1.4)	(28)	(1.1)	(18)
Spin-off	(0.4)	(9)	—	—
Balance—end of year	$ —	—	$ 1.2	6

Business Combinations

2000 Acquisition

During March 2000, we paid cash of $20.0 million for an approximately 24% interest in a limited liability company that provides ATM management and outsourcing services to retailers and financial institutions. Our share of the results of this business subsequent to its acquisition date are 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.

1999 Acquisitions

During February 1999, we acquired all of the outstanding shares of eFunds Corporation of Tustin, California for $13.0 million in cash. This company provides electronic check conversion and electronic funds transfer solutions to financial services companies and retailers. The acquisition was accounted for under the purchase method of accounting. The results of this business subsequent to its acquisition date are included in discontinued operations in the consolidated statements of income. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on the date of purchase. Total cost in excess of net assets acquired in the amount of $15.7 million was being amortized over 10 years.

During April 1999, we acquired the remaining 50% ownership interest in HCL-Deluxe, N.V. for $23.4 million in cash. The joint venture, which we entered into with HCL Corporation of India in 1996, commenced operations in September 1997. The company provides information technology consulting and business process management services to us and to financial services companies. The acquisition was accounted for under the purchase method of accounting. The entire results of this business from the date we acquired 100% ownership are included in discontinued operations in the consolidated statements of income. Prior to this, we recorded our 50% ownership of the joint venture's results under the equity method of accounting. These results are also included in discontinued operations in the consolidated statements of income. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on the date of purchase. Total cost in excess of net assets acquired in the amount of $24.9 million was being amortized over 15 years.

Legal Proceedings

During 1997, a judgment was entered against us in the U.S. District Court for the Western District of Pennsylvania. The case was brought against us by Mellon Bank (Mellon) in connection with a potential bid to provide electronic benefits transfer services for the Southern Alliance of States. At that time we recorded a reserve for settlement of this matter. In January 1999, the United States Court of Appeals for the Third Circuit affirmed the judgment of the district court and we paid $32.2 million to Mellon in February 1999. The portion of the reserve remaining after the payment of this judgment ($2.1 million) was reversed in 1999 and is included in the results of discontinued operations in the 1999 consolidated statement of income.

NOTE 17 SUBSEQUENT EVENTS (UNAUDITED)

In December 2001, our board of directors approved certain changes to our employee stock purchase plan which became effective as of February 1, 2002. The changes were made with a view toward qualifying the plan as an "employee stock purchase plan" under

Section 423 of the Internal Revenue Code. To secure qualified status for the plan, we will be presenting the plan to the shareholders for approval at the May shareholders meeting. Purchases under the plan are now made semi-annually, rather than quarterly. Beginning with purchases made on July 31, 2002, employees will 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 Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, under the new plan we will no longer recognize compensation expense for the difference between the employees' purchase price and the fair value of the stock. Compensation expense recognized in continuing operations for our previous employee stock purchase plan was $1.2 million in 2001, $1.8 million in 2000 and $4.1 million in 1999.

Effective January 1, 2002, we eliminated retiree medical benefits for all new employees (see Note 11). This change had no impact on current retirees or those employed with the company as of December 31, 2001.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Deluxe Corporation:

In our opinion, the accompanying consolidated balance sheet as of December 31, 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, 2001, and the results of their operations and their cash flows for the year then ended 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

By: /s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
January 25, 2002

INDEPENDENT AUDITORS' REPORT

Deluxe Corporation

We have audited the accompanying consolidated balance sheet of Deluxe Corporation and its subsidiaries as of December 31, 2000, and the related consolidated statements of income, comprehensive income, and cash flows for each of the two years in the period 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to present fairly, in all material respects, the financial position of Deluxe Corporation and its subsidiaries at December 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

By: /s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Minneapolis, Minnesota
January 25, 2001

SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2001 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share amounts)			
REVENUE	$ 316,682[1]	$ 318,635[1]	$ 324,318[1]	$ 318,740
GROSS PROFIT	199,496[1]	205,644[1]	212,815[1]	206,602
INCOME FROM CONTINUING OPERATIONS	42,479	44,312	51,062	48,047
PER SHARE OF COMMON STOCK:				
Continuing operations:				
basic	.59	.64	.76	.74
diluted	.59	.63	.75	.73
Net income:				
basic	.59	.64	.76	.74
diluted	.59	.63	.75	.73
Cash dividends	.37	.37	.37	.37

	2000 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share amounts)			
REVENUE	$ 321,578	$ 322,250	$ 316,084	$ 302,800
GROSS PROFIT	205,729[1]	209,144[1]	202,405[1]	192,411[1]
INCOME FROM CONTINUING OPERATIONS	42,024	42,644	46,964	37,840[3]
PER SHARE OF COMMON STOCK:				
Continuing operations:				
basic	.58	.59	.65	.52[3]
diluted	.58	.59	.65	.52[3]
Net income:				
basic	.61	.48[2]	.68	.46[4]
diluted	.61	.48[2]	.68	.46[4]
Cash dividends	.37	.37	.37	.37

[1] These figures differ from those previously reported in the Quarterly Reports on Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2000 due to reclassifications made to conform with the 2001 presentation.

[2] 2000 second quarter results include charges of $9.7 million for additional expected future losses on existing electronic benefits transfer contracts of discontinued operations, charges of $7.2 million for payments due under executive employment agreements due to the planned separation of eFunds and net restructuring reversals of $1.6 million.

[3] 2000 fourth quarter results from continuing operations include asset impairment losses of $9.7 million relating to a discontinued e-commerce initiative.

[4] 2000 fourth quarter results include asset impairment losses of $9.7 million relating to a discontinued e-commerce initiative and costs of $9.1 million relating to the spin-off of eFunds.

EXHIBIT 21.1

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)

EXHIBIT 24.1

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, 2001, 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.

Signature	Date
/s/ LAWRENCE J. MOSNER **Lawrence J. Mosner,** **Director and Principal Executive Officer**	3/15/02
/s/ DOUGLAS J. TREFF **Douglas J. Treff,** **Principal Financial Officer and Principal Accounting Officer**	3/15/02
/s/ RONALD E. EILERS **Ronald E. Eilers,** **Director**	3/15/02
/s/ BARBARA B. GROGAN **Barbara B. Grogan,** **Director**	3/15/02
/s/ STEPHEN P. NACHTSHEIM **Stephen P. Nachtsheim,** **Director**	3/15/02
/s/ CALVIN W. AURAND, JR. **Calvin W. Aurand, Jr.,** **Director**	3/15/02
/s/ DONALD R. HOLLIS **Donald R. Hollis,** **Director**	3/15/02
/s/ ROBERT C. SALIPANTE **Robert C. Salipante,** **Director**	3/15/02
/s/ DANIEL D. GRANGER **Daniel D. Granger,** **Director**	3/15/02
/s/ CHERYL E. MAYBERRY **Cheryl E. Mayberry, McKissack** **Director**	3/15/02
/s/ CHARLES A. HAGGERTY **Charles A. Haggerty,** **Director**	3/15/02
/s/ MARTYN R. REDGRAVE **Martyn R. Redgrave,** **Director**	3/15/02

EXHIBIT 99.1

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 our Annual Report to Shareholders, 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 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 declined slightly in 2001 compared to 2000, and the total number of personal, business and government checks written in the United States has been in decline since 1997. 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.

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 sales channel through financial institutions, 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 and loss of customers.

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

Financial institutions have been undergoing large-scale consolidation, causing the number of financial institutions to decline. Margin pressures arise from this consolidation when 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 not be lost or that any such loss 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 January 2001, we announced that our board of directors had approved the repurchase of up to 14 million shares of our common stock. At that time, we indicated that we expected to be able to complete these purchases over a 12- to 18-month period. Stock repurchase activities are subject to certain pricing restrictions, stock market forces, management discretion and various regulatory requirements. As a result, although we have repurchased approximately 11.7 million shares under this program through January 31, 2002, there can be no assurance as to the timing and/or amount of additional shares that we may repurchase under the program.

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.

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.

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.

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

Although the recent slow-down in the United States economy has had little impact on our results of operations thus far, a prolonged general slow-down in the economy could negatively affect our business. Such a slow-down could reduce consumers' use of check products and business forms, resulting in revenue shortfalls. To mitigate 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.

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 face restrictions on our ability to acquire or issue Deluxe shares.

Under Section 355(e) of the Internal Revenue Code, the spin-off of eFunds Corporation, which was completed in December, 2000, could be taxable if 50% or more of our shares are acquired as part of a plan or series of transactions that include the spin-off. For this purpose, any acquisitions of our shares within two years before or after the spin-off are presumed to be part of such a plan, although we may be able to rebut that presumption. As a result of the possible adverse U.S. federal income tax consequences, we may be restricted in our ability to affect certain acquisitions, to issue our shares or to execute other transactions that would result in a change of control of Deluxe. We structured our current stock repurchase program, announced in January 2001, to comply with Section 355(e) of the Internal Revenue Code.

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.

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 increasingly becoming a 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, asset management, 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.

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 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 most instances have agreed to indemnify the current owner of the facility for on-site environmental liabilities. Although we are not aware of any fact or circumstance which would require the future expenditure of material amounts for environmental compliance, if environmental liabilities are discovered at our check printing plants, we could be required to spend material amounts for environmental compliance in the future.

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 are 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.