
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For quarterly period ending June 30, 2002

or

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

For the transition period from _____ to _____

Commission file number: 1-7945

DELUXE CORPORATION

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of
incorporation or organization)

3680 Victoria St. N., Shoreview, Minnesota

(Address of principal executive offices)

41-0216800

(IRS Employer
Identification No.)

55126-2966

(Zip Code)

(651) 483-7111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The number of shares outstanding of registrant's common stock, par value \$1.00 per share, at August 2, 2002 was 62,511,985.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DELUXE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2002	December 31, 2001
	Unaudited	
	(dollars in thousands, except share par value)	
Current Assets:		
Cash and cash equivalents	\$ 5,195	\$ 9,571
Trade accounts receivable (net of allowance for doubtful accounts of \$1,790 and \$1,428, respectively)	48,171	37,703
Inventories	10,601	11,192
Supplies	10,710	11,071
Deferred income taxes	4,574	4,574
Prepaid expenses	20,227	3,108
Other current assets	3,684	6,753
	103,162	83,972
Total current assets		
Long-term Investments	41,291	37,661
Property, Plant and Equipment (net of accumulated depreciation of \$291,329 and \$293,413, respectively)	141,808	149,552
Property, Plant and Equipment Held for Sale (net of accumulated depreciation of \$6,136)	1,517	1,517
Intangibles (net of accumulated amortization of \$119,125 and \$102,149, respectively)	110,221	114,856
Goodwill	82,237	82,237
Other Non-current Assets	69,795	67,926
	550,031	537,721
Total assets		
Current Liabilities:		
Accounts payable	\$ 45,566	\$ 52,834
Accrued liabilities:		
Wages, including vacation pay	28,933	26,513
Employee profit sharing and pension	14,955	29,734
Accrued income taxes	57,736	39,426
Accrued rebates	25,429	24,923
Other	40,094	42,313
Short-term debt	191,550	150,000
Long-term debt due within one year	1,503	1,381
	405,766	367,124
Total current liabilities		
Long-term Debt	9,296	10,084
Deferred Income Taxes	44,890	44,890
Other Long-term Liabilities	35,357	37,018
Shareholders' Equity:		
Common shares \$1 par value (authorized: 500,000,000 shares; issued: 2002—62,449,131; 2001— 64,101,957)	62,449	64,102
Retained (deficit) earnings	(7,685)	14,563
Unearned compensation	(42)	(60)
	54,722	78,605
Total shareholders' equity		
Total liabilities and shareholders' equity	\$ 550,031	\$ 537,721

See Notes to Unaudited Condensed Consolidated Financial Statements

DELUXE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Unaudited Quarter Ended June 30,		Unaudited Six Months Ended June 30,	
	2002	2001	2002	2001
	(dollars in thousands, except per share amounts)			
Revenue	\$ 328,463	\$ 318,635	\$ 657,371	\$ 635,317
Cost of goods sold	110,560	112,991	223,655	230,177
Gross Profit	217,903	205,644	433,716	405,140
Selling, general and administrative expense	129,595	131,440	256,990	261,916
Goodwill amortization expense	—	1,547	—	3,094
Asset impairment and disposition losses (gains)	31	793	(710)	27
Operating Income	88,277	71,864	177,436	140,103
Interest expense	(1,173)	(1,456)	(2,094)	(3,073)
Interest income	125	837	262	1,967
Other income (expense)	983	(279)	659	(42)
Income Before Income Taxes	88,212	70,966	176,263	138,955
Provision for income taxes	33,503	26,654	66,998	52,164
Net Income	\$ 54,709	\$ 44,312	\$ 109,265	\$ 86,791
Earnings per Share: Basic	\$ 0.87	\$ 0.64	\$ 1.72	\$ 1.23
Diluted	\$ 0.85	\$ 0.63	\$ 1.69	\$ 1.22
Cash Dividends per Share	\$ 0.37	\$ 0.37	\$ 0.74	\$ 0.74
Total Comprehensive Income	\$ 54,709	\$ 44,293	\$ 109,265	\$ 86,882

See Notes to Unaudited Condensed Consolidated Financial Statements

DELUXE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited Six Months Ended June 30,	
	2002	2001
	(dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 109,265	\$ 86,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,251	16,841
Amortization of intangibles and goodwill	17,022	22,977
Asset impairment and disposition losses (gains)	(710)	27
Other non-cash items, net	8,734	4,965
Changes in assets and liabilities:		
Trade accounts receivable	(10,468)	(713)
Inventories and supplies	952	526
Prepaid expenses	(16,378)	(527)
Accounts payable	(2,864)	3,979
Accrued liabilities	1,715	(14,759)
Other assets and liabilities	1,839	(28,786)
Net cash provided by operating activities	121,358	91,321
Cash Flows from Investing Activities:		
Proceeds from sales of marketable securities	—	37,990
Purchases of marketable securities	—	(30,000)
Proceeds from sales of capital assets	85	1,435
Purchases of capital assets	(17,199)	(17,102)
Other	(4,349)	(4,571)
Net cash used by investing activities	(21,463)	(12,248)
Cash Flows from Financing Activities:		
Net borrowings on short-term debt	41,550	116,200
Payments on long-term debt	(667)	(100,675)
Change in book overdrafts	(4,404)	(2,407)
Payments to retire shares	(118,377)	(122,487)
Proceeds from issuing shares under employee plans	24,705	8,268
Cash dividends paid to shareholders	(47,078)	(52,563)
Net cash used by financing activities	(104,271)	(153,664)
Net Decrease in Cash and Cash Equivalents	(4,376)	(74,591)
Cash and Cash Equivalents: Beginning of Period	9,571	80,732
End of Period	\$ 5,195	\$ 6,141

See Notes to Unaudited Condensed Consolidated Financial Statements

DELUXE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated balance sheet as of June 30, 2002, the condensed consolidated statements of income for the quarters and six months ended June 30, 2002 and 2001 and the condensed consolidated statements of cash flows for the six months ended June 30, 2002 and 2001 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements are included. Other than any discussed in the notes below, such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and notes are presented in accordance with instructions for Form 10-Q, and do not contain certain information included in the consolidated annual financial statements and notes. The consolidated financial statements and notes appearing in this Report should be read in conjunction with the consolidated audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2001.

2. On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, in its entirety. This statement addresses accounting and financial reporting for goodwill and intangible assets. Under the new statement, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment testing on at least an annual basis. Other than goodwill, we have no intangible assets with indefinite lives. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position as of January 1, 2002. In addition, the remaining useful lives of amortizable intangible assets were reviewed and deemed appropriate. The following pro forma information reflects our results of operations as they would have appeared had we not recorded goodwill amortization and its related tax effects during 2001 (dollars in thousands, except per share amounts):

	Quarter Ended June 30, 2001	Six Months Ended June 30, 2001
Reported net income	\$ 44,312	\$ 86,791
Add back: goodwill amortization, net of tax	995	1,990
Adjusted net income	\$ 45,307	\$ 88,781
Reported basic earnings per share	\$ 0.64	\$ 1.23
Add back: goodwill amortization, net of tax	0.01	0.03
Adjusted basic earnings per share	\$ 0.65	\$ 1.26
Reported diluted earnings per share	\$ 0.63	\$ 1.22
Add back: goodwill amortization, net of tax	0.02	0.03
Adjusted diluted earnings per share	\$ 0.65	\$ 1.25

Intangibles—Intangibles were comprised of the following (dollars in thousands):

	June 30, 2002			December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	\$ 223,587	\$ (117,141)	\$ 106,446	\$ 211,193	\$ (100,557)	\$ 110,636
Customer name list	5,050	(1,683)	3,367	5,050	(1,323)	3,727
Other	709	(301)	408	762	(269)	493
Total	\$ 229,346	\$ (119,125)	\$ 110,221	\$ 217,005	\$ (102,149)	\$ 114,856

DELUXE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Total amortization expense related to intangibles was \$8.5 million for the quarter ended June 30, 2002, \$10.5 million for the quarter ended June 30, 2001, \$17.0 million for the six months ended June 30, 2002 and \$19.9 million for the six months ended June 30, 2001. Based on the intangibles in service as of June 30, 2002, estimated amortization expense for each of the next five years ending December 31 is as follows (dollars in thousands):

Remainder of 2002	\$15,608
2003	28,810
2004	21,378
2005	16,034
2006	11,757

Goodwill—The entire amount of goodwill is included in the Direct Checks segment. As of June 30, 2002 and December 31, 2001, its gross carrying amount was \$96.8 million and accumulated amortization was \$14.6 million, resulting in a net carrying amount of \$82.2 million. Total amortization expense related to goodwill was \$1.5 million for the quarter ended June 30, 2001 and \$3.1 million for the six months ended June 30, 2001.

We evaluate the carrying value of goodwill on an annual basis and when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which the goodwill is assigned below its carrying amount. Such circumstances could include, but are not limited to, (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, (3) a loss of key personnel, or (4) an adverse action or assessment by a regulator.

When evaluating whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill with its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

3. In July 2002, the Financial Accounting Standards Board issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses the financial accounting and reporting for costs associated with exit or disposal activities, including costs to terminate contracts that are not capital leases, costs to consolidate facilities or relocate employees and one-time termination benefits provided to employees who are involuntarily terminated. We must adopt this statement by January 1, 2003. The adoption of this statement will have no impact on our results of operations or financial position, as it applies only to exit or disposal activities initiated on or after the date of adoption.

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

5. Inventories were comprised of the following (dollars in thousands):

	June 30, 2002	December 31, 2001
Raw materials	\$ 2,868	\$ 3,073
Semi-finished goods	6,849	7,215
Finished goods	884	904
Total	\$ 10,601	\$ 11,192

6. Other non-current assets were comprised of the following (dollars in thousands):

	June 30, 2002	December 31, 2001
Contract acquisition costs	\$ 34,654	\$ 28,350
Deferred advertising costs	17,391	21,928
Prepaid post-retirement asset	13,920	12,116
Other	3,830	5,532
Total	\$ 69,795	\$ 67,926

DELUXE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. The following table reflects the calculation of basic and diluted earnings per share (dollars and shares in thousands, except per share amounts):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Earnings per share-basic:				
Net income	\$ 54,709	\$ 44,312	\$ 109,265	\$ 86,791
Weighted average shares outstanding	63,204	69,605	63,623	70,644
Earnings per share-basic	\$ 0.87	\$ 0.64	\$ 1.72	\$ 1.23
Earnings per share-diluted:				
Net income	\$ 54,709	\$ 44,312	\$ 109,265	\$ 86,791
Weighted average shares outstanding	63,204	69,605	63,623	70,644
Dilutive impact of options	875	506	948	336
Shares contingently issuable	30	36	21	24
Weighted average shares and potential dilutive shares outstanding	64,109	70,147	64,592	71,004
Earnings per share-diluted	\$ 0.85	\$ 0.63	\$ 1.69	\$ 1.22

During the quarters ended June 30, 2002 and 2001, options to purchase 1.2 million and 1.4 million common shares, respectively, were outstanding but were not included in the computation of diluted earnings per share. During the six months ended June 30, 2002 and 2001, options to purchase a weighted-average of 1.2 million and 2.7 million common shares, respectively, were outstanding but were not included in the computation of diluted earnings per share. The exercise prices of the excluded options were greater than the average market price of Deluxe's common shares during the respective periods.

8. Restructuring accruals for employee severance costs of \$0.9 million as of June 30, 2002 and \$3.2 million as of December 31, 2001 are reflected in other accrued liabilities in the consolidated balance sheets. These accruals relate to charges recorded in 2001 for various reductions across all segments. Charges of \$0.6 million are reflected in selling, general and administrative expense in the consolidated statements of income for the quarter and six months ended June 30, 2001. The remaining severance payments are expected to be made in 2002. The status of these accruals as of June 30, 2002 was as follows (dollars in millions):

	Amount	No. of employees affected
Balance, December 31, 2001	\$ 3.2	163
Severance paid	(2.3)	(122)
Balance, June 30, 2002	\$ 0.9	41

9. As of June 30, 2002, we had a committed line of credit for \$350.0 million available for borrowing and as support for our \$300.0 million commercial paper program. No amounts were drawn on this line during the first six months of 2002 or during 2001 and as of June 30, 2002 and December 31, 2001, no amounts were outstanding under this line of credit. This line of credit expires on August 22, 2002, and we are currently negotiating a replacement line or lines of credit. The average amount of commercial paper outstanding during the first six months of 2002 was \$158.4 million at a weighted-average interest rate of 1.83%. As of June 30, 2002, \$191.6 million was outstanding at a weighted-average interest rate of 1.89%. 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%.

As of June 30, 2002, we also had an uncommitted bank line of credit for \$50.0 million available at variable interest rates. No amounts were drawn on this line during the first six months of 2002. The average amount drawn on this line of credit during 2001 was \$1.3 million at a weighted-average interest rate of 4.26%. As of June 30, 2002 and December 31, 2001, no amounts were outstanding 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 June 30, 2002 and December 31, 2001, no such notes were issued or outstanding.

DELUXE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10. In connection with the spin-off of eFunds Corporation (eFunds) on December 29, 2000, we agreed to indemnify eFunds for future losses arising from any litigation based on the conduct of eFunds' electronic benefits transfer and medical eligibility verification business prior to eFunds' initial public offering in June 2000, and for 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 June 30, 2002, no amounts have been paid or claimed under this indemnification agreement. This obligation is not reflected in the consolidated balance sheet, as it is not probable at this time that any payment will occur.

11. In January 2001, our board of directors approved a plan to purchase up to 14 million shares of our common stock. As of June 30, 2002, all 14 million shares had been repurchased at a total cost of \$463.8 million. Primarily as a result of the required accounting treatment for these share repurchases, shareholders' equity decreased from \$262.8 million as of December 31, 2000 to \$54.7 million as of June 30, 2002, and we were in a retained deficit position as of June 30, 2002. Changes in shareholders' equity during the first six months of 2002 were as follows (dollars in thousands):

	Common shares	Additional paid-in capital	Retained (deficit) earnings	Unearned compensation	Total
Balance, December 31, 2001	\$ 64,102	\$ —	\$ 14,563	\$ (60)	\$ 78,605
Net income	—	—	109,265	—	109,265
Cash dividends	—	—	(47,078)	—	(47,078)
Common shares issued	1,026	24,359	—	—	25,385
Tax benefit of stock option plans	—	7,383	—	—	7,383
Common shares repurchased	(2,668)	(31,274)	(84,435)	—	(118,377)
Other common shares retired	(11)	(468)	—	—	(479)
Unearned compensation	—	—	—	18	18
Balance, June 30, 2002	\$ 62,449	\$ —	\$ (7,685)	\$ (42)	\$ 54,722

12. We operate three business segments: Financial Services, Direct Checks and Business Services. Financial Services sells checks and related products and 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 businesses on behalf of financial institutions and directly to customers via direct mail and the Internet. All three segments operate only in the United States.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as presented in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001. 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. The following is our segment information for the quarter and six months ended June 30, 2002 and 2001 (dollars in thousands):

Quarter Ended June 30, 2002 and 2001

	Reportable Business Segments				
	Financial Services	Direct Checks	Business Services	Corporate	Consolidated
Revenue from external customers:					
2002	\$ 196,595	\$ 79,882	\$ 51,986	\$ —	\$ 328,463
2001	194,052	74,997	49,586	—	318,635
Operating income:					
2002	52,455	21,061	14,761	—	88,277
2001	42,524	16,090	13,250	—	71,864
Depreciation and amortization expense:					
2002	11,535	1,974	1,111	—	14,620
2001	16,029	4,172	1,629	—	21,830
Total assets:					
2002	283,816	144,770	31,910	89,535	550,031
2001	299,415	145,567	37,184	99,228	581,394
Capital purchases:					
2002	5,950	1,421	461	296	8,128
2001	4,949	1,835	546	82	7,412

Six Months Ended June 30, 2002 and 2001

	Reportable Business Segments				
	Financial Services	Direct Checks	Business Services	Corporate	Consolidated
Revenue from external customers:					
2002	\$ 388,884	\$ 160,755	\$ 107,732	\$ —	\$ 657,371
2001	381,109	155,138	99,070	—	635,317
Operating income:					
2002	100,816	43,139	33,481	—	177,436
2001	76,666	36,526	26,911	—	140,103
Depreciation and amortization expense:					
2002	23,159	3,858	2,256	—	29,273
2001	29,201	7,819	2,798	—	39,818
Total assets:					
2002	283,816	144,770	31,910	89,535	550,031
2001	299,415	145,567	37,184	99,228	581,394
Capital purchases:					
2002	13,644	2,476	712	367	17,199
2001	12,018	3,629	1,343	112	17,102

13. In August 2002, our board of directors approved a plan to repurchase up to 12 million shares of our common stock. No timeframe has been outlined for the completion of this plan. Additionally, the board approved a financial strategy intended to increase leverage. We plan to increase our debt level up to a maximum of \$700 million. The additional debt would be a combination of both long-term and short-term borrowings.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Company Profile**

We operate three business segments: Financial Services, Direct Checks and Business Services. Financial Services sells checks and related products and 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 businesses on behalf of financial institutions and directly to customers via direct mail and the Internet. All three segments operate only in the United States.

Results of Operations—Quarter Ended June 30, 2002 Compared to the Quarter Ended June 30, 2001

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

	Quarter Ended June 30,			
	2002		2001	
	\$	% of Revenue	\$	% of Revenue
Revenue from external customers:				
Financial Services	\$ 196,595	—	\$ 194,052	—
Direct Checks	79,882	—	74,997	—
Business Services	51,986	—	49,586	—
Total	\$ 328,463	—	\$ 318,635	—
Gross profit	217,903	66.3%	205,644	64.5%
Selling, general and administrative expense	129,595	39.5%	131,440	41.3%
Other operating expense (income) ¹	31	—	2,340	0.7%
Operating income:				
Financial Services	52,455	26.7%	\$ 42,524	21.9%
Direct Checks	21,061	26.4%	16,090	21.5%
Business Services	14,761	28.4%	13,250	26.7%
Total	\$ 88,277	26.9%	\$ 71,864	22.6%

¹ Other operating expense (income) consists of goodwill amortization expense in 2001 and asset impairment and disposition losses (gains).

Revenue—Revenue increased \$9.9 million, or 3.1%, to \$328.5 million for the second quarter of 2002 from \$318.6 million for the second quarter of 2001. Revenue per unit was up 4.5% as compared to 2001 due to a \$5.0 million contract buyout for the Financial Services segment in the second quarter of 2002, price increases in all three segments plus continued strength in selling licensed designs and services. Excluding the contract buyout, revenue per unit was up 2.9% compared to 2001. Partially offsetting the increase in revenue per unit, was a 1.4% decrease in unit volume. The decline was primarily due to lower financial institution conversion activity during 2002, as bank mergers and acquisitions were down from 2001.

Gross profit—Gross profit increased \$12.3 million, or 6.0%, to \$217.9 million for the second quarter of 2002 from \$205.6 million for the second quarter of 2001. As a percentage of revenue, gross margin increased to 66.3% for the second quarter of 2002 from 64.5% for the second quarter of 2001. The increase was due to the higher revenue per unit discussed above and continued focus on cost reductions and productivity improvements, including the conversion to lean and cellular manufacturing concepts in our Financial Services check printing plants.

Selling, general and administrative (SG&A) expense—SG&A expense decreased \$1.8 million, or 1.4%, to \$129.6 million for the second quarter of 2002 from \$131.4 million for the second quarter of 2001. As a percentage of revenue, SG&A expense decreased to 39.5% for the second quarter of 2002 from 41.3% for the second quarter of 2001. The improvement was primarily due to increased electronic and Internet orders across all businesses, lower depreciation and amortization expense as a result of reductions in capital purchases in recent years, as well as on-going cost management efforts, including productivity improvements within our call centers. Partially offsetting these decreases was an increase in advertising costs due to lower direct mail response rates within the Direct Checks segment.

Interest expense—Interest expense decreased \$0.3 million to \$1.2 million for the second quarter of 2002 from \$1.5 million for the second quarter of 2001. The decrease was due to lower interest rates partially offset by higher debt levels. During the second quarter of 2002, we had weighted-average debt outstanding of \$179.7 million at a weighted-average interest rate of 1.82%. During the second quarter of 2001, we had weighted-average debt outstanding of \$90.1 million at a weighted-average interest rate of 4.43%.

Provision for income taxes—Our effective tax rate for the second quarter of 2002 was 38.0% compared to 37.6% for the second quarter of 2001.

Net income—Net income increased \$10.4 million, or 23.5%, to \$54.7 million for the second quarter of 2002 from \$44.3 million for the second quarter of 2001. The improvement was due to the increases in revenue and gross profit and the reductions in SG&A expense discussed above. The \$5.0 million contract buyout discussed above contributed \$3.1 million to 2002 net income. Also contributing to the improvement was the change in accounting for goodwill required under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other 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. Adoption of this statement resulted in a \$1.0 million increase in net income compared to the second quarter of 2001.

Diluted earnings per share—Diluted earnings per share increased \$0.22, or 34.9%, to \$0.85 for the second quarter of 2002 from \$0.63 for the second quarter of 2001. In addition to the increases in net income discussed above, average shares outstanding decreased from 2001 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. As of June 30, 2002, all 14 million shares had been repurchased. The change in average shares outstanding resulting from the share repurchases, partially offset by the impact of shares issued under employee stock purchase and incentive plans, resulted in a \$0.07 increase in earnings per share for the second quarter of 2002 as compared to 2001.

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, we continue to account for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, our results of operations do not include compensation expense for fixed stock options issued under our stock incentive plan. Had this expense been included in our results, diluted earnings per share would have been \$0.01 lower for each of the quarters ended June 30, 2002 and 2001. This pro forma impact of stock-based compensation was calculated under a methodology consistent with that disclosed in the footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2001.

Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2002

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

	Six Months Ended June 30,			
	2002		2001	
	\$	% of Revenue	\$	% of Revenue
Revenue from external customers:				
Financial Services	\$ 388,884	—	\$ 381,109	—
Direct Checks	160,755	—	155,138	—
Business Services	107,732	—	99,070	—
Total	<u>\$ 657,371</u>	<u>—</u>	<u>\$ 635,317</u>	<u>—</u>
Gross profit	433,716	66.0%	405,140	63.8%
Selling, general and administrative expense	256,990	39.1%	261,916	41.2%
Other operating expense (income) ¹	(710)	(0.1%)	3,121	0.5%
Operating income:				
Financial Services	100,816	25.9%	\$ 76,666	20.1%
Direct Checks	43,139	26.8%	36,526	23.5%
Business Services	33,481	31.1%	26,911	27.2%
Total	<u>\$ 177,436</u>	<u>27.0%</u>	<u>\$ 140,103</u>	<u>22.1%</u>

¹ Other operating expense (income) consists of goodwill amortization expense in 2001 and asset impairment and disposition losses (gains).

Revenue—Revenue increased \$22.1 million, or 3.5%, to \$657.4 million for the first six months of 2002 from \$635.3 million for the first six months of 2001. Revenue per unit was up 4.0% as compared to 2001 due to price increases in all three segments, a \$5.0 million contract buyout for the Financial Services segment in the second quarter of 2002 plus continued strength in selling licensed designs and services. Excluding the contract buyout, revenue per unit was up 3.2% compared to 2001. Partially offsetting the increase in revenue per unit, was a 0.5% decrease in unit volume. The decline was due to lower financial institution conversion activity during

2002, as bank mergers and acquisitions were down from 2001, as well as lower consumer response rates in the Direct Checks segment.

Gross profit—Gross profit increased \$28.6 million, or 7.1%, to \$433.7 million for the first six months of 2002 from \$405.1 million for the first six months of 2001. As a percentage of revenue, gross margin increased to 66.0% for the first half of 2002 from 63.8% for the first half of 2001. The increase was due to the higher revenue per unit discussed above and continued focus on cost reductions, productivity improvements and reduced spoilage, including the conversion to lean and cellular manufacturing concepts in our Financial Services check printing plants.

Selling, general and administrative (SG&A) expense—SG&A expense decreased \$4.9 million, or 1.9%, to \$257.0 million for the first six months of 2002 from \$261.9 million for the first six months of 2001. As a percentage of revenue, SG&A expense decreased to 39.1% for the first half of 2002 from 41.2% for the first half of 2001. The improvement was primarily due to increased electronic and Internet orders across all businesses, lower depreciation and amortization expense as a result of reductions in capital purchases in recent years, as well as on-going cost management efforts, including productivity improvements within our call centers. Partially offsetting these decreases was an increase in advertising costs due to lower direct mail response rates within the Direct Checks segment.

Interest expense—Interest expense decreased \$1.0 million to \$2.1 million for the first six months of 2002 from \$3.1 million for the first six months of 2001. The decrease was due to lower interest rates partially offset by higher debt levels. During the first half of 2002, we had weighted-average debt outstanding of \$158.4 million at a weighted-average interest rate of 1.83%. During the first half of 2001, we had weighted-average debt outstanding of \$84.0 million at a weighted-average interest rate of 5.80%. In February 2001, we paid off \$100.0 million of unsecured and unsubordinated notes, which carried interest at 8.55%.

Provision for income taxes—Our effective tax rate for the first six months of 2002 was 38.0% compared to 37.5% for the first six months of 2001.

Net income—Net income increased \$22.5 million, or 25.9%, to \$109.3 million for the first six months of 2002 from \$86.8 million for the first six months of 2001. The improvement was due to the increases in revenue and gross profit and the reductions in SG&A expense discussed above. The \$5.0 million contract buyout discussed above contributed \$3.1 million to 2002 net income. Also contributing to the improvement was the change in accounting for goodwill explained above in the discussion of second quarter net income. This change resulted in a \$2.0 million increase in net income compared to the first six months of 2001.

Diluted earnings per share—Diluted earnings per share increased \$0.47, or 38.5%, to \$1.69 for the first six months of 2002 from \$1.22 for the first six months of 2001. In addition to the increases in net income discussed above, average shares outstanding decreased from 2001 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. As of June 30, 2002, all 14 million shares had been repurchased. The change in average shares outstanding resulting from the share repurchases, partially offset by the impact of shares issued under employee stock purchase and incentive plans, resulted in a \$0.15 increase in earnings per share for the first six months of 2002 as compared to 2001.

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, we continue to account for employee stock-based compensation in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, our results of operations do not include compensation expense for fixed stock options issued under our stock incentive plan. Had this expense been included in our results, diluted earnings per share would have been \$0.02 lower for each of the six month periods ended June 30, 2002 and 2001. This pro forma impact of stock-based compensation was calculated under a methodology consistent with that disclosed in the footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2001.

Segment Disclosures

Financial Services segment—Our Financial Services segment sells checks, related products and program management services on behalf of financial institutions. 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 quarters and six months ended June 30, 2002 and 2001 (dollars in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	\$ 196,595	\$ 194,052	\$ 388,884	\$ 381,109
Operating income	52,455	42,524	100,816	76,666
% of revenue	26.7%	21.9%	25.9%	20.1%

Financial Services revenue increased \$2.5 million, or 1.3%, to \$196.6 million for the second quarter of 2002 from \$194.1 million for the second quarter of 2001. The improvement was due to a \$5.0 million contract buyout in the second quarter of 2002, price increases and increased sales of licensed designs, partially offset by lower volume due to less financial institution conversion activity during 2002. Operating income increased \$10.0 million, or 23.4%, to \$52.5 million for the second quarter of 2002 from \$42.5 million for the second quarter of 2001. The improvement was due to the revenue increase, lower depreciation and amortization as a result of lower levels of capital purchases in recent years, continued focus on cost reductions and productivity improvements, including the transformation to lean and cellular manufacturing concepts, as well as increased efficiencies due to a shift from mail to electronic orders.

Financial Services revenue increased \$7.8 million, or 2.0%, to \$388.9 million for the first six months of 2002 from \$381.1 million for the first six months of 2001. The increase was due to price increases, a \$5.0 million contract buyout in the second quarter of 2002, share gain during the last half of 2001 and increased sales of licensed designs. These improvements were partially offset by lower volume due to the overall decline in the check printing industry, as well as lower financial institution conversion activity during 2002. Operating income increased \$24.1 million, or 31.5%, to \$100.8 million for the first six months of 2002 from \$76.7 million for the first six months of 2001. The improvement was due to the revenue increase, continued focus on cost reductions, productivity improvements and reduced spoilage, including the transformation to lean and cellular manufacturing concepts, lower depreciation and amortization as a result of lower levels of capital purchases in recent years, and increased efficiencies due to a shift from mail to electronic orders.

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 cooperative advertising. We also use e-commerce strategies to direct traffic to our websites. 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 quarters and six months ended June 30, 2002 and 2001 (dollars in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	\$ 79,882	\$ 74,997	\$ 160,755	\$ 155,138
Operating income	21,061	16,090	43,139	36,526
% of revenue	26.4%	21.5%	26.8%	23.5%

Direct Checks revenue increased \$4.9 million, or 6.5%, to \$79.9 million for the second quarter of 2002 from \$75.0 million for the second quarter of 2001. The increase was due to higher revenue per unit as a result of price increases and the sale of higher priced products, including continued strength in selling licensed designs. Additionally, volume increased due to the effectiveness of our selling techniques, resulting in increased units per order. Operating income increased \$5.0 million, or 30.9%, to \$21.1 million for the second quarter of 2002 from \$16.1 million for the second quarter of 2001. The change in accounting for goodwill explained earlier in our discussion of second quarter net income accounted for \$1.5 million of the increase. In addition, the improvement was due to the revenue increase, as well as continued cost management and productivity improvements within the manufacturing and call center functions. Partially offsetting these improvements were increased advertising costs due to lower direct mail response rates. The slow-down in the United States economy has made it challenging to acquire suitable advertising media for our traditional means of new customer acquisition. There has been an overall softening in direct mail industry response rates and as such, some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements have reduced their circulations or gone out of business.

Direct Checks revenue increased \$5.7 million, or 3.6%, to \$160.8 million for the first six months of 2002 from \$155.1 million for the first six months of 2001. The increase was due to higher revenue per unit as a result of price increases and the sale of higher priced products, including continued strength in selling licensed designs, partially offset by a decrease in volume as direct mail response rates

were down. Operating income increased \$6.6 million, or 18.1%, to \$43.1 million for the first six months of 2002 from \$36.5 million for the first six months of 2001. The change in accounting for goodwill explained earlier in our discussion of second quarter net income accounted for \$3.1 million of the increase. In addition, the improvement was due to the revenue increase, as well as continued cost management and productivity improvements within the manufacturing and call center functions. Partially offsetting these improvements were increased advertising costs due to the lower direct mail response rates discussed above.

Business Services segment—Our Business Services segment sells checks, forms and related products to small businesses 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 new account opening. We also use a variety of direct marketing techniques to acquire and retain customers. The following table shows the results of this segment for the quarters and six months ended June 30, 2002 and 2001 (dollars in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	\$ 51,986	\$ 49,586	\$ 107,732	\$ 99,070
Operating income	14,761	13,250	33,481	26,911
% of revenue	28.4%	26.7%	31.1%	27.2%

Business Services revenue increased \$2.4 million, or 4.8%, to \$52.0 million for the second quarter of 2002 from \$49.6 million for the second quarter of 2001. The increase was due to higher revenue per unit as a result of price increases, as well as increased volume primarily from financial institution referrals, partially offset by lower financial institution conversion activity during 2002. Operating income increased \$1.5 million, or 11.4%, to \$14.8 million for the second quarter of 2002 from \$13.3 million for the second quarter of 2001. The improvement was due to the revenue increase and continued cost management efforts.

Business Services revenue increased \$8.6 million, or 8.7%, to \$107.7 million for the first six months of 2002 from \$99.1 million for the first six months of 2001. The increase was due to higher revenue per unit as a result of price increases, as well as increased volume primarily from financial institution referrals, partially offset by lower financial institution conversion activity during 2002. Operating income increased \$6.6 million, or 24.4%, to \$33.5 million for the first six months of 2002 from \$26.9 million for the first six months of 2001. The improvement was due to the revenue increase, reduced material costs and continued cost management efforts.

Liquidity, Capital Resources and Financial Condition

As of June 30, 2002, we had cash and cash equivalents of \$5.2 million. The following table shows our cash flow activity for the first six months of 2002 and 2001 and should be read in conjunction with the consolidated statements of cash flows (dollars in thousands):

	Six Months Ended June 30,	
	2002	2001
Net cash provided by operating activities	\$ 121,358	\$ 91,321
Net cash used by investing activities	(21,463)	(12,248)
Net cash used by financing activities	(104,271)	(153,664)
Net decrease in cash and cash equivalents	\$ (4,376)	\$ (74,591)

During the first six months of 2002, net cash provided by operating activities of \$121.4 million was primarily generated by earnings before interest, taxes, depreciation and amortization (EBITDA¹) of \$207.4 million. The operating cash inflows were utilized primarily to fund income tax payments, 2001 employee profit sharing and pension contributions, voluntary employee benefit association (VEBA) trust contributions, and contract acquisition payments made to our financial institution clients. Net cash provided by operating activities during the first six months of 2002, the net issuance of \$41.6 million of commercial paper, cash receipts of \$24.7 million from shares issued under employee plans, and cash on hand at December 31, 2001 enabled us to spend \$118.4 million on share repurchases, to pay dividends of \$47.1 million and to purchase capital assets of \$17.2 million.

During the first six months of 2001, net cash provided by operating activities of \$91.3 million was primarily generated by EBITDA of \$179.9 million. These operating cash inflows were utilized primarily to fund income tax payments, 2000 employee profit sharing and pension contributions, contract acquisition payments and VEBA trust contributions. The net issuance of \$116.2 million of commercial paper, net cash provided by operating activities during the first six months of 2001 and cash on hand at December 31, 2000 enabled us to spend \$122.5 million on share repurchases, to make payments on long-term debt of \$100.7 million, to pay dividends of \$52.6 million and to purchase capital assets of \$17.1 million.

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 less purchases of capital assets and cash dividends paid to shareholders. EBIT to interest expense was 85.1 times for the first half of 2002 and 45.6 times for the first half of 2001. Our committed line of credit contains covenants requiring a minimum EBIT to interest expense ratio of 2.5 times. The increase in 2002 was due to the improvements in operating results discussed above under Results of Operations and lower interest expense in 2002 resulting from lower interest rates. Free cash flow to debt on a four-quarter trailing basis through June 30, 2002 was 86.7%. For the year ended December 31, 2001 this ratio was 86.8%. The higher debt level as of June 30, 2002 as a result of our share repurchase program was partially offset by increased EBITDA and the lower level of dividends paid in 2002 based on fewer shares outstanding.

We currently have a \$300.0 million commercial paper program in place. Our commercial paper program carries a credit rating of A1/P1. 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 the first six months of 2002 was \$158.4 million at a weighted-average interest rate of 1.83%. As of June 30, 2002, \$191.6 million was outstanding at a weighted-average interest rate of 1.89%. The average amount of commercial paper outstanding during 2001 was \$90.9 million at a weighted-average interest rate of 3.37%. As of December 31, 2001, \$150.0 million was outstanding at a weighted-average interest rate of 1.85%.

We currently have \$350.0 million available under a committed line of credit which supports our commercial paper program and is available for borrowing. The commitment fee on this line is seven basis points. This line of credit expires on August 22, 2002, and we expect that we will be able to obtain a replacement line or lines of credit at generally the same terms. The agreement which governs the committed line of credit contains customary covenants regarding EBIT to interest expense coverage and levels of subsidiary indebtedness. We believe the risk of violating our financial covenants is low. During the first six months of 2002 and during 2001, no amounts were drawn on this line of credit and as of June 30, 2002 and December 31, 2001, no amounts were outstanding under this line of credit.

We also have available \$50.0 million under an uncommitted line of credit. During the first six months of 2002, no amounts were drawn on this line. The average amount drawn during 2001 was \$1.3 million at a weighted-average interest rate of 4.26%. As of June 30, 2002 and December 31, 2001, 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

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 increase the valuation of our business.

of outstanding indebtedness and other securities of Deluxe. As of June 30, 2002 and December 31, 2001, no such notes were issued or outstanding.

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. A list of our minimum contractual cash commitments has been provided in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the year ended December 31, 2001. There were no significant changes to these minimum contractual cash commitments during the first six months of 2002.

In connection with the spin-off of eFunds Corporation (eFunds) on December 29, 2000, we agreed to indemnify eFunds for future losses arising from any litigation based on the conduct of eFunds' electronic benefits transfer and medical eligibility verification business prior to eFunds' initial public offering in June 2000, and for 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 June 30, 2002, no amounts have been paid or claimed under this indemnification agreement. This obligation is not reflected in the consolidated balance sheet, as it is not probable at this time that any payment will occur.

Critical Accounting Policies

A description of our critical accounting policies has been provided in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the year ended December 31, 2001.

Recent Developments

On January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, in its entirety. This statement addresses accounting and financial reporting for goodwill and intangible assets. Under the new statement, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment testing on at least an annual basis. Other than goodwill, we have no intangible assets with indefinite lives. Adoption of this statement resulted in no goodwill impairment losses and had no impact on our financial position as of January 1, 2002. In addition, the remaining useful lives of amortizable intangible assets were reviewed and deemed appropriate. The following pro forma information reflects our results of operations as they would have appeared had we not recorded goodwill amortization and its related tax effects during 2001 (dollars in thousands, except per share amounts):

	Quarter Ended June 30, 2001	Six Months Ended June 30, 2001
Reported net income	\$ 44,312	\$ 86,791
Add back: goodwill amortization, net of tax	995	1,990
Adjusted net income	\$ 45,307	\$ 88,781
Reported basic earnings per share	\$ 0.64	\$ 1.23
Add back: goodwill amortization, net of tax	0.01	0.03
Adjusted basic earnings per share	\$ 0.65	\$ 1.26
Reported diluted earnings per share	\$ 0.63	\$ 1.22
Add back: goodwill amortization, net of tax	0.02	0.03
Adjusted diluted earnings per share	\$ 0.65	\$ 1.25

As of June 30, 2002, we completed the 14 million share repurchase program approved by our board of directors in January 2001. The total cost to purchase the 14 million shares was \$463.8 million. Primarily as a result of the required accounting treatment for these share repurchases, shareholders' equity decreased from \$262.8 million as of December 31, 2000 to \$54.7 million as of June 30, 2002, and we were in a retained deficit position as of June 30, 2002.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses the financial accounting and reporting for costs associated with exit or disposal activities, including costs to terminate contracts that are not capital leases, costs to consolidate facilities or relocate employees and one-time termination benefits provided to employees who are involuntarily terminated. We must adopt this statement by January 1, 2003. The adoption of this statement will have no impact on our results of operations or financial position, as it applies only to exit or disposal activities initiated on or after the date of adoption.

In August 2002, our board of directors approved a plan to repurchase up to 12 million shares of our common stock. No timeframe has been outlined for the completion of this plan. Additionally, the board approved a financial strategy intended to increase leverage. We plan to increase our debt level up to a maximum of \$700 million. The additional debt would be a combination of both long-term and short-term borrowings. As a result of this announcement, our long-term credit rating was downgraded to 'A' from 'A+' by one rating agency and was placed under review for possible downgrade by another rating agency. However, we still maintain a strong investment-grade credit rating and expect no impact on our ability to borrow.

Outlook

The downturn in the United States economy had limited impact on our 2001 results of operations. In 2002 we are seeing an impact in our direct-to-the-consumer businesses. There has been a softening in overall direct mail industry response rates and as such, some of the cooperative mailers and other businesses we have relied upon to distribute direct mail advertisements have reduced their circulations or gone out of business. This is our primary method of acquiring new customers. Thus, we continue to explore new advertising opportunities such as the Internet and other partnerships to replace traditional media sources. While we cannot predict what impact a prolonged war on terrorism or other factors, including the current business environment, will have on the United States economy, our plan is to continue to manage expenses, invest in our business and purchase capital assets when they will reduce operating expenses, increase productivity or profitably increase revenue.

We expect revenue for 2002 to be up modestly from 2001 primarily due to higher revenue per unit from expanded product offerings and sales of higher priced products, such as licensed check designs. We expect this improvement to be partially offset by the overall decline in the check printing industry and the competitive pricing pressure we continue to face in the Financial Services segment.

We do not expect our results of operations during the last six months of 2002 to be as strong as the first six months of 2002 due to the anniversary of share gains from last year, increased investment in both revenue generating and cost saving initiatives, the impact of higher postal rates that went into effect in June 2002 and the recent downward trend in direct mail response rates. However, cost management and productivity improvements, primarily from the transformation to lean and cellular manufacturing concepts and an increasing mix of orders coming through electronic and Internet channels, are expected to continue. We expect diluted earnings per share to be at least \$3.15 for the full year and in the range of \$0.76 to \$0.79 for the third quarter of 2002 compared to \$2.69 and \$0.75 for the full year and third quarter of 2001, respectively.

As discussed above under Recent Developments, in August 2002 our board of directors approved a plan to repurchase up to 12 million shares of our common stock. Additionally, the board approved a financial strategy intended to increase leverage. We plan to increase our debt level up to a maximum of \$700 million. The additional debt would be a combination of both long-term and short-term borrowings. These steps are intended to enhance shareholder value by allowing us to: (1) manage to our target capital structure; (2) acquire shares from time to time, at prices we believe to be opportunistic; and (3) minimize dilution resulting from shares issued through our employee share purchase plan and stock-based compensation program. In addition to share repurchases, we also intend to utilize the additional debt, along with cash generated by operations, to fund dividend payments, capital asset purchases, additional contract acquisition payments related to signing or renewing contracts with financial institutions and new product initiatives.

We expect to spend less than \$40.0 million on purchases of 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.

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 and new services. Our Business Services segment introduced, in June 2002, business cards, stationery and envelope product lines. Additionally, our Financial Services segment recently launched a comprehensive new service – DeluxeSelect (SM) – for its financial institution clients. DeluxeSelect (SM) provides financial institution customers more information regarding check-related products as they interact directly with our professional sales associates or order their checks via the Internet. We can actively promote product upgrades during both the new account opening and check re-ordering processes, by engaging consumers through our call centers, advanced Internet ordering capabilities and point-of-sale marketing support at branches.

In addition to investments in revenue-generating programs such as DeluxeSelect (SM) and non-check product offerings, we continue to invest in areas of the business where we can reduce costs and increase productivity. Our conversion to a cellular manufacturing environment in our check printing facilities is one example of this. 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 and service levels and a reduction in cost per unit. Our conversion to cellular began in 2000, and the process is expected to be completed in our Financial Services check printing facilities in early 2003.

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (“the Reform Act”) provides companies with a “safe harbor” when making forward-looking statements as a way of encouraging them to furnish their shareholders with information regarding expected trends in their operating results, anticipated business developments and other prospective information. Statements made in this report concerning our intentions, expectations or predictions about future results or events are “forward-looking statements” within the meaning of the Reform Act. These statements reflect our current expectations or beliefs, and are subject to risks and uncertainties that could cause actual results or events to vary from stated expectations, 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 Item 5 of this Report.

Item 3. *Quantitative and Qualitative Disclosure 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 the first six months of 2002 and 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. 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 June 30, 2002, we had \$191.6 million of commercial paper outstanding at a weighted-average interest rate of 1.89%. 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, a one percentage point increase in interest rates would have resulted in additional interest expense of \$0.8 million for the first six months of 2002 and \$0.3 million for the first six months of 2001. Other than capital lease obligations, we had no long-term debt outstanding as of June 30, 2002. Also as of that date, we had no fixed income securities in our investment portfolio.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Other than routine litigation incidental to our business, we are not subject to any material pending legal proceedings.

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

The Company held its annual shareholders' meeting on May 7, 2002.

55,375,126 shares were represented (86.16% of the 64,270,928 shares outstanding and entitled to vote at the meeting). Four items were considered at the meeting and the results of the voting were as follows:

1. Election of Directors:

The nominees in the proxy statement were: Lawrence J. Mosner, Ronald E. Eilers, Barbara B. Grogan, Stephen P. Nachtsheim, Donald R. Hollis, Robert C. Salipante, Cheryl E. Mayberry McKissack, Daniel D. Granger, Charles A. Haggerty and Martyn R. Redgrave. The results were as follows:

<u>Election of Directors</u>	<u>For</u>	<u>Withhold</u>
Lawrence J. Mosner	54,926,823	448,303
Ronald E. Eilers	54,923,503	451,623
Barbara B. Grogan	54,911,718	463,408
Stephen P. Nachtsheim	54,928,210	446,916
Donald R. Hollis	54,926,766	448,360
Robert C. Salipante	54,917,371	457,755
Cheryl E. Mayberry McKissack	54,929,618	445,508
Daniel D. Granger	54,914,062	461,064
Charles A. Haggerty	54,921,087	454,039
Martyn R. Redgrave	54,910,111	465,015

2. Approval of the Deluxe Corporation 2000 Employee Stock Purchase Plan for the purpose of qualifying the Plan under Section 423 of the Internal Revenue Code:

For:	42,770,343
Against:	3,955,332
Abstain:	302,228
Broker Non-Votes:	8,347,223

3. Approval of Amendments to the Deluxe Corporation 2000 Stock Incentive Plan increasing the number of shares available for issuance under the Plan, extending the term of the Plan, and allowing for annual stock option grants to non-employee Directors:

For:	38,511,080
Against:	7,942,805
Abstain:	574,018
Broker Non-Votes:	8,347,223

4. Ratification of the selection of PricewaterhouseCoopers LLP as independent auditors:

For:	54,532,442
Against:	551,522
Abstain:	291,162

Item 5. *Other Information*

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 Quarterly Report on Form 10-Q, 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 August 2002, we announced that our board of directors approved the repurchase of up to 12 million shares of our common stock. Stock repurchase activities are subject to certain pricing restrictions, stock market forces, management discretion and various regulatory requirements. As a result, there can be no assurance as to the timing and/or amount of shares that we may repurchase under the program.

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.

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 effect certain acquisitions, to issue our shares or to execute other transactions that would result in a change of control of Deluxe. The stock repurchase program completed in June 2002 and the repurchase plan approved by our board of directors in August 2002 were structured 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 is subject to change. In addition, any new operations of these businesses in states where they do not presently have a physical presence could subject shipments of goods by these businesses into such states to sales tax under current or future laws. If one or more state or local jurisdictions successfully asserts that we must collect sales or other taxes beyond our current practices, it could have a material, adverse affect on our business.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Articles of Incorporation (incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 1990).	*
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).	*
4.1	Amended and Restated Rights Agreement, dated as of January 31, 1997, by and between the Company 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	Amended and Restated 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2001).	*
10.2	2000 Stock Incentive Plan, as Amended.	Filed herewith
12.2	Statement re: computation of ratios.	Filed herewith
99.1	CEO Certification of Periodic Report	Filed herewith
99.2	CFO Certification of Periodic Report	Filed herewith

* Incorporated by reference

(b) Reports on Form 8-K:

A report on Form 8-K was filed on August 8, 2002 relating to the requirements of the Securities and Exchange Commission Order of June 27, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELUXE CORPORATION
(Registrant)

/s/ LAWRENCE J. MOSNER

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

Date: August 12, 2002

/s/ DOUGLAS J. TREFF

Douglas J. Treff
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Date: August 12, 2002

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>	<u>Page Number</u>
10.2	2000 Stock Incentive Plan, as Amended	
12.2	Statement re: computation of ratios	
99.1	CEO Certification of Periodic Report	
99.2	CFO Certification of Periodic Report	

DELUXE CORPORATION 2000 STOCK INCENTIVE PLAN, AS AMENDED

Section 1. Purpose.

The purpose of the plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting management personnel capable of assuring the future success of the Company, by offering such personnel incentives to put forth maximum efforts for the success of the Company's business, and by affording such personnel an opportunity to acquire a proprietary interest in the Company.

Section 2. Definitions.

As used in the plan, the following terms shall have the meanings set forth below:

- (a) "*Affiliate*" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the committee.
- (b) "*Award*" shall mean any option, stock appreciation right, restricted stock, restricted stock unit, performance award, dividend equivalent or other stock-based award granted under the plan.
- (c) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing any award granted under the plan.
- (d) "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.
- (e) "*Committee*" shall mean a committee of the board of directors of the Company designated by such board to administer the plan, which shall consist of members appointed from time to time by the board of directors and shall be comprised of not fewer than such number of directors as shall be required to permit grants and awards made under the plan to satisfy the requirements of Rule 16b-3. Each member of the committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Section 162(m) of the Code.
- (f) "*Company*" shall mean DELUXE CORPORATION, a Minnesota corporation, and any successor corporation.
- (g) "*Dividend Equivalent*" shall mean any right granted under Section 6(e) of the plan.
- (h) "*Eligible Person*" shall mean a non-employee director and any employee (as determined by the committee) providing services to the Company or any affiliate who the committee determines to be an eligible person.
- (i) "*Fair Market Value*" shall mean, with respect to any property (including, without limitation, any shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the committee.
- (j) "*Incentive Stock Option*" shall mean an option granted under Section 6(a) of the plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.
- (k) "*Non-Employee Director*" shall have the meaning provided in Section 7.1 of the plan.
- (l) "*Non-Qualified Stock Option*" shall mean an option granted under Section 6(a) of the plan that is not intended to be an incentive stock option.
- (m) "*Option*" shall mean an incentive stock option or a non-qualified stock option and shall be deemed to include any reload option issued under the plan.

(n) “*Other Stock-Based Award*” shall mean any right granted under Section 6(f) of the plan.

(o) “*Participant*” shall mean an eligible person designated to be granted an award under the plan.

(p) “*Performance Award*” shall mean any right granted under Section 6(d) of the plan.

(q) “*Person*” shall mean any individual, corporation, partnership, association or trust.

(r) “*Plan*” shall mean this stock incentive plan, as amended from time to time.

(s) “*Reload Option*” means an option issued under Section 6(a) to purchase a number of shares equal to the number of shares delivered by an option holder (or such lesser number as the committee may determine) in payment of all or any portion of the exercise price of an option previously granted under this plan to such holder, provided that the option term of such option shall not end later than the option term of the option so exercised

(t) “*Reload Option Feature*” means provisions in an option granted under this plan that permit the holder of the option to receive a reload option upon the exercise of the option through the delivery of shares in payment of all or any portion of the exercise price. A reload option feature may be included in any reload option issued under the plan.

(u) “*Restricted Stock*” shall mean any share granted under Section 6(c) of the plan.

(v) “*Restricted Stock Unit*” shall mean any unit granted under Section 6(c) of the plan evidencing the right to receive a share (or a cash payment equal to the fair market value of a share) at some future date.

(w) “*Rule 16b-3*” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation.

(x) “*Shares*” shall mean shares of common stock, \$1.00 par value, of the Company or such other securities or property as may become subject to awards pursuant to an adjustment made under Section 4(c) of the plan.

(y) “*Stock Appreciation Right*” shall mean any right granted under Section 6(b) of the plan.

Section 3. Administration.

(a) *Power and Authority of the Committee.* The plan shall be administered by the committee. Except as provided in Section 7 and subject to the express provisions of the plan and to applicable law, the committee shall have full power and authority to: (i) designate participants; (ii) determine the type or types of awards to be granted to each participant under the plan; (iii) determine the number of shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) each award; (iv) determine the terms and conditions of any award or award agreement; (v) amend the terms and conditions of any award or award agreement and accelerate the exercisability of options or the lapse of restrictions relating to restricted stock or other awards; (vi) determine whether, to what extent and under what circumstances awards may be exercised in cash, shares, other securities, other awards or other property, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, shares, other securities, other awards, other property and other amounts payable with respect to an award under the plan shall be deferred either automatically or at the election of the holder thereof or the committee; (viii) interpret and administer the plan and any instrument or agreement relating to, or award made under, the plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the plan; and (x) make any other determination and take any other action that the committee deems necessary or desirable for the administration of the plan. Unless otherwise expressly provided in the plan, all designations, determinations, interpretations and other decisions under or with respect to the plan or any award shall be within the sole discretion of the committee, may be made at any time and shall be final, conclusive and binding upon any participant, any holder or beneficiary of any award and any employee of the Company or any affiliate.

(b) *Delegation.* The committee may delegate its powers and duties under the plan to one or more officers of the company or an affiliate or a committee of such officers, subject to such terms, conditions and limitations as the committee may establish in its sole discretion; provided, however, that the

committee shall not delegate its powers and duties under the plan (i) with regard to officers or directors of the Company or any affiliate who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, if the effect of such delegation would make the exemption under Rule 16b-3 unavailable or (ii) in such a manner as would cause the plan not to comply with the requirements of Section 162(m) of the Code.

Section 4. Shares Available for Awards.

(a) *Shares Available.* Subject to adjustment as provided in Section 4(c), the number of shares available for granting awards under the plan shall be 8,500,000. (The plan was originally approved with 3,000,000 shares available and was amended by the board of directors of the Company on January 25, 2002, subject to shareholder approval, to increase the shares available by 5,500,000.) Shares to be issued under the plan may be either shares reacquired or authorized but unissued shares. If any shares covered by an award or to which an award relates are not purchased or are forfeited, or if an award otherwise terminates without delivery of any shares, then the number of shares counted against the aggregate number of shares available under the plan with respect to such award, to the extent of any such forfeiture or termination, shall again be available for grants under the plan. Shares delivered in payment of the option exercise price of an option containing a reload option feature shall again be available for granting awards under the plan (other than incentive stock options) to the extent that the number of shares so delivered are made subject to an option granted pursuant to the said reload option feature. Shares delivered in payment of the option exercise price of an option not containing a reload option feature shall again be available for granting awards under the plan (other than incentive stock options) to the extent that the number of shares so delivered are made subject to an option granted pursuant to section 6(a)(v).

(b) *Accounting for Awards.* For purposes of this Section 4, if an award entitles the holder thereof to receive or purchase shares, the number of shares covered by such award or to which such award relates shall be counted on the date of grant of such award against the aggregate number of shares available for grants under the plan.

(c) *Adjustments.* In the event that the committee shall determine that any dividend or other distribution (whether in the form of cash, shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities of the Company, issuance of warrants or other rights to purchase shares or other securities of the Company or other similar corporate transaction or event affects the shares such that an adjustment is determined by the committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the plan, then the committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of shares (or other securities or other property) which thereafter may be made the subject of awards, (ii) the number and type of shares (or other securities or other property) subject to outstanding awards and (iii) the purchase or exercise price with respect to any award; provided, however, that the number of shares covered by any award or to which such award relates shall always be a whole number.

(d) *Awards Limitation Under the Plan.* No eligible person may be granted any award or awards under the plan (including the Company's performance share plan) of more than 400,000 shares, in the aggregate, in any calendar year. The foregoing limitation shall not include any shares acquired pursuant to the annual incentive plan. Furthermore, no more than 1,000,000 shares, in the aggregate, may be issued under the plan in the form of restricted stock, restricted stock units or performance awards, or any combination thereof.

Section 5. Eligibility.

Any eligible person, including any eligible person who is an officer or director of the Company or any affiliate, shall be eligible to be designated a participant. In determining which eligible persons shall receive an award and the terms of any award, the committee may take into account the nature of the services rendered by the respective eligible persons, their present and potential contributions to the success of the Company, and such other factors as the committee, in its discretion shall deem relevant. Notwithstanding the foregoing, incentive stock options may only be granted to full or part-time employees (which term as used herein includes, without limitation, officers and directors who are also employees) and an incentive stock option shall not be granted to an employee of an affiliate unless such affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards.

(a) *Options.* The committee is hereby authorized to grant options to participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the plan as the committee shall determine:

(i) *Exercise Price.* The purchase price per share purchasable under an option shall be determined by the committee; provided, however, that such purchase price shall not be less than 100 percent of the fair market value of a share on the date of grant of such option and provided further, that in no event shall options previously granted under this Plan be re-priced by reducing the exercise price thereof, nor shall options previously granted under this Plan be cancelled and replaced by a subsequent re-grant under this Plan of options having an exercise price lower than the options so cancelled.

(ii) *Option Term.* The term of each option shall be fixed by the committee.

(iii) *Time and Method of Exercise.* The committee shall determine the time or times at which an option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, shares, promissory notes, other securities, other awards or other property, or any combination thereof, having a fair market value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) *Reload Option Feature.* The committee may determine, in its discretion, whether to grant an option containing a reload option feature and whether any reload option issued upon the exercise of an option containing a reload option feature may itself contain a reload option feature.

(v) *Issuance of Options to Replace Shares.* The committee may determine, in its discretion, whether to grant to a participant who exercises by delivery of shares in payment of all or any portion of the exercise price an option, previously or hereafter granted under the plan, that does not contain a reload option feature, an option to acquire the number of shares so delivered (or such lesser number as the committee may determine), provided that the option term of such option shall not end later than the option term of the option so exercised.

(b) *Stock Appreciation Rights.* The committee is hereby authorized to grant stock appreciation rights to participants subject to the terms of the plan and any applicable award agreement. A stock appreciation right granted under the plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the fair market value of one share on the date of exercise (or, if the committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the stock appreciation right as specified by the committee, which price shall not be less than 100 percent of the fair market value of one share on the date of grant of the stock appreciation right. Subject to the terms of the plan and any applicable award agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any stock appreciation right shall be as determined by the committee. The committee may impose such conditions or restrictions on the exercise of any stock appreciation right as it may deem appropriate.

(c) *Restricted Stock and Restricted Stock Units.* The committee is hereby authorized to grant awards of restricted stock and restricted stock units to participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the plan as the committee shall determine:

(i) *Restrictions.* Shares of restricted stock and restricted stock units shall be subject to such restrictions as the committee may impose (including, without limitation, any limitation on the right to vote a share of restricted stock or the right to receive any dividend or other right or property with respect thereto or with respect to a restricted stock unit), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the committee may deem appropriate.

(ii) *Stock Certificates.* Any restricted stock granted under the plan may be evidenced by issuance of a stock certificate or certificates or by the creation of a book entry at the Company's transfer

agent. Any such certificate or certificates shall be held by the Company. Such certificate or certificates or book entry shall be registered in the name of the participant and any such certificate or certificates shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such restricted stock. A similar notation shall be made in the records of the transfer agent with respect to any shares evidenced by a book entry. In the case of restricted stock units, no shares shall be issued at the time such awards are granted.

(iii) *Forfeiture; Delivery of Shares.* Except as otherwise determined by the committee or provided in a plan governed by this Plan, upon termination of employment (as determined under criteria established by the committee) or, in the case of a director, service as a director during the applicable restriction period, all shares of restricted stock and all restricted stock units at such time subject to restriction shall be forfeited and reacquired by the Company; provided, however, that the committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to shares of restricted stock or restricted stock units. Any share representing restricted stock that is no longer subject to restrictions shall be delivered to the holder thereof promptly after the applicable restrictions lapse or are waived. Upon the lapse or waiver of restrictions and the restricted period relating to restricted stock units evidencing the right to receive shares, such shares shall be issued and delivered to the holders of the restricted stock units, subject to the provisions of the plan and any applicable award agreement.

(d) *Performance Awards.* The committee is hereby authorized to grant performance awards to participants subject to the terms of the plan and any applicable award agreement. A performance award granted under the plan (i) may be denominated or payable in cash, shares (including, without limitation, restricted stock and restricted stock units), other securities, other awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the committee shall establish. Subject to the terms of the plan and any applicable award agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any performance award granted, the amount of any payment or transfer to be made pursuant to any performance award, and any other terms and conditions of any performance award shall be determined by the committee.

(e) *Dividend Equivalents.* The committee is hereby authorized to grant to participants dividend equivalents under which such participants shall be entitled to receive payments (in cash, shares, other securities, other awards or other property as determined in the discretion of the committee) equivalent to the amount of cash dividends paid by the Company to holders of shares with respect to a number of shares determined by the committee. Subject to the terms of the plan and any applicable award agreement, such dividend equivalents may have such terms and conditions as the committee shall determine.

(f) *Other Stock-based Awards.* The committee is hereby authorized to grant to participants such other awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares (including, without limitation, securities convertible into shares), as are deemed by the committee to be consistent with the purpose of the plan; provided, however, that such grants must comply with Rule 16b-3 and applicable law. Subject to the terms of the plan and any applicable award agreement, the committee shall determine the terms and conditions of such awards. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(f) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, shares, promissory notes, other securities, other awards or other property or any combination thereof), as the committee shall determine, the value of which consideration, as established by the committee, shall not be less than 100 percent of the fair market value of such shares or other securities as of the date such purchase right is granted.

(g) *General*

(i) *No Cash Consideration for Awards.* Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) *Awards May Be Granted Separately or Together.* Awards may, in the discretion of the committee, be granted either alone or in addition to, in tandem with, or in substitution for any other award or any award granted under any plan of the Company or any affiliate other than the plan. Awards granted in addition to or in tandem with other awards or in addition to or in tandem with awards granted under any such other plan of the Company or any affiliate, may be granted either at the same time as or at a different time from the grant of such other award or awards.

(iii) *Forms of Payments Under Awards.* Subject to the terms of the plan and of any applicable award agreement, payments or transfers to be made by the Company or an affiliate upon the grant, exercise or payment of an award may be made in such form or forms as the committee shall determine (including, without limitation, cash, shares, promissory notes, other securities, other awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of dividend equivalents with respect to installment or deferred payments.

(iv) *Limits on Transfer of Awards.* No award and no right under any such award shall be transferable by a participant otherwise than by will or by the laws of descent and distribution; provided, however, that if so determined by the committee, a participant may, in the manner established by the committee, (x) designate a beneficiary or beneficiaries to exercise the rights of the participant and receive any property distributable with respect to any award upon the death of the participant, or (y) transfer an award (other than an incentive stock option) to any member of such participant's "immediate family" (as such term is defined in Rule 16a-1(e) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation) or to a trust whose beneficiaries are members of such participant's "immediate family." Each award or right under any award shall be exercisable during the participant's lifetime only by the participant, or by a member of such participant's immediate family or a trust for members of such immediate family pursuant to a transfer as described above, or if permissible under applicable law, by the participant's guardian or legal representative. No award or right under any such award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any affiliate.

(v) *Term of Awards.* The term of each award shall be for such period as may be determined by the committee.

(vi) *Restrictions; Securities Exchange Listing.* All certificates for shares or other securities delivered under the plan pursuant to any award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the committee may deem advisable under the plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. If the shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any shares or other securities covered by an award unless and until such shares or other securities have been admitted for trading on such securities exchange.

(vii) *Attestation.* Where the plan or any applicable award agreement provides for or permits delivery of shares by a participant in payment with respect to any award or grant under this plan or for taxes, such payment may be made constructively through attestation in the discretion of and in accordance with rules established by the committee.

Section 7. Awards to Non-employee Directors.

7.1 *Eligibility; One-Time Award.* If this plan is approved by the shareholders of the Company at the annual meeting of the shareholders in 2000 (the 2000 annual meeting), each member of the board of directors who is not an employee of the Company or of any affiliate of the Company (a non-employee director) who is elected to the board subsequent to December 31, 2000 shall, upon the date of his or her initial election to the board, receive an award of 1,000 shares of restricted stock. These shares shall vest in three equal installments, on the dates of the annual shareholder meeting in each of the three succeeding years, if such director remains in office immediately following such meeting. In the event that in accordance with the Company's policy with respect to mandatory retirement of directors, any director is not nominated for election to serve as a director of the Company, all restricted stock so awarded shall immediately vest in full upon such director's retirement from the board. If a director ceases to be a director prior to the date on which the award is fully vested for any reason other than mandatory retirement, any unvested portion of the award shall terminate and be irrevocably forfeited. Such awards shall be subject to Sections 6(c), 9 and 10 of this plan. The authority of the committee under this Section 7.1 shall be limited to ministerial and non-discretionary matters.

7.2 *Annual Stock Option Grants.* Each non-employee director also shall be eligible to receive non-qualified stock options under the terms of Section 6(a) of the plan; provided, however, that no such director shall be eligible to receive more than 5,000 options (exclusive of reload options) in any calendar year, and that all such options shall be subject in all material respects to the same terms, conditions, and restrictions attached to options then being granted to executive officers of the Company.

7.3 *Stock Compensation.* Each non-employee director shall be eligible to receive or elect to receive his or her fees for service on the Company's board of directors and the committees thereof in shares or restricted stock units and to defer the receipt of such units, all as described in the Deluxe Corporation Non-Employee Director Stock and Deferral Plan attached hereto as Annex I and hereby made a part hereof.

Section 8. Amendment and Termination; Adjustments.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an award agreement or in the plan:

(a) *Amendments to the Plan.* The board of directors of the Company may amend, alter, suspend, discontinue or terminate the plan; provided, however, that, notwithstanding any other provision of the plan or any award agreement, without the approval of the shareholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that:

(i) would amend section 4(a), 4(d) or 6(a)(i) of the plan;

(ii) absent such approval, would violate the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc., that are applicable to the Company; or

(iii) absent such approval, would cause the Company to be unable, under the Code, to grant incentive stock options under the plan.

The board of directors shall be entitled to delegate to the committee the power to amend such terms of the plan and for such purposes as the board of directors shall from time to time determine.

(b) *Waivers.* The committee may waive any conditions of or rights of the Company under any outstanding award, prospectively or retroactively.

(c) *Limitations on Amendments.* Neither the committee nor the Company may amend, alter, suspend, discontinue or terminate any outstanding award, prospectively or retroactively, without the consent of the participant or holder or beneficiary thereof, except as otherwise provided herein or in the award agreement.

(d) *Correction of Defects, Omissions and Inconsistencies.* The committee may correct any defect, supply any omission or reconcile any inconsistency in the plan or any award in the manner and to the extent it shall deem desirable to carry the plan into effect.

Section 9. Income Tax Withholding.

In order to comply with all applicable federal or state income tax laws or regulations, the committee may establish such policy or policies as it deems appropriate with respect to such laws and regulations, including without limitation the establishment of policies to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a participant, are withheld or collected from such participant. In order to assist a participant in paying all or a portion of the federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an award, the committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the payment or transfer otherwise to be made upon exercise or receipt of (or the lapse of restrictions relating to) such award with a fair market value equal to the amount of such taxes or (ii) delivering to the Company shares or other property other than shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such award with a fair market value equal to the amount of such taxes. The election, if any, must be on or before the date that the amount of tax to be withheld is determined.

Section 10. General Provisions.

(a) *No Rights to Awards.* No eligible person, participant or other person shall have any claim to be granted any award under the plan, and there is no obligation for uniformity of treatment of eligible persons, participants or holders or beneficiaries of awards under the plan. The terms and conditions of awards need not be the same with respect to any participant or with respect to different participants.

(b) *Award Agreements.* No participant will have rights under an award granted to such participant unless and until an award agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the participant.

(c) *No Limit on Other Compensation Arrangements.* Nothing contained in the plan shall prevent the Company or any affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) *No Right to Employment.* The grant of an award shall not be construed as giving a participant the right to be retained in the employ of the Company or any affiliate, nor will it affect in any way the right of the Company or the affiliate to terminate such employment at any time, with or without cause. In addition, the Company or an affiliate may at any time dismiss a participant from employment free from any liability or any claim under the plan, unless otherwise expressly provided in the plan or in any award agreement.

(e) *Governing Law.* The validity, construction and effect of the plan or any award, and any rules and regulations relating to the plan or any award, shall be determined in accordance with the laws of the State of Minnesota.

(f) *Severability.* If any provision of the plan or any award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the plan or any award under any law deemed applicable by the committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the committee, materially altering the purpose or intent of the plan or the award, such provision shall be stricken as to the plan or such jurisdiction or award, and the remainder of the plan or any such award shall remain in full force and effect.

(g) *No Trust or Fund Created.* Neither the plan nor any award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any affiliate and a participant or any other person. To the extent that any person acquires a right to receive payments from the Company or any affiliate pursuant to an award, such right shall be no greater than the right of any unsecured general creditor of the Company or any affiliate.

(h) *No Fractional Shares.* No fractional shares shall be issued or delivered pursuant to the plan or any award, and the committee shall determine whether cash shall be paid in lieu of any fractional shares or whether such fractional shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(i) *Headings.* Headings are given to the sections and subsections of the plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the plan or any provision thereof.

(j) *Other Benefits.* No compensation or benefit awarded to or realized by any participant under the plan shall be included for the purpose of computing such participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

Section 11. Section 16(b) Compliance.

The plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time and in all events the plan shall be construed in accordance with the requirements of Rule 16b-3. If any plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The board of directors, in its absolute discretion, may bifurcate the plan so as to restrict, limit or condition the use of any provision of the plan to participants who are officers or directors subject to Section 16 of the Securities and Exchange Act of 1934, as amended, without so restricting, limiting or conditioning the plan with respect to other participants.

Section 12. Effective Date of the Plan.

The plan shall be effective as of January 1, 2001, subject to approval by the shareholders of the Company, either prior to such date or within one year thereafter.

Section 13. Term of the Plan.

Unless the plan shall have been discontinued or terminated as provided in Section 8(a), the plan shall terminate on December 31, 2007. No award shall be granted after the termination of the plan, provided that nothing herein shall be construed to limit the issuance of options pursuant to an option containing a reload option feature or the provisions of section 6(a)(v), subject to availability of shares remaining under the plan. However, unless otherwise expressly provided in the plan or in an applicable award agreement, any award theretofore granted may extend beyond the termination of the plan, and the authority of the committee provided for hereunder with respect to the plan and any awards, and the authority of the board of directors of the Company to amend the plan, shall extend beyond the termination of the plan.

DELUXE CORPORATION
NON-EMPLOYEE DIRECTOR STOCK AND DEFERRAL PLAN
("PLAN")

1. *Purpose of the Plan.* The purpose of the Deluxe Corporation Non-Employee Director Stock and Deferral Plan (the "Plan") is to provide an opportunity for non-employee members of the Board of Directors (the "Board") of Deluxe Corporation ("Deluxe" or the "Company") to increase their ownership of Deluxe Common Stock, \$1.00 par value ("Common Stock"), and thereby align their interest in the long-term success of the Company with that of the other shareholders. This will be accomplished by allowing each participating director to elect voluntarily to receive all or a portion of his or her Retainer (as hereinafter defined) in the form of shares of Common Stock and to allow each of them to defer the receipt of such shares until a later date pursuant to elections made by him or her under this Plan.

2. *Eligibility.* Directors of the Company who are not also officers or other employees of the Company or its subsidiaries are eligible to participate in this Plan ("Eligible Directors").

3. *Administration.* This Plan will be administered by or under the direction of the Secretary of the Company (the "Administrator"). Since the issuance of shares of Common Stock pursuant to this Plan is based on elections made by Eligible Directors, the Administrator's duties under this Plan will be limited to matters of interpretation and administrative oversight. All questions of interpretation of this Plan will be determined by the Administrator, and each determination, interpretation or other action that the Administrator makes or takes pursuant to the provisions of this Plan will be conclusive and binding for all purposes and on all persons. The Administrator will not be liable for any action or determination made in good faith with respect to this Plan.

4. *Election to Receive Stock and Stock Issuance.*

4.1. *Election to Receive Stock in Lieu of Cash.* On forms provided by the Company and approved by the Administrator, each Eligible Director may irrevocably elect ("Stock Election") to receive, in lieu of cash, shares of Common Stock having a Fair Market Value, as defined in Section 4.6, equal to 50% or more of the annual cash retainer and all meeting fees (including all committee retainers and meeting fees, the "Retainer") payable to that director for services rendered as a director. From and after January 1, 2001, all Eligible Directors will be deemed to have made such a Stock Election to receive shares of Common Stock with respect to no less than 50% of such Retainer and shall be deemed to be a participating director under this Plan ("Participating Director") to at least such extent. Except as provided in the preceding sentence, to be effective, any Stock Election must be filed with the Company (the date of such filing being the date of such election) no later than May 31 of each year (or by such other date as the Administrator shall determine) and shall apply only with respect to services as a director provided for the period of July 1 of that year through June 30 of the year following ("Fiscal Year"); provided, however, that an Eligible Director whose initial election to the Board of Directors occurs after May 31, shall have 30 days following such election to make a Stock Election, which shall apply only with respect to services as a director provided following the filing of such Stock Election with the Company during the then current or the ensuing Fiscal Year, as specified in the Stock Election. Following the implementation of the Plan upon the expiration of the existing Deluxe Corporation Non-Employee Director Stock and Deferral Plan, effective as of October 31, 1997, Eligible Directors shall continue to be bound by the Stock Elections previously made by them for the Fiscal Year ending June 30, 2001 with respect to their services as a director during the period from January 1, 2001 through June 30, 2001. In the event that an Eligible Director shall fail to file with the Company the required form for making a Stock Election, such director shall be deemed to have made the same Stock Election that such director made with respect to the then current Fiscal Year, or in the absence of having made such Stock Election, to have elected to receive 50% of his or her Retainer in cash and 50% in Common Stock, and such election will be deemed to have been made on (i) May 31 in any year with respect to the ensuing Fiscal Year as aforesaid and (ii) the thirtieth day following initial election to the Board of new directors with respect to the current Fiscal Year

only unless such date is within the period of May 31 through June 30 of that Fiscal Year, in which event the election shall be deemed made for both the current and next following Fiscal Years. Any Stock Election made in accordance with the provisions of this Section 4.1 shall be irrevocable for the period to which such election applies.

4.2. *Issuance of Stock in Lieu of Cash.* Shares of Deluxe Common Stock having a Fair Market Value equal to the amount of the Retainer so elected shall (i) be issued to each Participating Director or (ii) at the Participating Director's election pursuant to Section 4.3, be credited to such director's account (a "Deferred Stock Account"), on March 15, June 15, September 15 and December 15 for the calendar quarter ending on the last day of each such month (each such payment date, a "Payment Date"). The Company shall not issue fractional shares. Whenever, under the terms of this Plan, a fractional share would be required to be issued, the Company will round the number of shares (up or down) to the nearest integer. In the event that a Participating Director elects to receive less than 100% of each quarterly installment of the Retainer in shares of Common Stock (or Stock Units as defined and provided in Section 4.4), that Participating Director shall receive the balance of the quarterly installment in cash.

4.3. *Manner of Making Deferral Election.* A Participating Director may elect to defer payment of the Retainer otherwise payable in shares of Common Stock pursuant to this Plan by filing (the date of such filing being the date of such election), no later than May 31 of each year (or by such other date as the Administrator shall determine) with respect to payments in the ensuing Fiscal Year, an irrevocable election with the Administrator on a form (the "Deferral Election Form") provided by the Administrator for that purpose ("Deferral Election"). Any portion of the Retainer to be paid in cash may not be deferred pursuant to the Plan. The special Stock Election rules set forth in Section 4.1 with respect to new directors and continuing elections under the Plan during 2001 shall also apply to the corresponding Deferral Elections. Failure timely to file a Deferral Election shall conclusively be deemed to mean that no election to defer has been made for the applicable period. The Deferral Election shall be effective for the Retainer payable (i) during the ensuing Fiscal Year with respect to elections made on or before May 31 of each year as aforesaid and (ii) for the portion of the Fiscal Year after the date the Deferral Election is made or the ensuing Fiscal Year as specified in the Deferral Election with respect to Deferral Elections made by new directors. Any Deferral Election made in accordance with the provisions of this Section shall be irrevocable for the period to which such election applies. The Deferral Election form shall specify the amount to be deferred expressed as a percentage of the Participating Director's Retainer.

4.4. *Credits to Deferred Stock Account for Elective Deferrals.* On each Payment Date, a Participating Director who has made a then effective Deferral Election shall receive a credit in the form of restricted stock units ("Stock Units") to his or her Deferred Stock Account. Each Stock Unit shall represent the right to receive one share of Common Stock. The number of Stock Units credited to a Participating Director's Deferred Stock Account shall be determined by dividing an amount equal to the Participating Director's Retainer payable on the Payment Date for the current calendar quarter and specified for deferral pursuant to Section 4.3, by the Fair Market Value of a share of Common Stock on such Payment Date. If that computation would result in a fractional Stock Unit being credited to a Participating Director's Deferred Stock Account, the Company will round the number of Stock Units so credited (up or down) to the nearest integer.

4.5. *Dividend Equivalent Payments.* Each time a dividend is paid on the Common Stock, the Participating Director who has a Deferred Stock Account shall receive a dividend equivalent payment on the dividend payment date equal to the amount of the dividend payable on a single share of Common Stock multiplied by the number of Stock Units credited to the Participating Director's Deferred Stock Account on the dividend record date.

4.6. *Fair Market Value.* The Fair Market Value of each share of Common Stock shall be equal to the closing price of one share of Common Stock on the New York Stock Exchange ("NYSE") on the relevant date as reported by the *Wall Street Journal, Midwest Edition*; provided that if, on such date, the NYSE is not open for business or there are no shares of Common Stock traded on such date, the Fair Market Value of a share of Common Stock shall be equal to the closing price of one share of Common

Stock on the first day preceding such date on which the NYSE is open for business and has reported trades in the Common Stock.

4.7. *Termination of Service as a Director.* If a Participating Director leaves the Board before the conclusion of any quarter of a Fiscal Year, he or she will be paid the quarterly installment of the Retainer entirely in cash or Common Stock on the applicable Payment Date in accordance with such Participating Director's then effective Stock Election, notwithstanding that a Deferral Election is on file with the Company. The date of termination of a Participating Director's service as a director of the Company will be deemed to be the date of termination recorded on the personnel or other records of the Company.

5. *Shares Available for Issuance.* This Plan constitutes part of the Deluxe Corporation 2000 Stock Incentive Plan, as amended from time to time (the "SIP"), and is subject to the terms and conditions of the SIP. Any shares of Common Stock issued under this Plan shall be issued pursuant to the terms and conditions of the SIP, and any such shares so issued shall be subject to the limits set forth in the SIP, including, without limiting the generality of the foregoing, the limits contained in Section 4(a) of the SIP.

6. *Deferral Payment.*

6.1. *Deferral Payment Election.* At the time of making the Deferral Election and as a part thereof, each Participating Director shall make and file with the Company, a deferral payment election on the Deferral Election Form specifying one of the payment options described in Section 6.2. If a Participating Director fails to make a deferral payment election at the time any Deferral Election is made in accordance with this Plan, the Participating Director shall conclusively be deemed to have elected to receive the Common Stock represented by the Stock Units earned during the period covered by the Deferral Election in a lump sum payment at the time of the Participating Director's termination of service on the Board as provided in Section 6.2. The deferral payment election shall be irrevocable as to all amounts credited to the Participating Director's Deferred Stock Account during the period covered by the relevant Deferral Election.

6.2. *Payment of Deferred Stock Accounts in a Lump Sum.* Stock Units credited to a Participating Director's Deferred Stock Account shall be converted to an equal number of shares of Common Stock and issued in full to the Participating Director on the earlier of the tenth anniversary of February 1 of the year following the Participating Director's termination of service on the Board (or the first business day thereafter) or such other date as elected by the Participating Director by making a deferral payment election in accordance with the provisions of Section 6.1. All payments shall be made in whole shares of Common Stock (rounded as necessary to the nearest integer). Notwithstanding the foregoing, in the event of a Change of Control (as defined in Section 12), Stock Units credited to a Participating Director's Deferred Stock Account as of the business day immediately prior to the effective date of the transaction constituting the Change of Control shall be converted to an equal number of shares of Common Stock (rounded as necessary to the nearest integer) and issued in full to the Participating Director in whole shares of Common Stock on such date.

6.3. *Payment to Estate.* In the event that a Participating Director shall die before full distribution of his or her Deferred Stock Account, any shares that issue therefrom shall be issued to such Director's estate or beneficiaries, as the case may be.

7. *Holding Period.* All shares of Common Stock issued under this Plan, including shares that are issued as a result of distributions of a Participating Director's Deferred Stock Account, shall be held by the Participating Director receiving such shares for a minimum period of six months from the date of issuance or such longer period as may be required for compliance with Rule 16b-3, as amended or any successor rule ("Rule 16b-3"), promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Administrator may, in his or her discretion, require that shares of Common Stock issued pursuant to this Plan contain a suitable legend restricting trading in such shares during such holding period.

8. *Limitation on Rights of Eligible and Participating Directors.*

8.1. *Service as a Director.* Nothing in this Plan will interfere with or limit in any way the right of the Company's Board or its shareholders not to nominate for re-election, elect or remove an Eligible or Participating Director from the Board. Neither this Plan nor any action taken pursuant to it will constitute or be evidence of any agreement or understanding, express or implied, that the Company or its Board or shareholders have retained or will retain an Eligible or Participating Director for any period of time or at any particular rate of compensation.

8.2. *Nonexclusivity of the Plan.* Nothing contained in this Plan is intended to affect, modify or rescind any of the Company's existing compensation plans or programs or to create any limitations on the power of the Company's officers or Board to modify or adopt compensation arrangements as they or it may from time to time deem necessary or desirable.

9. *Plan Amendment, Modification and Termination.* The Board may suspend or terminate this Plan at any time. The Board may amend this Plan from time to time in such respects as the Board may deem advisable in order that this Plan will conform to any change in applicable laws or regulations or in any other respect that the Board may deem to be in the Company's best interests; provided, however, that no amendments to this Plan will be effective without approval of the Company's shareholders, if shareholder approval of the amendment is then required to exempt issuance or crediting of shares of Common Stock or Stock Units from Section 16 of the Exchange Act under Rule 16b-3, or pursuant to the rules of the New York Stock Exchange.

10. *Effective Date and Duration of the Plan.* This Plan shall become effective on January 1, 2001 and shall continue, unless terminated by action of the Board, until the expiration or termination of the SIP, provided that the expiration or termination of this Plan shall not affect any rights of Participating Directors with respect to their Deferral Accounts which shall continue to be governed by the provisions of this Plan until the final distribution of all Deferral Accounts established under this Plan.

11. *Participants are General Creditors of the Company.* The Participating Directors and beneficiaries thereof shall be general, unsecured creditors of the Company with respect to any payments to be made pursuant to this Plan and shall not have any preferred interest by way of trust, escrow, lien or otherwise in any specific assets of the Company. If the Company shall, in fact, elect to set aside monies or other assets to meet its obligations hereunder (there being no obligation to do so), whether in a grantor's trust or otherwise, the same shall, nevertheless, be regarded as a part of the general assets of the Company subject to the claims of its general creditors, and neither any Participating Director nor any beneficiary thereof shall have a legal, beneficial or security interest therein.

12. *Change of Control.* A "Change of Control" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

A. Any Person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or

B. During the period from the effective date of this Plan until final distribution to all Participating Directors of their Deferred Stock Accounts, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a Person who has acquired securities of the Company or entered into an agreement with the Company to effect a transaction constituting a Change of Control as described in paragraphs (A), (C) or (D) of this Section 12) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

C. The shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 51% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 40% 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 an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

E. For the purposes of this Section 12, the following terms shall have definitions ascribed herein to them:

(i) "*Person*" shall have the meaning defined in Sections 3(a)(9) and 13(d) of the Securities Exchange.

(ii) "*Beneficial Owner*" shall have the meaning defined in Rule 13d-3 promulgated under the Exchange Act.

(iii) "*Affiliate*" shall mean 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.

13. *Miscellaneous.*

13.1 *Securities Law and Other Restrictions.* Notwithstanding any other provision of this Plan or any Stock Election or Deferral Election delivered pursuant to this Plan, the Company will not be required to issue any shares of Common Stock under this Plan and a Participating Director may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to this Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body that the Administrator, in his or her sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company, in order to comply with such securities law or other restriction.

13.2 *Governing Law.* The validity, construction, interpretation, administration and effect of this Plan and any rules, regulations and actions relating to this Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota.

Deluxe Corporation
Computation of Ratio of Earnings to Fixed Charges

	Six Months Ended June 30, 2002	Year Ended December 31,				
		2001	2000	1999	1998	1997
<i>Earnings:</i>						
Income from continuing operations before income taxes	\$ 176,263	\$ 297,534	\$ 273,429	\$ 322,582	\$ 256,305	\$ 147,682
Interest expense (excluding capitalized interest) ¹	2,094	5,691	11,900	8,852	8,672	7,411
Portion of rent expense under long-term operating leases representative of an interest factor	1,773	3,540	3,520	7,728	8,859	8,732
Total earnings	\$ 180,130	\$ 306,765	\$ 288,849	\$ 339,162	\$ 273,836	\$ 163,825
<i>Fixed charges:</i>						
Interest expense (including capitalized interest) ¹	2,154	5,691	11,900	9,925	10,063	8,331
Portion of rent expense under long-term operating leases representative of an interest factor	1,773	3,540	3,520	7,728	8,859	8,732
Total fixed charges	\$ 3,927	\$ 9,231	\$ 15,420	\$ 17,653	\$ 18,922	\$ 17,063
Ratio of earnings to fixed charges	45.9	33.2	18.7	19.2	14.5	9.6

¹ Includes amortization of debt issuance costs.

CEO CERTIFICATION OF PERIODIC REPORT

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

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2002

/s/ LAWRENCE J. MOSNER

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

CFO CERTIFICATION OF PERIODIC REPORT

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

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2002

/s/ DOUGLAS J. TREFF

Douglas J. Treff
Senior Vice President and
Chief Financial Officer