

DELUXE CORP
Form 10-K
February 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

Commission file number: 1-7945

DELUXE CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

41-0216800

(State or other jurisdiction of
incorporation or organization)

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

3680 Victoria St. N., Shoreview, Minnesota

55126-2966

(Address of principal executive offices)

(Zip Code)

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

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

Common Stock, par value \$1.00 per share

New York Stock Exchange

(Title of each class)

(Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the voting stock held by non-affiliates of the registrant is \$911,459,391 based on the last sales price of the registrant's common stock on the New York Stock Exchange on June 30, 2008. The number of outstanding shares of the registrant's common stock as of February 12, 2009, was 51,174,015.

Documents Incorporated by Reference:

1. Portions of our definitive proxy statement to be filed within 120 days after our fiscal year-end are incorporated by reference in Part III.
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DELUXE CORPORATION
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2008
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PART I

Item 1. Business.

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

COMPANY OVERVIEW

Through our industry-leading businesses and brands, we help small businesses and financial institutions better operate, protect and grow their businesses. We use direct marketing, a North American sales force, financial institution referrals, independent distributors and the internet to provide our customers a wide range of customized products and services: personalized printed items (checks, forms, business cards, stationery, greeting cards and labels), promotional products and merchandising materials, web hosting and other web services, fraud prevention and marketing services, financial institution customer loyalty and retention programs and business networking services. We also sell personalized checks, accessories, stored value gift cards and other services directly to consumers.

BUSINESS SEGMENTS

Our business segments include Small Business Services, Financial Services and Direct Checks. These businesses are generally organized by type of customer and reflect the way we manage the company. Additional information concerning our segments appears under the caption Note 17: Business segment information of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

Small Business Services

Small Business Services operates under various brands including Deluxe, NEBS[®], Safeguard[®], McBee[®], RapidForms[®], Stephen.Fossler[®], and from our recent acquisitions, Johnson Group, Hostopia[®], PartnerUp[®] and Logo Mojo[™]. This is our largest segment in terms of revenue and operating income, and we are concentrating on profitably growing this segment. Small Business Services strives to be a leading supplier to small businesses by providing personalized products and services that help them operate, protect and grow their businesses. This segment sells business checks, printed forms, promotional products, web services, marketing materials and related services and products to more than six million small business customers in the United States, Canada and Europe. Of these customers, nearly four million have ordered our products or services in the last 24 months. Printed forms include billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. We also produce computer forms compatible with accounting software packages commonly used by small businesses. Our stationery, letterhead, envelopes and business cards are produced in a variety of formats and ink colors. Recent acquisitions have added custom, full-color, digital and web-to-print capabilities, as well as logo design, web hosting and other web services, and business networking services.

The majority of Small Business Services products are distributed through more than one channel. Our primary channels are direct mail, in which promotional advertising is delivered by mail to small businesses, financial institution referrals and internet marketing. These efforts are supplemented by the account development efforts of an outbound telemarketing group. We also sell through websites, a network of independent local dealers and Safeguard[®] distributors. Customer service for initial order support, product reorders and routine service is provided by a network of call center representatives located throughout the United States and Canada.

Our focus within Small Business Services is to grow revenue and increase operating margin by continuing to implement the following strategies:

- Acquire new customers by leveraging customer referrals that we receive from our financial institution clients and from other marketing initiatives such as e-commerce and direct mail;

- Increase our share of the amount small businesses spend on the products and services in our portfolio;

- Expand in higher growth areas such as full color, web-to-print, imaging and business services, including payroll, fraud protection, web hosting and other web services, business networking and logo design; and

- Continue to optimize our cost and expense structure.

We are continuing to invest in several key enablers to achieve our strategies and reposition Small Business Services as not just a provider of printed products, but also a provider of higher-growth business services. These key enablers include continuing to improve our e-commerce capabilities, implementing an integrated platform for our various brands, improving our customer analytics, focusing on key customer segments and improving our merchandising. We have refreshed our existing product offerings and have already improved some of our newer service offerings, which we believe creates a more valuable suite of products and services. We have acquired companies which allow us to expand our custom, full color, digital and web-to-print offerings, as well as web hosting and other web services, logo design and business networking services. We expect to drive growth as we obtain a greater portion of our revenue from higher growth annuity-based business services. In August 2008, we acquired Hostopia.com Inc. (Hostopia), a provider of web services that enable small businesses to establish and maintain an internet presence. Hostopia also provides email marketing, fax-to-email, mobility synchronization and other services. It provides a unified, scaleable, web-enabled platform that better positions us to obtain orders for a wider variety of products, including checks, forms, business cards and full-color, digital and web-to-print offerings, as well as imaging and other printed products. Hostopia operates primarily in the United States and Canada. Also during 2008, we acquired the assets of PartnerUp, Inc. (PartnerUp), Logo Design Mojo, Inc. (Logo Mojo) and Yoffi Digital Press (Yoffi). PartnerUp is an online community that is designed to connect small businesses and entrepreneurs with resources and contacts to build their businesses. Logo Mojo is a Canadian-based online logo design firm and Yoffi is a commercial digital printer specializing in custom marketing material.

During 2008, we introduced the www.ShopDeluxe.com website, our new customer facing e-commerce platform. This website, along with our www.Deluxe.com website, will serve as a platform for improved e-commerce capability. We intend to consolidate our Deluxe Marketing Store website into ShopDeluxe.com to further improve the customer experience, and we have identified opportunities to expand sales to our existing customers and acquire new customers. Also important to our growth are the small business customer referrals we receive from our Deluxe Business Advantage® program, which provides a fast and simple way for financial institutions to offer expanded personalized service to small businesses. Our relationships with financial institutions are important in helping us serve customer segments more deeply, such as contractors, professional services providers and banks and credit unions.

As in our other two business segments, we continue our efforts within Small Business Services to simplify processes, eliminate complexity and lower costs. During 2008, we closed one customer call center located in Flagstaff, Arizona, and we expect to close our Thorofare, New Jersey customer call center in the first half of 2009.

Financial Services

Financial Services sells personal and business checks, check-related products and services, customer loyalty, retention and fraud monitoring and protection services, and stored value gift cards to financial institutions. As part of our check programs, we also offer enhanced services such as customized reporting, file management and expedited account conversion support. Our relationships with financial institutions are generally formalized through supply contracts which usually range in duration from three to five years. We serve approximately 6,500 financial institutions in the United States. Consumers and small businesses typically submit their check order to their financial institution, which then forwards the order to us. We process the order and ship it directly to the consumer or small business. Financial Services produces a wide range of check designs, with many consumers preferring one of the dozens of licensed or cause-related designs we offer, including Disney®, Warner Brothers®, Garfield®, Harley-Davidson®, NASCAR®, PGA TOUR, Thomas Kinkade®, Susan G. Komen Breast Cancer Foundation and National Arbor Day Foundation®. Our strategies within Financial Services are as follows:

Continue to maintain core check revenue streams and acquire new clients;

Provide services and products that differentiate us from the competition and make us a more relevant business partner to our financial institution clients by helping them grow core deposits; and

Continue to simplify our business model and optimize our cost and expense structure.

We proactively extended several check contracts during 2008 and will continue our focus on acquiring new clients during 2009. We are also leveraging our loyalty, retention, market intelligence and fraud monitoring and protection offers, as well as our Deluxe Business Advantage program. The Deluxe Business Advantage program is designed to maximize financial institution business check programs by offering the products and services of our Small Business Services segment to small businesses through a number of service level options. The revenue from these additional products and services is reflected in our Small Business Services segment.

In our efforts to expand beyond check-related products, we have introduced several services and products that focus on customer loyalty and retention, as well as fraud monitoring and protection. Following are some examples:

Deluxe ID TheftBlock® a set of fraud monitoring and recovery services that provides assistance to consumers in detecting and recovering from identity theft.

Welcome HomeSM Tool Kit a start-to-finish package for financial institution branch offices that captures best practices for securing lasting loyalty among customers by focusing on the first 90 days of the relationship.

Deluxe CallingSM an outbound calling program aimed at helping financial institutions generate new organic revenue growth and reduce attrition.

We expect providing products and services that differentiate us from the competition will help offset the decline in check usage and the pricing pressures we are experiencing in our check programs. As such, we are also focused on accelerating the pace at which we introduce new products and services. In addition to these value-added services, we continue to offer our Knowledge ExchangeTM Series for financial institution clients through which we host knowledge exchange expos, conduct web seminars and host special industry conference calls. We also offer specialized publications. Through this program, financial institutions gain knowledge and exposure to thought leaders in areas that most impact their core strategies: client loyalty, small business and retail client strategy, cost management, customer experience and brand enhancement. Our Collaborative initiative, a key component of the Knowledge Exchange Series, enlists a team of leading financial institution executives who meet with us over a one year timeframe to develop and test specific and focused solutions on behalf of the financial services industry. These findings and new strategies or services are then disseminated for the benefit of all our clients. Our 2007 Small Business Collaborative initiative grew out of our Knowledge Exchange Series and explored and identified innovative ways for financial institution clients to improve relationships with small businesses. During 2008, our Collaborative focused on creating customer loyalty through human interaction, a simple yet powerful brand building strategy for financial institutions.

Direct Checks

Direct Checks is the nation's leading direct-to-consumer check supplier, selling under the Checks Unlimited®, Designer® Checks and Checks.com brand names. Through these brands, we sell personal and business checks and related products and services directly to consumers using direct response marketing and the internet. We estimate the direct-to-consumer personal check printing portion of the payments industry accounts for approximately 14% of all personal checks sold in the United States.

We use a variety of direct marketing techniques to acquire new customers, including newspaper inserts, in-package advertising, statement stuffers and co-op advertising. We also use e-commerce strategies to direct traffic to our websites, which include: www.checksunlimited.com, www.designerchecks.com and www.checks.com. Our direct-to-consumer focus has resulted in a total customer base of approximately 44.5 million customers, the most in the direct-to-consumer checks marketplace.

Direct Checks competes primarily on price and design. Pricing in the direct-to-consumer channel is generally lower than prices charged to consumers in the financial institution channel. We also compete on design by seeking to offer the most attractive selection of images with high consumer appeal, many of which are acquired or licensed from well-known artists and organizations such as Disney, Warner Brothers, Harley Davidson and Thomas Kinkade.

Our strategies within Direct Checks are as follows:

Optimize cash flow;

Maximize the lifetime value of customers by selling new features, accessories and products; and

Continue to lower our cost and expense structure.

We intend to optimize the cash flow generated by this segment by continuing to lower our cost and expense structure in all functional areas, particularly in the areas of marketing and fulfillment. We will continue to actively market our products and services through targeted advertising and will focus a greater portion of our investment in the e-commerce channel. Additionally, we continue to explore avenues to increase sales to existing customers. For example, we have had success with the EZShield™ product, a check protection service that provides reimbursement to consumers for forged signatures or endorsements and altered checks.

PRODUCTS AND SERVICES

Revenue, by product, as a percentage of consolidated revenue for the last three years was as follows:

	2008	2007⁽¹⁾	2006⁽¹⁾
Checks	65.4%	65.8%	64.3%
Other printed products, including forms	22.5%	23.6%	22.6%
Accessories and promotional products	7.4%	7.4%	7.6%
Packaging supplies, services and other	4.7%	3.2%	5.5%
Total revenue	100.0%	100.0%	100.0%

(1) During the fourth quarter of 2008, our Russell & Miller retail packaging and signage business met the criteria to be classified as discontinued operations in our consolidated financial statements. As such, our results for prior years reflect the reclassification of the results of this business to discontinued operations.

We remain one of the largest providers of checks in the United States, both in terms of revenue and the number of checks produced. We provide check printing and related services to approximately 6,500 financial institution clients, as well as personalized checks, related accessories and other services (including fraud prevention, web hosting, payroll and logo design) directly to millions of small businesses and consumers. Checks account for the majority of the revenue in our Financial Services and Direct Checks segments and represent 49.4%, 49.8% and 47.0% of Small Business Services total revenue in 2008, 2007 and 2006, respectively.

We are a leading provider of printed forms to small businesses, having provided products to more than six million customers over the past five years. Printed forms include billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. We produce computer forms compatible with accounting software packages commonly

used by small businesses. Our stationery, letterhead, envelopes and business cards are produced in a variety of formats and ink colors. These items are designed to provide small business owners with the customized documents necessary to efficiently manage their business. We also provide promotional printed items and digital printing services designed to fulfill selling and marketing needs of the small businesses we serve. We have expanded our business services offerings, which include check protection, web design and hosting, payroll, logo design and business networking services.

MANUFACTURING

We continue to focus on improving the customer experience by providing excellent service and quality, reducing costs and increasing productivity. We accomplish this by embedding lean operating principles in all processes, emphasizing a culture of continuous improvement. Under this approach, employees work together to produce products, rather than working on individual tasks in a linear fashion. Because employees assume more ownership of the end product, the results are improved productivity and lower costs. During 2007, we demonstrated our commitment to innovative solutions by implementing a new flat check delivery package to mitigate the effect on our customers of a postal rate increase. We expect to have the flat package process fully automated by the end of 2009. We continue to see the benefit of operational efficiencies in our results. The expertise we have developed in logistics, productivity and inventory management has allowed us to reduce the number of production facilities while still meeting client requirements. During 2009, we plan to close five manufacturing facilities located in Mississauga, Ontario in Canada, North Wales, Pennsylvania, Thorofare, New Jersey, Greensboro, North Carolina and Colorado Springs, Colorado. We closed one small printing facility located in East Dubuque,

Illinois at the end of 2008. During 2006, we closed our Los Angeles, California and Athens, Ohio printing facilities. Aside from our plant consolidations, we continue to seek other innovations to further increase efficiencies and reduce costs. In 2009, this will include expanding our use of digital printing processes.

In manufacturing, we have a shared services approach which allows our three business segments to leverage shared manufacturing facilities to optimize capacity utilization, enhance operational excellence and foster a culture of continuous improvement. We continue to reduce costs by utilizing our assets and printing technologies more efficiently and by enabling employees to better leverage their capabilities and talents.

INDUSTRY OVERVIEW

Checks

According to a Federal Reserve study released in December 2007, approximately 33 billion checks are written annually. This includes checks which are converted to automated clearing house (ACH) payments. Checks remain the largest single non-cash payment method in the United States, accounting for approximately 35% of all non-cash payment transactions. This is a reduction from the Federal Reserve Study released in December 2004 when checks accounted for approximately 45% of all non-cash payment transactions. The Federal Reserve estimates that checks written declined approximately four percent per year between 2003 and 2006. According to our estimates, the use of small business checks is declining at a rate of four to six percent per year, although the decline was greater in 2008, we believe, due to the economic recession. The total transaction volume of all electronic payment methods exceeds check payments, and we expect that to continue. We believe check usage tends to be fairly resilient to downturns in the economy. However, recent turmoil in the financial services industry has had a negative impact on our check volumes as some banks have experienced higher than normal customer attrition. Further, we believe fewer small business start-ups and an increased number of failures negatively impacted our check volumes in 2008, although the 2008 data is not yet available.

Small Business Customers

The Small Business Administration's Office of Advocacy defines a small business as an independent business having fewer than 500 employees. In 2007, the most recent period for which information is available, it was estimated that there were approximately 27 million small businesses in the United States. This represented approximately 99.7% of all employers. According to the same survey, small businesses employ approximately half of all private sector employees and generated over 60% to 80% of net new jobs created each year over the last decade.

The small business market is impacted by general economic conditions and the rate of small business formations. The index of small business optimism published by the National Federation of Independent Business in December 2008 was at a near-record low. According to estimates of the Small Business Administration's Office of Advocacy, new small business formations were down slightly in 2007, the most recent period for which information is available, as compared to 2006. The economy had a negative impact on our 2008 results, primarily in Small Business Services, and we expect the economic recession to continue impacting our results throughout 2009.

We seek to serve the needs of the small business customer. We design, produce and distribute business checks, forms, envelopes, retail packaging and related products. We also offer business services such as web design and hosting, payroll and logo design, all of which are offered to help our small business customers operate, protect and grow their businesses. The Formtrac 2008 report from the Print Services Distribution Association, the most recent data available, indicates that the business check and forms portion of the markets serviced by Small Business Services declined at a rate of four to six percent in 2007. Continual technological improvements have provided small business customers with alternative means to enact and record business transactions. For example, off-the-shelf business software applications and electronic transaction systems have been designed to replace pre-printed business forms products.

Financial Institution Clients

Checks are most commonly ordered through financial institutions. We estimate approximately 86% of all consumer checks are ordered in this manner. Financial institutions include banks, credit unions and other financial services companies. Several developments related to financial institutions have affected the check printing portion of the payments industry:

Financial institutions seek to maintain the profits they have historically generated from their check programs, despite the decline in check usage. This has put significant pricing pressure on check printers in the past several years.

Turmoil in the financial services industry, including bank failures and consolidations, has negatively impacted order volumes.

When financial institutions consolidate through mergers and acquisitions, often the newly combined entity seeks to reduce costs by leveraging economies of scale in purchasing, including its check supply contracts. This results in check providers competing intensely on price in order to retain not only their previous business with one of the financial institutions, but also to gain the business of the other party in the merger/acquisition.

Financial institution mergers and acquisitions can also impact the duration of our contracts. Normally, the length of our contracts with financial institutions range from three to five years. However, contracts are sometimes renegotiated or bought out mid-term due to a consolidation of financial institutions.

Banks, especially larger ones, may request pre-paid product discounts made in the form of cash incentives payable at the beginning of a contract. These contract acquisition payments negatively impact check producers cash flows in the short-term.

In most situations, contracts require a contract termination payment if a financial institution cancels its contract.

The recent turmoil in the financial services industry has led to increases in bank failures and consolidations. To the extent any financial institution failures and consolidations impact large portions of our customer base, this could have a significant impact on our financial institution check programs.

Consumer Direct Mail Response Rates

Direct Checks and portions of Small Business Services have been impacted by reduced consumer response rates to direct mail advertisements. Our own experience indicates that the decline in our customer response rates is attributable to the decline in check usage and a general decline in direct marketing response rates. We continuously evaluate our marketing techniques in order to utilize the most effective and affordable advertising media.

Competition

The small business forms and supplies industry and the business services and business networking industries are all highly fragmented with many small local suppliers and large national retailers. We believe we are well-positioned in this competitive landscape through our broad customer base, the breadth of our small business product and service offerings, multiple distribution channels, established relationships with our financial institution clients, reasonable prices, high quality and dependable service.

In the small business forms and supplies industry, the competitive factors influencing a customer's purchase decision are breadth of product line, speed of delivery, product quality, price, convenience and customer service. Our primary competitors are office product superstores, local printers, business form dealers, contract stationers and internet-based suppliers. Local printers provide personalization and customization, but typically have a limited variety of products and services, as well as limited printing sophistication. Office superstores offer a variety of products at competitive prices, but provide limited personalization and customization. We are aware of numerous independent companies or divisions of companies offering printed products and business supplies to small businesses through the internet, direct mail, distributors or a direct sales force.

In business services, the competitive factors include the breadth, quality and ease of use of web and other services, professional and technical support service, price, established brand and responsiveness of customer support.

In the check printing portion of the payments industry, we face considerable competition from several other check printers, and we expect competition to remain intense as check usage continues to decline and financial institutions continue to consolidate. We also face competition from check printing software vendors and from internet-based sellers of checks and related products. Moreover, the check product must compete with alternative payment methods, including credit cards, debit cards, automated teller machines and electronic payment systems.

In the financial institution check printing business there are two large primary providers, one of which is Deluxe. The principal factors on which we compete are product and service breadth, price, quality and check merchandising program management. From time to time, some of our check printing competitors have reduced the prices of their products during the selection process in an attempt to gain greater volume. The corresponding pricing pressure placed on us has resulted in reduced profit margins and some shifts of business. Continuing pricing pressure will likely result in additional margin compression. Additionally, product discounts in the form of cash incentives payable to financial institutions upon contract execution have been a practice within the industry since the late 1990 s. Both the number of financial institution clients requesting these payments and the size of the payments has fluctuated significantly in recent years. These up-front payments negatively impact check printers cash flows in the short-term and may result in additional pricing pressure when the financial institution also negotiates greater product discount levels throughout the term of the contract. Beginning in 2006, we sought to reduce the use of up-front product discounts by structuring new contracts with incentives throughout the duration of the contract.

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products and services experience weak economic conditions that negatively impact revenue. We experience seasonal trends in selling some of our products. For example, holiday card sales and stored value gift cards typically are stronger in the fourth quarter of the year, and sales of tax forms are stronger in the first quarter of the year.

Raw Materials and Supplies

The principal raw materials used in producing our main products are paper, plastics, ink, cartons and printing plate material, which we purchase from various sources. We also purchase some stock business forms produced by third parties. We believe that we will be able to obtain an adequate supply of materials from current or alternative suppliers.

Governmental Regulation

We are subject to regulations implementing the privacy and information security requirements of the federal financial modernization law known as the Gramm-Leach-Bliley Act and other federal regulation and state law on the same subject. These laws and regulations require us to develop, implement and maintain policies and procedures to protect the security and confidentiality of consumers nonpublic personal information. We are also subject to additional requirements in certain of our contracts with financial institution clients, which are often more restrictive than the regulations. These regulations and agreements limit our ability to use or disclose nonpublic personal information for other than the purposes originally intended. This could have the effect of limiting business opportunities.

Congress and many states have passed and are considering additional laws or regulations that, among other things, restrict the use, purchase, sale or sharing of nonpublic personal information about consumers and business customers. 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. For example, new privacy laws could decrease traffic to our websites, decrease telemarketing opportunities and increase the cost of obtaining new customers. We do not expect that changes to these laws and regulations will have a significant impact on our business in 2009.

Intellectual Property

We rely on a combination of trademark and copyright laws, trade secret and patent protection and confidentiality and license agreements to protect our trademarks, software and other intellectual property. These protective measures afford only limited protection. Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our

intellectual property or otherwise independently develop substantially equivalent products or services which do not infringe on our intellectual property rights. In addition, check designs exclusively licensed from third parties account for a portion of our revenue. These license agreements generally average three years in duration. There can be no guarantee that such licenses will be available to us indefinitely or under terms that would allow us to continue to sell the licensed products profitably.

EMPLOYEES

As of December 31, 2008, we employed 6,591 employees in the United States and 581 employees in Canada. None of our employees are represented by labor unions, and we consider our employee relations to be good.

AVAILABILITY OF COMMISSION FILINGS

We make available through the Investor Relations section of our website, www.deluxe.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after these items are electronically filed with or furnished to the Securities and Exchange Commission (SEC). These reports can also be accessed via the SEC website, www.sec.gov, or via the SEC's Public Reference Room located at 100 F Street N.E., Washington, D.C. 20549. Information concerning the operation of the SEC's Public Reference Room can be obtained by calling 1-800-SEC-0330.

A printed copy of this report may be obtained without charge by calling 651-787-1068, by sending a written request to the attention of Investor Relations, Deluxe Corporation, P.O. Box 64235, St. Paul, Minnesota 55164-0235, or by sending an email request to investorrelations@deluxe.com.

CODE OF ETHICS AND CORPORATE GOVERNANCE GUIDELINES

We have adopted a Code of Ethics and Business Conduct which applies to all of our employees and our board of directors. The Code of Ethics and Business Conduct is available in the Investor Relations section of our website, www.deluxe.com, and also can be obtained free of charge upon written request to the attention of Investor Relations, Deluxe Corporation, P.O. Box 64235, St. Paul, Minnesota 55164-0235. Any changes or waivers of the Code of Ethics and Business Conduct will be disclosed on our website. In addition, our Corporate Governance Guidelines and the charters of the Audit, Compensation, Corporate Governance and Finance Committees of our board of directors are available on our website or upon written request.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are elected by the board of directors each year. The following summarizes our executive officers and their positions.

Name	Age	Present Position	Executive Officer Since
Anthony Scarfone	47	Senior Vice President, General Counsel and Secretary	2000
Terry Peterson	44	Vice President, Investor Relations and Chief Accounting Officer	2005
Richard Greene	44	Senior Vice President, Chief Financial Officer	2006
Lynn Koldenhoven	42	Vice President, Sales and Marketing Direct-to-Consumer	2006
Lee Schram	47	Chief Executive Officer	2006
Pete Godich	44	Vice President, Fulfillment	2008
Julie Loosbrock	49	Senior Vice President, Human Resources	2008
Malcolm McRoberts	44	Senior Vice President, Chief Information Officer	2008
Tom Morefield	46	Senior Vice President, Financial Services Segment Leader	2008
Laura Radewald	48	Vice President, Brand, Experience and Media Relations	2008

Anthony Scarfone joined us in September 2000 as senior vice president, general counsel and secretary.

Terry Peterson was named vice president of investor relations in October 2006. From May 2006 to September 2006, Mr. Peterson served as interim Chief Financial Officer and was named chief accounting officer in March 2005. Mr. Peterson joined us in September 2004 and served as director of internal audit until March 2005. From August 2002 until August 2004, Mr. Peterson was vice president and controller of the GCS Services Division of Ecolab, Inc., a worldwide developer and marketer of premium cleaning and sanitation products.

Richard Greene joined us as senior vice president, chief financial officer in October 2006. From April 2005 to April 2006, Mr. Greene served as chief financial officer of the plastics and adhesives segment of Tyco International Ltd., which was renamed Covalence Specialty Materials Corp. upon divestiture. From October 2003 to April 2005, Mr. Greene was vice president and chief financial officer of the Tyco Plastics unit of Tyco International Ltd.

Lynn Koldenhoven was named vice president, sales and marketing direct-to-consumer in October 2006. Prior to this, Ms. Koldenhoven held a variety of positions within Direct Checks, including: interim vice president from February 2006 to October 2006, executive director of marketing from March 2004 to January 2006 and director of core marketing from July 2003 to March 2004.

Lee Schram joined us as chief executive officer in May 2006. From March 2003 to April 2006, Mr. Schram served as senior vice president of the Retail Solutions Division of NCR Corporation (NCR), a leading global technology company.

Pete Godich was named vice president, fulfillment in May 2008. From December 2006 to May 2008, Mr. Godich was vice president of marketing and sales operations. From April 2006 to December 2006, Mr. Godich was vice president of supply chain. Prior to this, Mr. Godich served as vice president, customer care from March 2003 to April 2006.

Julie Loosbrock was named senior vice president, human resources in September 2008. Prior to this, Ms. Loosbrock held several leadership positions within human resources, most recently serving as vice president, human resources - strategic business partners from September 2003 to September 2008.

Malcolm McRoberts joined us as senior vice president, chief information officer in May 2008. Prior to this, Mr. McRoberts held a variety of leadership positions at NCR, including vice president of operations for the retail, hospitality and self-service division from August 2004 to May 2008 and vice president of operations, enterprise re-engineering from April 2001 to August 2004. NCR is a leading global technology company.

Tom Morefield was named senior vice president, financial services segment leader in September 2008. Prior to this, Mr. Morefield served as vice president, sales and customer channels from November 2006 to September 2008, vice president, sales and sales support from March 2004 to November 2006 and national director of sales, community market within our Financial Services segment from October 2002 to March 2004.

Laura Radewald was named vice president, brand, experience and media relations in September 2008. Ms. Radewald joined us in October 2007 and served as vice president, enterprise brand until September 2008. From November 2005 to September 2007, Ms. Radewald operated her own marketing consulting practice. From November 2001 to November 2005, she served as vice president of marketing for Myriad Development, Inc., a software company that provides underwriting automation and intelligence solutions to the property and casualty, government and mortgage markets.

Item 1A. Risk Factors.

Our business, consolidated results of operations, financial condition and cash flows could be adversely affected by various risks and uncertainties. These risks include, but are not limited to, the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business, results of operations, financial condition and cash flows. You should carefully consider all of these risks before making an investment in our common stock.

Weak economic conditions within the United States and globally could continue to have an adverse effect on our operating results and could result in additional impairment charges.

For most of 2008, financial markets globally have experienced disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that, among other concerns, include severely restricted credit. Largely as a result of these disruptions in financial markets, most analysts believe the global economy has entered a potentially prolonged recession. These economic developments may adversely affect businesses like ours in a number of ways, such as:

The rate of small business formations, small business confidence, consumer spending and employment levels, as well as energy costs, all have an impact on our businesses. Below average small business optimism and a decline in small business formations negatively impacted our results of operations in Small Business Services in 2008, and we expect this trend to continue, and possibly worsen, through 2009. Consumer spending and employment levels also trended negatively during 2008, resulting in some negative impact in our personal check businesses. A prolonged downturn in general economic conditions could result in additional declines in our revenue and profitability.

The failure of one or more of our larger financial institution clients, or large portions of our customer base, could adversely affect our operating results. In addition to the possibility of losing a significant contract, the inability to recover contract acquisition costs paid to one or more of our larger financial institution clients, or the inability to collect accounts receivable or contractually required contract termination payments from these financial institution clients, could have a significant negative impact on our consolidated results of operations.

There may be an increase in financial institution mergers and acquisitions during this period of economic uncertainty. Such an increase could adversely affect our operating results. Often the newly combined entity seeks to reduce costs by leveraging economies of scale in purchasing, including its check supply contracts. This results in check providers competing intensely on price in order to retain not only their previous business with one of the financial institutions, but also to gain the business of the other party in the merger/acquisition. Financial institution mergers and acquisitions can also impact the duration of our contracts. Normally, the length of our contracts with financial institutions ranges from three to five years. However, contracts are sometimes renegotiated or bought out mid-term due to a consolidation of financial institutions.

The effects of the recent economic downturn on our expected operating results and the broader U.S. market resulted in a significant reduction in our share price and led to asset impairment charges in 2008 related to trade names in our Small Business Services segment. Both before and after December 31, 2008, our common stock traded at prices lower than the December 31, 2008 closing stock price of \$14.96. If such a decline in our stock price occurs in the future for a sustained period, it may be indicative of a further decline in our fair value and would likely require us to record an impairment charge for a portion of the \$40.2 million of goodwill allocated to one of our reporting units. Accordingly, we believe that a non-cash goodwill impairment charge related to this reporting unit and/or further impairment charges related to our indefinite-lived trade name are reasonably possible in the future. This reporting unit had a calculated fair value which exceeded its carrying value by \$2.7 million as of December 31, 2008 and our indefinite-lived trade name had a carrying value of \$24.0 million as of December 31, 2008. The credit agreement governing our committed line of credit requires us to maintain a ratio of earnings before interest and taxes to interest expense of 3.0 times, as measured quarterly on an aggregate basis for the preceding four quarters. Significant impairment charges in the future could impact our ability to comply with this debt covenant, in which case, our lenders could demand immediate repayment of amounts outstanding under our line of credit. Although we would have remained in compliance with this debt covenant even if our reported pre-tax earnings for 2008 had been \$52 million lower than we reported, we cannot provide definitive assurance regarding our continued compliance with this debt covenant.

The severity and length of the present disruptions in the financial markets and recession in the global economy are unknown. There can be no assurance that there will not be a further deterioration in financial markets and in general business conditions.

Our ability to reduce costs is critical to our success.

The intense competition we face compels us to continually improve our operating efficiency in order to maintain or improve profitability. We intend to continue to reduce expenses, primarily within our shared services functions of fulfillment, information technology, real estate, finance, human resources and legal. We also expect to continue to simplify our business processes and reduce our cost and expense structure. These initiatives have required and will

continue to require up-front expenditures related to items such as redesigning and streamlining processes, consolidating information technology platforms, standardizing technology applications and improving real estate utilization. We can provide no assurance that we will achieve our anticipated cost reductions or that we will do so without incurring unexpected or greater than anticipated expenditures. Moreover, we may find that we are unable to achieve our business simplification and cost reduction goals without disruption to our business and, as a result, may choose to delay or forego certain cost reductions as business conditions require. Failure to meet our planned cost reduction targets would adversely affect our results of operations and could adversely affect our prospects if we are unable to remain competitive.

We may not be successful at implementing our growth strategies within Small Business Services.

We continue to execute strategies intended to drive sustained growth within Small Business Services. We are continuing to invest in several key enablers to achieve our strategies, including continuing to improve our e-commerce capabilities, implementing an integrated platform for our various brands, improving our customer analytics, focusing on key customer segments and improving our merchandising. We expect to drive growth as we obtain a greater portion of our revenue from higher growth annuity-based business services, including web hosting and other web services, business networking and payroll. All of these initiatives have required and will continue to require investment. Small Business Services revenue decreased in 2008, as compared to 2007, as the impact of economic conditions more than offset any favorability resulting from our growth strategies. We can provide no assurance that our growth strategies will be successful in the long-term and result in a positive return on our investment. Also, negative impacts resulting from the other risk factors described herein may offset or more than offset the benefit realized from our growth strategies.

We face intense competition in all areas of our business.

Although we are one of the leading check printers in the United States, we face considerable competition. In addition to competition from alternative payment methods, we also face intense competition from another check printer in our traditional financial institution sales channel, from direct mail sellers of personal checks, from sellers of business checks and forms, from check printing software vendors and from internet-based sellers of checks to individuals and small businesses. Additionally, low price, high volume office supply chain stores offer standardized business forms, checks and related products to small businesses. We also face intense competition with our business services offerings. We can provide no assurance that we will be able to compete effectively against current and future competitors. Continued competition could result in additional price reductions, reduced profit margins, loss of customers and an increase in up-front cash payments to financial institutions upon contract execution or renewal, which would have a material adverse effect on our results of operations and cash flows.

Small Business Services standardized business forms and related products face technological obsolescence and changing customer preferences.

Continual technological improvements have provided small business customers with alternative means to enact and record business transactions. For example, because of the lower price and higher performance capabilities of personal computers and related printers, small businesses now have an alternate means to print many business forms. Additionally, electronic transaction systems and off-the-shelf business software applications have been designed to replace pre-printed business forms products. If small business preferences change rapidly and we are unable to develop new products and services with comparable profit margins, our results of operations could be adversely affected.

The check printing portion of the payments industry is mature and, if check usage declines faster than expected, it could have a material adverse impact on our operating results.

Check printing is, and is expected to continue to be, an essential part of our business, representing 65.4% of our consolidated revenue in 2008. We 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, the total number of checks written in the United States has been in decline since the mid-1990s. According to our estimates, the total number of checks written by individuals and small businesses is declining approximately four to six percent each year, although the declines were greater in 2008, we believe, due to the economic recession and instability in the financial services industry. We believe that the number of checks written will continue to decline due to the increasing use of alternative

payment methods, including credit cards, debit cards, automated teller machines, direct deposit and electronic and other bill paying services. However, the rate and the extent to which alternative payment methods will achieve acceptance and replace checks, whether as a result of legislative developments, personal preference or otherwise, cannot be predicted with certainty. A surge in the popularity of any of these alternative payment

methods, or our inability to successfully offset the decline in check usage with other sources of revenue, could have a material adverse effect on our business, results of operations and prospects.

Consolidation among financial institutions has, and may continue to, adversely affect the pricing of our products and may result in the loss of clients.

The number of financial institutions has declined due to consolidation in the financial services industry. Margin pressures arise from such consolidation as merged entities seek to reduce costs by leveraging economies of scale, including their check supply contracts. The increase in general negotiating leverage possessed by such consolidated entities has resulted in contracts which are not as favorable to us as those historically negotiated with these clients, and in some cases, has resulted in the loss of clients to competitors. Although we devote considerable effort toward the development of a competitively-priced, high-quality suite of products and services for the financial services industry, there can be no assurance that significant financial institution clients will be retained or that the loss of a significant client can be offset through the addition of new clients or by expanded sales to our remaining clients.

Continuing softness in direct mail response rates could have a further adverse impact on our operating results.

Our Direct Checks segment and portions of our Small Business Services segment have experienced declines in response rates related to direct mail promotional materials. We believe that media response rates are declining across a wide variety of products and services. Additionally, we believe that our declines are attributable to the general decline in check usage and the gradual obsolescence of standardized forms products. In an attempt to offset these impacts, we continue to modify our marketing and sales efforts and have recently shifted a greater portion of our advertising investment to the internet. Competitive pressure may inhibit our ability to reflect increased costs in the prices of our products and new marketing strategies may not be successful. We can provide no assurance that we will be able to offset the decline in response rates, even with additional marketing and sales efforts.

The inability to secure adequate advertising placements could have an adverse impact on our operating results.

The profitability of our Direct Checks segment depends in large part on our ability to secure adequate advertising media placements at acceptable rates. We can provide no assurance regarding the future cost, effectiveness and/or availability of suitable advertising media. In addition, future legislation could affect our ability to advertise via direct mail. Congress enacted a federal Do Not Call registry in response to consumer backlash against telemarketers and is contemplating enacting anti-spam legislation in response to consumer complaints about unsolicited e-mail advertisements. If anti-spam legislation is enacted and/or if similar legislation is enacted for direct mail advertisers, we may be unable to sustain our current levels of profitability. In addition, many Direct Checks customers access our websites through internet search engines. During 2008, our results of operations were adversely affected by a dominant search engine's decision to limit our internet advertising based upon its revised advertising policies. As we analyze our overall advertising strategy, we may have to resort to more costly resources to replace this internet traffic, which would adversely affect our results of operations.

We face uncertainty with respect to recent and future acquisitions.

During 2008, we acquired Hostopia.com Inc., PartnerUp, Inc., and Logo Design Mojo, Inc. with the intention of increasing sales of higher-growth annuity-based business services. The integration of any acquisition involves numerous risks, including: difficulties in assimilating operations and products; diversion of management's attention from other business concerns; potential loss of key employees; potential exposure to unknown liabilities; and possible loss of our clients and customers or the clients and customers of the acquired businesses. One or more of these factors could impact our ability to successfully integrate an acquisition and could negatively affect our results of operations.

In regard to future acquisitions, 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 revenue or earnings to any material extent. Significant acquisitions typically result in additional contingent liabilities or debt and/or additional amortization expense related to acquired intangible assets, and thus, could adversely affect our business, results of operations and financial condition.

Declines in the equity markets could affect the value of our postretirement benefit and pension plan assets, which could adversely affect our operating results and cash flows.

The assets of our postretirement benefit and pension plans are valued at fair value using quoted market prices. Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. During 2008, the equity markets saw a significant decline in value. As such, the fair values of our plan assets decreased significantly from December 31, 2007. This materially affected the funded status of the plans and will result in higher postretirement benefit expense in 2009. Although our obligation is limited to funding benefits as they become payable, continued declines in the fair value of these assets would result in further expense increases, as well as the need to contribute increased amounts of cash to fund benefits payable under the plans.

The cost and availability of materials, delivery services and energy could adversely affect our operating results.

We are subject to risks associated with the cost and availability of paper, plastics, ink, other raw materials, delivery services and energy. Postal rates increased in 2007 and 2008 and fuel costs have fluctuated over the past several years. Additionally, there are relatively few paper suppliers. As such, when our suppliers increase paper prices, as they have indicated will be the case in 2009, we may not be able to obtain better pricing from alternative suppliers. Competitive pressures and/or contractual arrangements may inhibit our ability to reflect increased costs in the price of our products.

Paper costs represent a significant portion of our materials cost. Historically, we have not been negatively impacted by paper shortages because of our relationships with various paper suppliers. However, we can provide no assurance that we will be able to purchase sufficient quantities of paper if such a shortage were to occur. Additionally, we depend upon third party providers for delivery services. Events resulting in the inability of these service providers to perform their obligations, such as extended labor strikes, could adversely impact our results of operations by requiring us to secure alternate providers at higher costs.

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

From time to time, we make predictions or forecasts regarding our future results, including, but not limited to, forecasts regarding estimated revenue, earnings per share or cash provided by operating activities. 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 mix of historical and forward-looking information made available by us, and other information affecting us and our products and services, including the factors discussed here.

In addition, independent analysts periodically publish reports regarding our projected future performance. 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 accuracy of the published estimates of independent analysts. If you are relying on these estimates, you should pursue your own investigation and analysis of their accuracy and the reasonableness of the assumptions on which they are based.

Security breaches involving customer data, or the perception that e-commerce is not secure, could adversely affect our reputation and business.

We rely on various security procedures and systems to ensure the secure storage and transmission of data. Computer networks and the internet are, by nature, vulnerable to unauthorized access. We cannot provide assurance that misuse of new technologies or advances in criminal capabilities will not compromise or breach our security procedures and systems resulting in unauthorized access and/or use of customer data, including consumers' nonpublic personal information. A security breach could damage our reputation, deter clients and consumers from ordering our products and services, lead to the termination of client contracts and result in claims against us. If we are unsuccessful in defending a lawsuit regarding security breaches, we may be forced to pay damages which could have an adverse effect on our operating results. Additionally, general publicity regarding security breaches at other companies could lead to the perception among the general public that e-commerce is not secure. This could decrease traffic to our

websites and foreclose future business opportunities.

We may be unable to maintain our licenses to use third party intellectual property on favorable terms.

Check designs exclusively licensed from third parties account for a portion of our revenue. These license agreements generally average three years in duration. There can be no guarantee that such licenses will be available to us indefinitely or under terms that would allow us to continue to sell the licensed products profitably, which would adversely impact our results of operations.

Interruptions to our website operations or information technology systems could damage our reputation and harm our business.

The satisfactory performance, reliability and availability of our information technology systems are critical to our reputation and our ability to attract and retain customers. We could experience temporary interruptions in our websites, transaction processing systems, network infrastructure, printing production facilities or customer service operations for a variety of reasons, including human error, software errors, power loss, telecommunications failures, fire, flood, extreme weather and other events beyond our control. In addition, our technology, infrastructure and processes may contain undetected errors or design faults which may cause our websites or operating systems to fail. The failure of our systems could adversely affect our business, results of operations and prospects.

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

We rely on a combination of trademark and copyright laws, trade secret and patent protection, and confidentiality and license agreements to protect our trademarks, software and other intellectual property. These protective measures afford only limited protection. 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 which do not infringe on our intellectual property rights. We may be required to spend significant resources to protect our trade secrets and to monitor and police our intellectual property rights. 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 are dependent upon third party providers for certain significant information technology needs.

We have entered into agreements with third party providers for information technology services, including telecommunications and network server services. In the event that one or more of these providers is not able to provide adequate or timely information technology services, we could 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. In addition, the use of substitute third party providers could result in increased expense.

Legislation relating to consumer privacy protection could limit or harm our business.

We are subject to regulations implementing the privacy and information security requirements of the federal financial modernization law known as the Gramm-Leach-Bliley Act and other federal regulation and state law on the same subject. These laws and regulations require us to develop, implement and maintain policies and procedures to protect the security and confidentiality of consumers' nonpublic personal information. We are also subject to additional requirements in certain of our contracts with financial institution clients, which are often more restrictive than the regulations. These regulations and agreements limit our ability to use or disclose nonpublic personal information for other than the purposes originally intended. This could have the effect of limiting business opportunities.

We are unable to predict whether more restrictive legislation or regulation will be adopted in the future. Any future legislation or regulation, or the interpretation of existing legislation or regulation, could have a negative impact on our business, results of operations and 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. For example, new privacy laws could decrease traffic to our websites, decrease telemarketing opportunities and increase the cost of obtaining new customers.

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

In accordance with existing state and local tax laws, we currently collect sales, use or other similar taxes in state and local jurisdictions where we have a physical presence. One or more state or local jurisdiction may seek to impose sales tax collection obligations on 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 in states where we do not currently have a physical presence could subject shipments of goods by our direct-to-consumer businesses into such states to sales tax under current or future laws. If one or more state or local jurisdiction successfully asserts that we should have collected sales or other taxes in the past but did not, or that we must collect sales or other taxes in the future beyond our current practices, either determination could have a material, adverse affect on our business.

We may be subject to environmental risks.

Our printing facilities are subject to many federal and state regulations designed to protect the environment. We have sold former printing facilities to third parties, and in some instances, have agreed to indemnify the buyer of the facility for certain environmental liabilities. Unforeseen conditions at these facilities could result in additional liability and expense beyond our insurance coverage.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive office is an owned property located in Shoreview, Minnesota. Aside from small sales offices, we occupy 32 facilities throughout the United States and six facilities in Canada where we conduct printing and fulfillment, call center and administrative functions. These facilities are either owned or leased and have a combined floor space of approximately 2.9 million square feet. We believe that our properties are sufficiently maintained and are adequate and suitable for our business needs as presently conducted.

Item 3. Legal Proceedings.

In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, we record provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. We believe the recorded reserves in our consolidated financial statements are adequate in light of the probable and estimable outcomes. Recorded liabilities were not material to our financial position, results of operations and liquidity, and we do not believe that any of the currently identified claims or litigation will materially affect our financial position, results of operations or liquidity.

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

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is traded on the New York Stock Exchange under the symbol DLX. Dividends are declared by our board of directors on a current basis and therefore, may be subject to change in the future, although we currently have no plans to change our \$0.25 per share quarterly dividend amount. As of December 31, 2008, the number of shareholders of record was 8,053. The table below shows the per share closing price ranges of our common stock for the past two fiscal years as quoted on the New York Stock Exchange, as well as the quarterly dividend amount for each period.

	Dividend	High	Stock price Low	Close
2008				
Quarter 4	\$ 0.25	\$ 15.70	\$ 7.52	\$ 14.96
Quarter 3	0.25	19.59	12.01	14.39
Quarter 2	0.25	24.51	17.66	17.82
Quarter 1	0.25	33.20	18.72	19.21
2007				
Quarter 4	\$ 0.25	\$ 40.86	\$ 28.93	\$ 32.89
Quarter 3	0.25	42.49	28.56	36.84
Quarter 2	0.25	44.95	33.38	40.61
Quarter 1	0.25	33.95	25.13	33.53

In August 2003, our board of directors approved an authorization to purchase up to 10 million shares of our common stock. This authorization has no expiration date and 6.5 million shares remain available for purchase under this authorization. We did not repurchase any shares during the fourth quarter of 2008.

While not considered repurchases of shares, we do at times withhold shares that would otherwise be issued under equity-based awards to cover the withholding taxes due as a result of the exercising or vesting of such awards. During the fourth quarter of 2008, we withheld 13,253 shares in conjunction with the vesting and exercise of equity-based awards.

Absent certain defined events of default under our debt instruments, and as long as our ratio of earnings before interest, taxes, depreciation and amortization to interest expense is in excess of two to one, our debt covenants do not restrict us from paying cash dividends at our current rate.

The table below compares the cumulative total shareholder return on our common stock for the last five fiscal years with the cumulative total return of the S&P 400 MidCap Index and the Dow Jones Support Services (DJUSIS) Index.

**Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100*
December 2008**

* The graph assumes that \$100 was invested on December 31, 2003 in each of Deluxe common stock, the S&P 400 MidCap Index and the DJUSIS Index, and that all dividends were reinvested.

Item 6. Selected Financial Data.

The following table shows certain selected financial data for the five years ended December 31, 2008. This information should be read in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations* appearing in Item 7 of this report and our consolidated financial statements appearing in Item 8 of this report. During the fourth quarter of 2008, our Russell & Miller retail packaging and signage business met the criteria to be classified as discontinued operations in our consolidated financial statements. As such, our results for prior years reflect the reclassification of the results of this business to discontinued operations.

(dollars and orders in thousands, except per share and per order amounts)

	2008	2007	2006	2005	2004
Statement of Income Data:					
Revenue ⁽¹⁾	\$ 1,468,662	\$ 1,588,885	\$ 1,619,337	\$ 1,694,246	\$ 1,555,916
As a percentage of revenue:					
Gross profit	61.4%	63.8%	62.9%	64.9%	66.0%
Selling, general and administrative expense	45.7%	46.8%	47.6%	47.0%	43.4%
Operating income	14.2%	17.0%	12.3%	18.0%	22.3%
Operating income	\$ 209,234	\$ 269,904	\$ 198,544	\$ 304,328	\$ 347,492
Income from continuing operations	105,872	145,117	100,838	157,943	198,985
Per share basic	2.08	2.82	1.98	3.12	3.97
Per share diluted	2.05	2.79	1.96	3.10	3.94
Cash dividends per share	1.00	1.00	1.30	1.60	1.48
Balance Sheet Data:					
Cash and cash equivalents	\$ 15,590	\$ 21,615	\$ 11,599	\$ 6,867	\$ 15,492
Return on average assets	8.4%	11.6%	7.5%	10.8%	19.2%
Total assets	\$ 1,218,985	\$ 1,210,755	\$ 1,267,132	\$ 1,425,875	\$ 1,499,079
Long-term obligations ⁽²⁾	775,336	776,840	903,121	954,164	980,207
Total debt	853,336	844,040	1,015,781	1,166,510	1,244,207
Statement of Cash Flows Data:					
Net cash provided by operating activities of continuing operations	\$ 198,487	\$ 245,075	\$ 238,895	\$ 178,591	\$ 308,148
Net cash used by investing activities of continuing operations	(135,773)	(10,929)	(32,884)	(55,834)	(670,805)
Net cash (used) provided by financing activities of continuing operations	(67,681)	(224,890)	(204,587)	(147,816)	369,963
Purchases of capital assets	(31,865)	(32,286)	(41,012)	(55,570)	(43,785)
Payments for acquisitions, net of cash acquired	(104,879)	(2,316)	(16,521)	(2,888)	(624,859)
Payments for common shares repurchased	(21,847)	(11,288)			(26,637)
Other Data (continuing operations):					
Orders ⁽³⁾	62,823	64,753	64,670	65,070	76,213
Revenue per order ⁽³⁾	\$ 23.38	\$ 24.54	\$ 25.04	\$ 26.04	\$ 20.42
Number of employees	7,172	7,910	8,728	8,617	8,852
Number of printing/fulfillment facilities	21	22	23	20	19
Number of call center facilities	14	14	17	18	18

(1)

Our results of operations were impacted by the acquisition of New England Business Service, Inc. (NEBS) on June 25, 2004. NEBS contributed revenue of \$671.2 million in 2005 and \$363.2 million in 2004. We are not able to quantify NEBS revenue for 2006 through 2008 or its contribution to operating income because of its integration with our other businesses.

- (2) Long-term obligations include both the current and long-term portions of our long-term debt obligations, including capital leases.
- (3) Orders is our company-wide measure of volume. When portions of a customer order are on back-order, one customer order may be fulfilled via multiple shipments. Generally, an

order is counted when the last item ordered is shipped to the customer. Orders and revenue per order in 2008 were impacted by the acquisition of Hostopia.com Inc. (Hostopia) in August 2008 because each monthly customer billing for service fees is considered to be an order. Hostopia orders in 2008, post-acquisition, were 1,500 and revenue per order was \$8.36.

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

Our business is organized into three segments: Small Business Services, Financial Services and Direct Checks. Our Small Business Services segment generated 57.9% of our consolidated revenue for 2008. This segment has sold business checks, printed forms, promotional products, web services, marketing materials and related services and products to more than six million small businesses and home offices in the past five years through direct response marketing, financial institution referrals, independent distributors, the internet and sales representatives. Of the more than six million customers we have served in the past five years, nearly four million have ordered our products or services in the last 24 months. Our Financial Services segment generated 29.3% of our consolidated revenue for 2008. This segment sells personal and business checks, check-related products and services, customer loyalty, retention and fraud monitoring and protection services, and stored value gift cards to approximately 6,500 financial institution clients nationwide, including banks, credit unions and financial services companies. Our Direct Checks segment generated 12.8% of our consolidated revenue for 2008. This segment is the nation's leading direct-to-consumer check supplier, selling under the Checks Unlimited®, Designer® Checks and Checks.com brand names. Through these brands, we sell personal and business checks and related products and services directly to consumers using direct response marketing and the internet. We operate primarily in the United States. Small Business Services also has operations in Canada and Europe.

Our business was negatively impacted in 2008 by the effects of a severe downturn in the economy and by the continued turmoil in the financial services sector. We have experienced a reduction in demand for many of our products in Small Business Services, and check orders from several of our financial institutions have been lower due to uncertainty related to government bailouts and consolidations. At the same time, we have accelerated many of our cost reduction actions and have identified new opportunities to improve our operating cost structure. In addition, we have continued to invest in our transformation with acquisitions that bring higher growth business service offerings into our portfolio. We are focused on capitalizing on these transformational opportunities available to us in this difficult environment and believe that we will be better positioned to deliver increasingly better margins once the economy begins to recover.

Our net income for 2008, as compared to 2007, benefited from the following:

Various management initiatives to reduce our cost structure, primarily within sales and marketing, information technology and manufacturing;

A significant reduction in employee-related costs, primarily performance-based employee compensation; and

Higher revenue per order in Direct Checks, primarily from price increases and increased sales of fraud protection services.

These benefits were more than offset by the following:

Lower volume driven by unfavorable economic conditions, primarily affecting Small Business Services, and the continuing decline in check usage and advertising response rates, as well as non-recurring financial institution conversion activity in 2007;

Restructuring charges and related costs in 2008 resulting from our cost reduction initiatives;

Impairment charges in 2008 related to Small Business Services trade names and discontinued operations;

Increased manufacturing costs, including higher delivery-related costs due to mid-2007 and 2008 postal rate increases and fuel surcharges in 2008, as well as higher materials costs due to an unfavorable product mix; and

Lower revenue per order in Financial Services, despite a price increase in October 2008, due to this segment's competitive pricing environment.

Our Strategies

Small Business Services Our focus within Small Business Services is to grow revenue and increase operating margin by continuing to implement the following strategies:

Acquire new customers by leveraging customer referrals that we receive from our financial institution clients and from other marketing initiatives such as e-commerce and direct mail;

Increase our share of the amount small businesses spend on the products and services in our portfolio;

Expand in higher growth areas such as full color, web-to-print, imaging and business services, including payroll, fraud protection, web hosting and other web services, business networking and logo design; and

Continue to optimize our cost and expense structure.

We are continuing to invest in several key enablers to achieve our strategies and reposition Small Business Services as not just a provider of printed products, but also a provider of higher-growth business services. These key enablers include continuing to improve our e-commerce capabilities, implementing an integrated platform for our various brands, improving our customer analytics, focusing on key customer segments and improving our merchandising. We have refreshed our existing product offerings and have already improved some of our newer service offerings, which we believe creates a more valuable suite of products and services. We have acquired companies which allow us to expand our custom, full color, digital and web-to-print offerings, as well as web hosting and other web services, logo design and business networking services. We expect to drive growth as we obtain a greater portion of our revenue from higher growth annuity-based business services.

In August 2008, we completed the acquisition of Hostopia.com Inc. (Hostopia) in a cash transaction for \$99.4 million, net of cash acquired. Hostopia is a provider of web services that enable small businesses to establish and maintain an internet presence. Hostopia's revenue for its fiscal year ended March 31, 2008 was \$27.8 million, an increase of 24% from its previous year amount. Hostopia also provides email marketing, fax-to-email, mobility synchronization and other services. It provides a unified, scaleable, web-enabled platform that better positions us to obtain orders for a wider variety of products, including checks, forms, business cards and full-color, digital and web-to-print offerings, as well as imaging and other printed products. Hostopia operates primarily in the United States and Canada. Also during 2008, we acquired the assets of PartnerUp, Inc. (PartnerUp), Logo Design Mojo, Inc. (Logo Mojo) and Yoffi Digital Press (Yoffi) for an aggregate cash amount of \$5.5 million. PartnerUp is an online community that is designed to connect small businesses and entrepreneurs with resources and contacts to build their businesses. Logo Mojo is a Canadian-based online logo design firm and Yoffi is a commercial digital printer specializing in custom marketing material.

During 2008, we introduced the www.ShopDeluxe.com website, our new customer facing e-commerce platform. This website, along with our www.Deluxe.com website, will serve as a platform for improved e-commerce capability. We intend to consolidate our Deluxe Marketing Store website into ShopDeluxe.com to further improve the customer experience, and we have identified opportunities to expand sales to our existing customers and acquire new customers. Also important to our growth are the small business customer referrals we receive from our Deluxe Business Advantage[®] program, which provides a fast and simple way for financial institutions to offer expanded personalized service to small businesses. Our relationships with financial institutions are important in helping us serve customer segments more deeply, such as contractors, professional services providers and banks and credit unions.

Financial Services Our strategies within Financial Services are as follows:

Continue to maintain core check revenue streams and acquire new clients;

Provide services and products that differentiate us from the competition and make us a more relevant business partner to our financial institution clients by helping them grow core deposits; and

Continue to simplify our business model and optimize our cost and expense structure.

We proactively extended several check contracts during 2008 and will continue our focus on acquiring new clients during 2009. We are also leveraging our loyalty, retention, market intelligence and fraud monitoring and protection

offers, as well as our Deluxe Business Advantage program. The Deluxe Business Advantage program is designed to maximize financial institution business check programs by offering the products and services of our Small Business Services segment

to small businesses through a number of service level options. The revenue from these additional products and services is reflected in our Small Business Services segment.

In our efforts to expand beyond check-related products, we have introduced several services and products that focus on customer loyalty and retention, as well as fraud monitoring and protection. Following are some examples:

Deluxe ID TheftBlock® a set of fraud monitoring and recovery services that provides assistance to consumers in detecting and recovering from identity theft.

Welcome HomeSM Tool Kit a start-to-finish package for financial institution branch offices that captures best practices for securing lasting loyalty among customers by focusing on the first 90 days of the relationship.

Deluxe CallingSM an outbound calling program aimed at helping financial institutions generate new organic revenue growth and reduce attrition.

We expect providing products and services that differentiate us from the competition will help offset the decline in check usage and the pricing pressures we are experiencing in our check programs. As such, we are also focused on accelerating the pace at which we introduce new products and services. In addition to these value-added services, we continue to offer our Knowledge ExchangeTM Series, a suite of resources and events for our financial institution clients focused on the customer experience.

Direct Checks Our strategies within Direct Checks are as follows:

Optimize cash flow;

Maximize the lifetime value of customers by selling new features, accessories and products; and

Continue to lower our cost and expense structure.

We intend to optimize the cash flow generated by this segment by continuing to lower our cost and expense structure in all functional areas, particularly in the areas of marketing and fulfillment. We will continue to actively market our products and services through targeted advertising and will focus a greater portion of our investment in the e-commerce channel. Additionally, we continue to explore avenues to increase sales to existing customers. For example, we have had success with the EZShieldTM product, a check protection service that provides reimbursement to consumers for forged signatures or endorsements and altered checks.

Cost Reduction Initiatives

We are pursuing aggressive cost reduction and business simplification initiatives, including: reducing shared services infrastructure costs; streamlining our call center and fulfillment activities; eliminating system and work stream redundancies; and strengthening our ability to quickly develop new products and services and bring them to market. We believe significant cost reduction opportunities exist in the reduction of stock keeping units (SKUs), the standardization of products and services and improvements in sourcing third-party goods and services. In addition, we closed one customer call center during the third quarter of 2008 and one printing facility in December 2008, and we plan to close five additional printing facilities and one customer call center in 2009. These and other actions since 2006 collectively are expected to reduce our annual cost structure by at least \$300 million, net of required investments, by the end of 2010. The baseline for these anticipated savings is the annual diluted earnings per share guidance for 2006 of \$1.41 to \$1.51, which we provided in our press release on July 27, 2006 regarding second quarter 2006 results. We expect all three of our business segments to benefit from cost reductions. We estimate that approximately 40% of the \$300 million target will come from reorganizing our sales and marketing functions and that another 30% of the target will come from our shared services infrastructure organizations of information technology, real estate, finance, human resources and legal. We expect information technology will provide the greatest percentage of these savings through lowering data center costs, improving mainframe and server utilization and reducing the cost of networking and voice communications. We also estimate that approximately 30% of the \$300 million target will come from fulfillment, including manufacturing and supply chain. Overall, approximately one-third of the savings are expected to affect cost of goods sold, with the remaining two-thirds impacting selling, general and administrative (SG&A) expense.

Through December 31, 2008, we estimate that we have realized approximately \$155 million of our \$300 million target. We anticipate that we will realize an additional \$90 million in 2009 and the remaining \$55 million in 2010.

Outlook for 2009

We anticipate that consolidated revenue from continuing operations will be between \$1.3 billion and \$1.4 billion for 2009, as compared to \$1.47 billion for 2008. We expect that current economic conditions will continue to adversely affect volumes in Small Business Services and drive a mid-single to low-double digit decline in revenue despite modest contributions from our e-commerce initiatives and revenue from the Hostopia and PartnerUp acquisitions. In Financial Services, we expect an acceleration of check order declines to approximately six to seven percent given the turmoil in the financial services industry. We expect the related revenue pressure to be partially offset by a price increase implemented in the fourth quarter of 2008, as well as a modest contribution from our loyalty, retention, monitoring and protection offers. We expect the revenue decline in Direct Checks to be in the double digits, driven by the decline in check usage and the weak economy which is negatively impacting our ability to sell additional products. The upper end of our outlook assumes the current economic trends do not improve throughout the year and that we benefit only a modest amount from our revenue growth initiatives. The lower end of our outlook assumes a further deterioration in the economy throughout the year.

We expect that 2009 diluted earnings per share will be between \$1.91 and \$2.31, which includes an estimated \$0.04 per share for restructuring activities, compared to \$1.97 for 2008. We expect that continued progress with our cost reduction initiatives, as well as the impact of restructuring and asset impairment charges in 2008, will be partially offset by the revenue decline, as well as an estimated \$20 million increase in performance-based employee compensation, an estimated \$12 million increase in material and delivery costs and an estimated \$12 million increase in employee and retiree medical expenses. Our outlook also reflects a wage freeze in 2009 which avoids an \$8 million increase in our expense structure. We estimate that our annual effective tax rate for 2009 will be approximately 35%, compared to 33.9% in 2008.

We anticipate that net cash provided by operating activities of continuing operations will be between \$175 million and \$200 million in 2009, compared to \$198 million in 2008. We anticipate that lower performance-based compensation payments in 2009, as well as working capital improvements, will be partially offset by increased restructuring-related payments. We estimate that capital spending will be approximately \$40 million in 2009 as we plan to expand our use of digital printing technology and invest in manufacturing productivity and revenue growth initiatives.

We funded our acquisitions in 2008 through cash and borrowings on our credit facilities. Additionally, we repurchased \$21.8 million of common stock in 2008. Even with these actions, we believe that we continue to have reasonable access to capital in order to fund operations and execute our strategies in 2009. With no long-term debt maturities until 2012, we are focused on a disciplined approach to capital deployment that balances the need to continue investing in initiatives to drive revenue growth, including small acquisitions, with our focus on reducing debt. Although we have periodically repurchased shares in the recent past, our focus in 2009 will be to further reduce our debt. We anticipate that our board of directors will maintain our current dividend level. However, dividends are approved by our board of directors on a quarterly basis and thus, are subject to change.

BUSINESS CHALLENGES/MARKET RISKS

Market for checks and business forms

The market for our two largest products, checks and business forms, is very competitive. These products are mature and their use has been declining. According to our estimates, the total number of checks written in the United States has been in decline as a result of alternative payment methods, including credit cards, debit cards, automated teller machines and electronic payment systems. According to a Federal Reserve study released in December 2007, approximately 33 billion checks are written annually. This includes checks which are converted to automated clearing house (ACH) payments. The check remains the largest single non-cash payment method in the United States, accounting for approximately 35% of all non-cash payment transactions. This is a reduction from the Federal Reserve study released in December 2004 when checks accounted for approximately 45% of all non-cash payment transactions. The Federal Reserve estimates that checks written declined approximately four percent per year between 2003 and 2006. According to our estimates, the use of business checks is declining at a rate of approximately four to six percent per year, although the decline, we believe, was greater in 2008 due to the economic recession and instability in the financial services industry. The total transaction volume of all electronic payment methods exceeds

check payments, and we expect that to continue. In addition to the decline in check usage, the use of business forms is also under pressure. Continued technological improvements have provided small business customers with alternative means to enact and record business transactions. For example, off-the-shelf business software applications and electronic transaction systems have been designed to replace pre-printed business form products.

Financial institution clients

Because check usage is declining and financial institutions are consolidating, we have been encountering significant pricing pressure when negotiating contracts with our financial institution clients. Our traditional financial institution relationships are typically formalized through supply contracts averaging three to five years in duration. As we compete to retain and acquire new financial institution business, the resulting pricing pressure, combined with declining check usage in the marketplace, has reduced our revenue and profit margins. We expect this trend to continue.

Continued turmoil in the financial services industry, including further bank failures and consolidations, could have a significant impact on our consolidated results of operations if any of the following were to occur:

We could lose a significant contract, which would have a negative impact on our results of operations.

We may be unable to recover the value of any related unamortized contract acquisition cost and/or accounts receivable. Contract acquisition costs, which are treated as pre-paid product discounts, are sometimes utilized in our Financial Services segment when signing or renewing contracts with our financial institution clients and totaled \$37.7 million as of December 31, 2008. These amounts are recorded as non-current assets upon contract execution and are amortized, generally on the straight-line basis, as reductions of revenue over the related contract term. In most situations, the contract requires a financial institution to reimburse us for the unamortized contract acquisition cost if it terminates its contract with us prior to the end of the contract term. Our contract acquisition costs are comprised of amounts paid to individual financial institutions, many of which are smaller and would not have a significant impact on our consolidated financial statements if they were deemed unrecoverable. However, the inability to recover amounts paid to one or more of our larger financial institution clients could have a significant negative impact on our consolidated results of operations.

If one or more of our financial institution clients is taken over by a financial institution that is not one of our clients, we could lose significant business. In the case of a cancelled contract, we may be entitled to collect a contract termination payment. However, if a financial institution fails, we may be unable to collect that termination payment. We have no indication at this time that any significant contract terminations are expected.

If one or more of our larger clients were to consolidate with a financial institution that is not one of our clients, our results of operations could be positively impacted if we retain the client, as well as obtain the additional business from the other party in the consolidation.

If two of our financial institution clients consolidate, the increase in general negotiating leverage possessed by the consolidated entities sometimes results in new contracts which are not as favorable to us as those historically negotiated with the clients individually.

We could generate non-recurring conversion revenue. Conversions are driven by the need to replace obsolete checks after one financial institution merges with or acquires another. However, we presently do not have specific information that indicates that we should expect to generate significant income from conversions.

Consumer response rates to direct mail advertisements

Direct Checks and portions of Small Business Services have been impacted by reduced consumer response rates to direct mail advertisements. Our own experience indicates that direct-to-consumer media response rates are declining across a wide variety of products and services. Additionally, our consumer response rates are declining further due to the decline in check usage and the gradual obsolescence of standardized forms products.

Economic conditions

General economic conditions negatively impacted our 2008 results of operations, primarily in Small Business Services. The rate of small business formations and small business confidence impact Small Business Services. The index of small business optimism published by the National Federation of Independent Business in December 2008 was at a near-record low. According to estimates of the Small Business Administration's Office of Advocacy, new

small business formations were down slightly in 2007, the most recent date for which information is available, as compared to 2006. Consumer spending and employment levels also have some impact on our personal check businesses. Both measures trended negatively during 2008, and

we did experience some negative impact in our personal check businesses. We expect that general economic conditions will continue to have a negative impact on our 2009 results of operations. A prolonged downturn in general economic conditions could result in additional declines in our revenue and profitability.

The effects of the recent economic downturn on our expected operating results and the broader U.S. market resulted in a significant reduction in our share price and led to asset impairment charges in 2008 related to trade names in our Small Business Services segment. Both before and after December 31, 2008, our common stock traded at prices lower than the December 31, 2008 closing stock price of \$14.96. If such a decline in our stock price occurs in the future for a sustained period, it may be indicative of a further decline in our fair value and would likely require us to record an impairment charge for a portion of the \$40.2 million of goodwill allocated to one of our reporting units. Accordingly, we believe that a non-cash goodwill impairment charge related to this reporting unit and/or further impairment charges related to our indefinite-lived trade name are reasonably possible in the future. This reporting unit had a calculated fair value which exceeded its carrying value by \$2.7 million as of December 31, 2008. The calculated fair values of our other reporting units exceeded their carrying values by amounts between \$26 million and \$391 million. Our indefinite-lived trade name had a carrying value of \$24.0 million as of December 31, 2008. The credit agreement governing our committed line of credit requires us to maintain a ratio of earnings before interest and taxes to interest expense of 3.0 times, as measured quarterly on an aggregate basis for the preceding four quarters. Significant impairment charges in the future could impact our ability to comply with this debt covenant, in which case, our lenders could demand immediate repayment of amounts outstanding under our line of credit. We would have remained in compliance with this debt covenant even if our reported pre-tax earnings for 2008 had been \$52 million lower than we reported. For further information regarding the impairment analyses completed during 2008, see the goodwill and indefinite-lived assets discussion under *Application of Critical Accounting Policies*.

Postretirement and pension plans

The plan assets of our postretirement benefit and pension plans are valued at fair value using quoted market prices. Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. During 2008, the equity markets saw a significant decline in value. As such, the fair values of our plan assets decreased significantly during the year. Our plan assets and liabilities were re-measured at December 31, 2008, in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The unfunded status of our plans increased by \$30.0 million from December 31, 2007, due in large part to the decrease in the fair values of plan assets. This affected the amounts reported in the consolidated balance sheet as of December 31, 2008. It also contributes to an expected increase in postretirement benefit expense of approximately \$8 million in 2009. If the equity and bond markets continue to decline, the funded status of our plans could continue to be materially affected. This could result in higher postretirement benefit expense in the future, as well as the need to contribute increased amounts of cash to fund the benefits payable under the plans, although our obligation is limited to funding benefits as they become payable.

Deferred compensation plan

We have a non-qualified deferred compensation plan that allows eligible employees to defer a portion of their compensation. The compensation deferred under this plan is credited with earnings or losses measured by the mirrored rate of return on phantom investments elected by plan participants, which are similar to the investments available in our defined contribution pension plan. As such, our liability for this plan fluctuates with market conditions. During 2008, we reduced our deferred compensation liability by \$1.5 million due to losses on the underlying investments elected by plan participants. The carrying value of this liability, which was \$3.9 million as of December 31, 2008, may change significantly in future periods if volatility in the equity markets continues.

CONSOLIDATED RESULTS OF OPERATIONS

During the fourth quarter of 2008, our Russell & Miller retail packaging and signage business met the criteria to be classified as discontinued operations in our consolidated financial statements. As such, our results for prior years reflect the reclassification of the results of this business to discontinued operations, and the discussion that follows pertains only to our continuing operations.

Consolidated Revenue

(in thousands, except per order amounts)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Revenue	\$ 1,468,662	\$ 1,588,885	\$ 1,619,337	(7.6%)	(1.9%)
Orders	62,823	64,753	64,670	(3.0%)	0.1%
Revenue per order	\$ 23.38	\$ 24.54	\$ 25.04	(4.7%)	(2.0%)

The decrease in revenue for 2008, as compared to 2007, was due to unfavorable economic conditions, primarily affecting Small Business Services, as well as lower volume for Direct Checks due to the overall decline in check usage and advertising response rates, lower order volume for Financial Services due to the decline in check usage and non-recurring client conversion activity in 2007, and lower revenue per order for Financial Services. Conversion activity is driven by the need to replace obsolete checks after one financial institution merges with or acquires another. Revenue in 2007 benefited from higher non-recurring Canadian check sales due to the introduction of a new check format required by the Canadian Payments Association. Partially offsetting these revenue decreases was revenue of \$13.4 million from the Small Business Services acquisitions completed in 2008, as discussed under *Executive Overview*, higher revenue per order for Direct Checks due to price increases and increased sales of fraud protection services, as well as the benefit of Financial Services price increases in February 2007 and October 2008. Sales of fraud protection services also increased within Small Business Services.

The number of orders decreased for 2008, as compared to 2007, due to the volume declines for Direct Checks and Financial Services discussed earlier, as well as the unfavorable economic conditions primarily affecting Small Business Services. Partially offsetting these volume decreases was the Small Business Services acquisitions completed in 2008. The decline in orders, excluding the acquisitions, was 5.3% for 2008, as compared to 2007. Revenue per order decreased for 2008, as compared to 2007, primarily due to continued pricing pressure within Financial Services, partially offset by the benefit of Direct Checks and Financial Services price increases. Also impacting revenue per order were the Small Business Services acquisitions completed in 2008. The acquisitions reduced revenue per order by 1.5 percentage points for 2008 primarily because Hostopia's revenue per order is lower as each monthly billing generated for service fees is considered to be an order.

The decrease in revenue for 2007, as compared to 2006, was primarily due to a \$48 million decrease resulting from the sale of our industrial packaging product line in January 2007, as well as a decline in volume for our Direct Checks segment and lower revenue per order due to lower pricing in our Financial Services segment. Lower volume for Direct Checks was primarily due to the overall decline in check usage, as well as lower customer retention and lower direct mail consumer response rates. Small Business Services also experienced a slight revenue decrease in the last half of the year related to general economic conditions. Partially offsetting these decreases were revenues of approximately \$18 million generated by the Johnson Group, which we acquired in the fourth quarter of 2006, and higher revenue per order for Direct Checks due to the introduction of new products and services, including the EZShield product discussed earlier under *Executive Overview*. Additionally, Financial Services volume increased due to client gains and financial institution conversion activity, and revenue in Canada increased due to a favorable exchange rate impact of approximately \$4 million, plus increased check orders triggered by a new check format mandated by the Canadian Payments Association.

The number of orders increased slightly for 2007, as compared to 2006, as the Financial Services volume increase of 1.4% exceeded the negative impacts of Direct Checks volume decline, the sale of Small Business Services industrial packaging product line and the negative economic impact experienced by Small Business Services in the last half of the year.

Revenue per order decreased for 2007, as compared to 2006, as lower prices in Financial Services more than offset the impact of increases in revenue per order for Direct Checks and Small Business Services.

Supplemental information regarding revenue by product is as follows:

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Checks	\$ 960,837	\$ 1,045,008	\$ 1,041,523	(8.1%)	0.3%
Other printed products, including forms	328,990	374,138	366,691	(12.1%)	2.0%
Accessories and promotional products	109,773	118,181	122,635	(7.1%)	(3.6%)
Packaging supplies, services and other	69,062	51,558	88,488	34.0%	(41.7%)
Total revenue	\$ 1,468,662	\$ 1,588,885	\$ 1,619,337	(7.6%)	(1.9%)

The percentage of total revenue derived from the sale of checks was 65.4% in 2008, as compared to 65.8% in 2007 and 64.3% in 2006. Small Business Services contributed non-check revenue of \$430.6 million in 2008, \$462.5 million in 2007 and \$502.8 million in 2006, from the sale of forms, envelopes, holiday cards, labels, business cards, stationery and other promotional products. Small Business Services non-check revenue for 2008, as compared to 2007, benefited from revenue of \$13.4 million from the Small Business Services acquisitions completed in 2008. This impact was more than offset by lower demand for our products caused by a weak economy. The decrease in Small Business Services non-check revenue for 2007, as compared to 2006, was primarily due to the sale of our industrial packaging product line in January 2007.

Consolidated Gross Margin

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Gross profit	\$ 902,149	\$ 1,014,281	\$ 1,019,357	(11.1%)	(0.5%)
Gross margin	61.4%	63.8%	62.9%	(2.4) pt.	0.9 pt.

Gross margin decreased for 2008, as compared to 2007, due primarily to a \$16.1 million increase in restructuring charges and other costs related to our cost reduction initiatives. Further information regarding our restructuring costs can be found under *Restructuring Costs*. The restructuring charges and other related costs lowered our gross margin for 2008 by 1.1 percentage points. Additionally, higher delivery-related costs from mid-2007 and 2008 postal rate increases and fuel surcharges in 2008, higher materials costs due to an unfavorable product mix, as well as competitive pricing in Financial Services negatively affected gross margin. These decreases were partially offset by price increases for Direct Checks and Financial Services, as well as manufacturing efficiencies and other benefits resulting from our cost reduction initiatives.

Gross margin increased for 2007, as compared to 2006, due to manufacturing efficiencies, including the closing of two Small Business Services manufacturing facilities in mid-2006, as well as lower material costs in 2007 related to a higher mix of check products in Small Business Services. Additionally, we benefited from increased Financial Services order volume in 2007 and a \$2.3 million decrease in restructuring costs in 2007. Further information regarding our restructuring costs can be found under *Restructuring Costs*. Partially offsetting these gross margin

increases was lower Financial Services revenue per order, a postal rate increase in mid-2007 and costs associated with the implementation of new check packaging intended to mitigate the effects of the postal rate increase.

Consolidated Selling, General & Administrative Expense

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
SG&A expense	\$ 670,991	\$ 743,449	\$ 770,218	(9.7%)	(3.5%)
SG&A expense as a percentage of revenue	45.7%	46.8%	47.6%	(1.1) pt.	(0.8) pt.

The decrease in SG&A expense for 2008, as compared to 2007, was primarily due to various cost reduction initiatives within our shared services organizations, primarily within sales and marketing and information technology, a reduction of approximately \$24 million in performance-based employee compensation and lower employee benefit costs related to reduced workers' compensation and medical claims activity. These decreases in SG&A expense were partially offset by investments to drive revenue growth opportunities, including marketing costs within Small Business Services and information technology investments.

The decrease in SG&A expense for 2007, as compared to 2006, was due to various cost reduction initiatives within our shared services organizations, lower amortization expense and project costs of approximately \$9 million related to a software project we wrote-off in the second quarter of 2006, and investments made in 2006 related to implementing our Small Business Services growth strategies. We also benefited from lower amortization of acquisition-related intangible assets within Small Business Services of \$4.4 million, as certain of these assets are amortized using accelerated methods. Partially offsetting these SG&A decreases was an increase in expense for performance-based employee compensation based on our 2007 operating performance of approximately \$24 million, a gain in 2006 of \$11.0 million from the termination of an underperforming outsourced payroll services contract and higher referral commissions for Small Business Services resulting from growth in our Deluxe Business Advantage financial institution referral program.

Restructuring Charges

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Restructuring charges	\$ 13,400	\$ 4,701	\$ 10,479	\$ 8,699	\$ (5,778)

We recorded restructuring charges related to the cost reduction initiatives discussed under *Executive Overview*. The charges for all periods included severance benefits and other direct costs of our initiatives, including equipment moves, training and travel. In 2008, restructuring charges also included the acceleration of employee share-based compensation awards. Additional restructuring charges of \$14.9 million in 2008 and \$1.9 million in 2006 were included within cost of goods sold in our consolidated statements of income. Net restructuring reversals of \$0.4 million were included within cost of goods sold in the 2007 consolidated statement of income. Further information can be found under *Restructuring Costs*.

Asset Impairment Charges

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Asset impairment charges	\$ 9,942	\$ 44,698	\$ 44,698	\$ 9,942	\$ (44,698)

We completed the annual impairment analysis of goodwill and indefinite-lived assets during the third quarter of 2008. As a result of this analysis, we recorded non-cash asset impairment charges of \$9.3 million related to the two indefinite-lived trade names in our Small Business Services segment due to the impact of the economic downturn on our expected operating results and the broader effects of recent U.S. market conditions on the fair value of the assets. We completed an additional impairment analysis as of December 31, 2008, based on the continuing impact of the economic downturn on our expected operating results. As a result, we recorded an additional asset impairment charge of \$0.3 million related to the NEBS® trade name during the fourth quarter of 2008, bringing the carrying value of this asset to \$25.8 million as of December 31, 2008. The impairment analysis completed as of December 31, 2008, indicated no additional impairment of our other indefinite-lived trade name, the Safeguard® trade name, which had a carrying value of \$24.0 million as of December 31, 2008. Because of the further deterioration in our expected operating results, we determined that the NEBS trade name no longer has an indefinite life, and thus, will be amortized over its estimated economic life of 20 years on the straight-line basis beginning in 2009. The analysis

indicated no impairment of goodwill. In addition to the impairment of indefinite-lived trade names, we also recorded an impairment charge of \$0.4 million during the third quarter of 2008 related to an amortizable trade name. This impairment resulted from a change in our branding strategy. See *Business Challenges/Market Risks* for further discussion of asset impairments.

In June 2006, we determined that a software project intended to replace major portions of our existing order capture, billing and pricing systems would not meet our future business requirements in a cost-effective manner. Therefore, we made the decision to abandon the project. Accordingly, we wrote down the carrying value of the related internal-use software to zero during the second quarter of 2006. This resulted in a non-cash asset impairment charge of \$44.7 million, of which \$26.4 million was allocated to the Financial Services segment and \$18.3 million was allocated to the Small Business Services segment.

Net Gain on Sale of Facilities and Product Line

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Net gain on sale of facilities and product line	\$ 1,418	\$ 3,773	\$ 4,582	\$ (2,355)	\$ (809)

During 2008, we completed the sale of our Flagstaff, Arizona customer call center facility, which was closed during the third quarter of 2008, for \$4.2 million. We realized a pre-tax gain of \$1.4 million.

During 2007, we completed the sale of our Small Business Services industrial packaging product line for \$19.2 million, realizing a pre-tax gain of \$3.8 million. This sale had an insignificant impact on our earnings per share because of an offsetting income tax effect.

During 2006, we completed the sale of three Financial Services facilities which were closed in 2004, realizing a pre-tax gain totaling \$5.5 million. During 2006, we also recorded a loss of \$0.9 million when we completed the sale of a Small Business Services facility which was closed prior to the acquisition of New England Business Service, Inc. (NEBS) in June 2004.

Interest Expense

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Interest expense	\$ 50,421	\$ 55,294	\$ 56,661	(8.8%)	(2.4%)
Weighted-average debt outstanding	859,833	994,597	1,103,082	(13.5%)	(9.8%)
Weighted-average interest rate	5.42%	5.02%	4.59%	0.40 pt.	0.43 pt.

The decrease in interest expense for 2008, as compared to 2007, was due to our lower average debt level in 2008, partially offset by a slightly higher weighted-average interest rate. Interest expense decreased in 2007, as compared to 2006, for the same reasons.

Other Income

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Other income	\$ 1,363	\$ 5,405	\$ 905	\$ (4,042)	\$ 4,500

The decrease in other income for 2008, as compared to 2007, was primarily due to interest earned in 2007 on investments in marketable securities which were purchased using the proceeds from \$200.0 million of notes we issued in May 2007. These investments were sold in October 2007 to repay long-term debt. The increase in other income for 2007, as compared to 2006, was primarily due to the interest earned on the marketable securities we purchased during 2007.

Income Tax Provision

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Income tax provision	\$ 54,304	\$ 74,898	\$ 41,950	(27.5%)	78.5%
Effective tax rate	33.9%	34.0%	29.4%	(0.1) pt.	4.6 pt.

Our effective tax rate for 2008 was comparable to 2007. Favorable discrete adjustments in 2008 lowered our effective tax rate 2.0 percentage points. The discrete adjustments related primarily to receivables for amendments to prior year tax returns of \$2.4 million and the settlement of \$1.2 million due to us under a tax sharing agreement related to the spin-off of our eFunds business in 2000, partially offset by accruals for unrecognized tax benefits. Our 2007 effective tax rate included favorable discrete adjustments which lowered our effective tax rate 0.8 points. The discrete adjustments related to receivables for amendments to prior year tax returns of \$3.0 million, partially offset by the write-off of non-deductible goodwill related to the sale of our industrial packaging product line. Partially offsetting the favorable impact of discrete adjustments in 2008, as compared to 2007, was the impact of restructuring costs and asset impairment charges in 2008 and interest earned on tax-exempt investments in 2007. We expect that our annual effective tax rate for 2009 will be approximately 35%, up slightly due to higher state taxes and the negative impact on our manufacturing deduction of restructuring costs to be paid in 2009.

The increase in our effective tax rate for 2007, as compared to 2006, was largely due to a \$5.0 million reduction in our 2006 income tax provision for the true-up of certain deferred income tax balances. As this item was not material to our current or prior periods, we recorded a one-time, discrete benefit to our provision for income taxes for 2006. In addition, our state income tax rate was higher in 2007, and the lower pre-tax income in 2006 resulted in our permanent differences having a larger positive impact on the 2006 effective tax rate. Also, the write-off of non-deductible goodwill related to the sale of our industrial packaging product line in 2007 unfavorably impacted our 2007 effective tax rate. Partially offsetting these increases in our effective tax rate in 2007, as compared to 2006, was the impact of positive adjustments in 2007 related to receivables for amendments to prior year tax returns of \$3.0 million.

RESTRUCTURING COSTS

During 2008, we recorded net restructuring charges of \$28.3 million. Of this amount, \$24.0 million related to accruals for employee severance, while the remainder included other expenses related to our restructuring activities, including the write-off of spare parts, the acceleration of employee share-based compensation expense, equipment moves, training and travel. Our restructuring accruals for severance benefits related to the closing of six manufacturing facilities and two customer call centers, as well as employee reductions within our business unit support and corporate shared services functions, primarily sales, marketing and fulfillment. These actions were the result of the continuous review of our cost structure in response to the impact a weakened U.S. economy continues to have on our business, as well as our previously announced cost reduction initiatives. Further information regarding our cost reduction initiatives can be found under *Executive Overview*.

The restructuring accruals included severance benefits for 1,399 employees. One of the customer call centers was closed during the third quarter of 2008 and one of the manufacturing facilities was closed in December 2008. Three of the manufacturing facilities and the remaining call center are expected to close in the first half 2009, while the remaining two manufacturing facilities are expected to close in the second half of 2009. The majority of the employee reductions are expected to be completed by the end of 2009. As such, we expect most of the related severance payments to be fully paid by the first half of 2010, utilizing cash from operations.

The severance charges, net of reversals, were reflected as restructuring charges within cost of goods sold of \$11.4 million and restructuring charges within operating expenses of \$12.6 million in the 2008 consolidated statement of income. The other costs related to our restructuring activities were expensed as incurred. We recorded a \$3.0 million write-off of the carrying value of spare parts used on our offset printing presses. During a review of our cost structure, we made the decision to expand our use of the digital printing process. As such, a portion of the spare

parts kept on hand for use on our offset printing presses was written down to zero, as these parts have no future use or market value. The spare parts were included in other non-current assets in our consolidated balance sheet and the write-down was included in restructuring charges within cost of goods sold in our 2008

consolidated statement of income. The other restructuring costs were reflected as restructuring charges within cost of goods sold of \$0.5 million and restructuring charges within operating expenses of \$0.8 million in the 2008 consolidated statement of income. In addition to the amounts reflected in the restructuring charges captions in the 2008 consolidated statement of income, we incurred other restructuring-related costs, such as redundancies occurring during the closing of facilities.

During 2007, we recorded net restructuring charges of \$4.3 million related to accruals for severance benefits for employee reductions across various functional areas and during 2006, we recorded net restructuring charges of \$12.4 million for severance benefits and other costs related to employee reductions in our shared services functions, as well as the closing of a Financial Services customer call center. The customer call center was closed in January 2007 and the other employee reductions were substantially completed during 2008. These reductions were also the result of our cost reduction initiatives and included severance benefits for a total of 768 employees. In the 2007 consolidated statement of income, the net restructuring charges were reflected as a \$0.4 million reduction of restructuring charges within cost of goods sold and an increase of \$4.7 million in restructuring charges within operating expenses. In the 2006 consolidated statement of income, the net restructuring charges were reflected as restructuring charges within cost of goods sold of \$1.9 million and restructuring charges within operating expenses of \$10.5 million.

As a result of our employee reductions and facility closings, we estimate that we realized cost savings of approximately \$14 million in SG&A expense in 2008, in comparison to our 2007 results of operations. In 2007, we estimate that we realized cost savings of approximately \$2 million in cost of goods sold and \$24 million in SG&A expense, in comparison to our 2006 results of operations. We expect to realize additional cost savings of approximately \$8 million in cost of goods sold and \$24 million in SG&A expense in 2009 relative to 2008. Expense reductions consist primarily of labor and facility costs.

Further information regarding our restructuring charges can be found under the caption Note 6: Restructuring charges of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

SEGMENT RESULTS

Additional financial information regarding our business segments appears under the caption Note 17: Business segment information of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

Small Business Services

This segment sells business checks, printed forms, promotional products, web services, marketing materials and related services and products to small businesses and home offices through direct response marketing, financial institution referrals and via independent distributors, the internet and sales representatives.

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Revenue	\$ 851,060	\$ 921,657	\$ 949,492	(7.7%)	(2.9%)
Operating income	90,078	132,821	87,009	(32.2%)	52.7%
% of revenue	10.6%	14.4%	9.2%	(3.8) pt.	5.2 pt.

The decrease in revenue for 2008, as compared to 2007, was due primarily to general economic conditions affecting our customers' buying patterns, mainly in our core checks and forms products, as well as discretionary products such as holiday cards, imaging and apparel. Additionally, 2007 included \$3 million of revenue generated by our industrial packaging product line which was sold in January 2007, as well as higher non-recurring check sales in Canada due to the introduction of a new check format required by the Canadian Payments Association. Partially offsetting these decreases was revenue of \$13.4 million from the 2008 acquisitions of Hostopia, PartnerUp and Logo Mojo discussed under *Executive Overview*, as well as growth in fraud protection services.

The decrease in operating income and operating margin for 2008, as compared to 2007, was due to the impact of the revenue decrease, an increase of \$12.3 million in restructuring charges and related costs in 2008, asset impairment charges of \$9.9 million in 2008, higher materials costs due to an unfavorable product mix and investments made in

revenue growth opportunities, including increased marketing costs and information technology investments. Results in 2007 also included a pre-tax gain of \$3.8 million on the sale of our industrial packaging product line. These decreases were partially offset by continued progress on our cost reduction initiatives, lower performance-based employee compensation and reduced employee benefit costs due to lower workers' compensation and medical claims activity. Further information regarding restructuring charges and related costs can be found under *Restructuring Costs* and information regarding the asset impairment charges can be found under *Consolidated Results of Operations-Asset Impairment Charges*.

The decrease in revenue for 2007, as compared to 2006, was primarily due to a \$48 million decrease resulting from the sale of our industrial packaging product line in January 2007, as well as a slight decline in the last half of the year related to general economic conditions. These decreases were partially offset by revenues of approximately \$18 million generated by the Johnson Group, which we acquired in October 2006, and revenue in Canada increased due to a favorable exchange rate impact of approximately \$4 million, plus increased check orders triggered by a new check format mandated by the Canadian Payments Association.

The increase in operating income and operating margin for 2007, as compared to 2006, was due to progress on our cost reduction initiatives, investments related to implementing our growth strategy in 2006, improved manufacturing efficiencies in 2007, including the closing of two manufacturing facilities in mid-2006, lower materials expense related to a higher mix of check products, a \$4.4 million reduction in amortization of acquisition-related intangibles, a \$3.8 million pre-tax gain on the sale of our industrial packaging product line and a \$3.6 million reduction in restructuring costs in 2007. In addition, 2006 results include the recognition of \$18.3 million of the 2006 impairment charge discussed earlier under *Consolidated Results of Operations-Asset Impairment Charges*. Partially offsetting these operating income improvements were higher expense in 2007 related to performance-based employee compensation and higher referral commissions. In addition, during 2006 we realized a gain of \$11.0 million from the termination of an underperforming outsourced payroll services contract.

Financial Services

Financial Services sells personal and business checks, check-related products and services, customer loyalty, retention and fraud monitoring and protection services, and stored value gift cards to banks and other financial institutions. As part of our check programs, we also offer enhanced services such as customized reporting, file management and expedited account conversion support.

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Revenue	\$ 430,018	\$ 457,292	\$ 458,118	(6.0%)	(0.2%)
Operating income	65,540	74,305	46,613	(11.8%)	59.4%
% of revenue	15.2%	16.2%	10.2%	(1.0) pt.	6.0 pt.

The decrease in revenue for 2008, as compared to 2007, was due to a 4.0% decrease in order volume resulting from the continuing decline in check usage, as well as non-recurring client conversion activity in 2007. Order volume for 2008 was down 2.9% from 2007, excluding the impact of conversion activity. Additionally, revenue per order was down for 2008, despite price increases in February 2007 and October 2008, due to this segment's competitive pricing environment.

Operating income and operating margin decreased for 2008, as compared to 2007, primarily due to the revenue decrease, an increase of \$10.5 million in restructuring charges and related costs in 2008, as well as higher delivery-related costs from postal rate increases in mid-2007 and 2008 and fuel surcharges in 2008. Partially offsetting these decreases were various cost reduction initiatives, lower performance-based employee compensation and reduced employee benefit costs related to lower workers' compensation and medical claims activity. Further information regarding the restructuring charges and related costs can be found under *Restructuring Costs*.

The decrease in revenue for 2007, as compared to 2006, was driven by lower revenue per order due to continued pricing pressure despite a price increase implemented in February 2007. Lower pricing was partially offset by a 1.4% increase in order volume, as client acquisition gains and financial institution conversion activity exceeded the impact of the consumer-driven decline in check usage.

Operating income increased for 2007, as compared to 2006, given 2006 results included the recognition of \$26.4 million of the 2006 asset impairment charge related to a software project we wrote-off. Further information regarding the asset impairment charge was provided earlier under *Consolidated Results of Operations-Asset Impairment Charges*. Additionally, we benefited from progress on our cost reduction initiatives, manufacturing efficiencies, lower amortization and other costs related to the software project we wrote-off in 2006, increased order volume and a \$4.0 million reduction in restructuring charges in 2007. Partially offsetting these operating income increases were higher delivery costs due to a postal rate increase in mid-2007, lower revenue per order and higher expense related to performance-based employee compensation. Additionally, 2006 results included gains of \$5.5 million from sales of facilities.

Direct Checks

Direct Checks sells personal and business checks and related products and services directly to consumers through direct response marketing and the internet. We use a variety of direct marketing techniques to acquire new customers in the direct-to-consumer channel, including newspaper inserts, in-package advertising, statement stuffers and co-op advertising. We also use e-commerce strategies to direct traffic to our websites. Direct Checks sells under the Checks Unlimited, Designer Checks and Checks.com brand names.

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Revenue	\$ 187,584	\$ 209,936	\$ 211,727	(10.6%)	(0.8%)
Operating income	53,616	62,778	64,922	(14.6%)	(3.3%)
% of revenue	28.6%	29.9%	30.7%	(1.3) pt.	(0.8) pt.

The decrease in revenue for 2008, as compared to 2007, was due to a reduction in orders stemming from the decline in check usage, advertising response rates and advertising spending, as well as the weak economy which negatively impacted our ability to sell additional products. Additionally, a \$3 million weather-related backlog from the last week of 2006 shifted revenue into 2007. Partially offsetting these declines was higher revenue per order resulting from price increases and increased sales of fraud protection services.

The decrease in operating income and operating margin for 2008, as compared to 2007, was primarily due to the lower order volume, higher delivery-related costs from postal rate increases in mid-2007 and 2008 and an increase of \$2.4 million in restructuring charges and related costs in 2008. Further information regarding the restructuring charges and related costs can be found under *Restructuring Costs*. These decreases in operating income were partially offset by lower advertising expense, lower performance-based employee compensation and our cost reduction initiatives.

The decrease in revenue for 2007, as compared to 2006, was due to a reduction in orders resulting from the overall decline in check usage and lower customer retention, as well as lower direct mail consumer response rates. Partially offsetting the volume decline was higher revenue per order resulting from new accessories and services, including the introduction in October 2006 of the EZShield product discussed earlier under *Executive Overview*. Additionally, revenue was favorably impacted by approximately \$3 million due to a weather-related backlog in the last week of 2006, which caused revenue to be delayed into 2007.

The decrease in operating income for 2007, as compared to 2006, was primarily due to the lower order volume, higher performance-based employee compensation, increased delivery costs related to a postal rate increase and the implementation of new check packaging intended to mitigate the effect of the postal rate increase, as well as higher advertising expense related to increased circulation. These decreases in operating income were partially offset by our cost reduction initiatives and higher revenue from new accessories and premium features and services.

CASH FLOWS

As of December 31, 2008, we held cash and cash equivalents of \$15.6 million. The following table shows our cash flow activity for the last three years and should be read in conjunction with the consolidated statements of cash flows appearing in Item 8 of this report.

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Continuing operations:					
Net cash provided by operating activities	\$ 198,487	\$ 245,075	\$ 238,895	\$ (46,588)	\$ 6,180
Net cash used by investing activities	(135,773)	(10,929)	(32,884)	(124,844)	21,955
Net cash used by financing activities	(67,681)	(224,890)	(204,587)	157,209	(20,303)
Effect of exchange rate change on cash	(2,053)	1,161	158	(3,214)	1,003
Net cash (used) provided by continuing operations	(7,020)	10,417	1,582	(17,437)	8,835
Net cash provided (used) by operating activities of discontinued operations	995	(401)	179	1,396	(580)
Net cash provided by investing activities of discontinued operations			2,971		(2,971)
Net change in cash and cash equivalents	\$ (6,025)	\$ 10,016	\$ 4,732	\$ (16,041)	\$ 5,284

The \$46.6 million decrease in cash provided by operating activities for 2008, as compared to 2007, was due to the lower earnings discussed earlier under *Consolidated Results of Operations* and a \$19.4 million increase in 2008 in employee profit sharing and pension contributions related to our 2007 performance. These decreases were partially offset by lower income tax, interest and contract acquisition payments in 2008.

The \$6.2 million increase in cash provided by operating activities for 2007, as compared to 2006, was due to positive working capital changes, as well as the higher earnings discussed earlier under *Consolidated Results of Operations*. Partially offsetting these increases was a \$29.6 million increase in 2007 contributions to our voluntary employee beneficiary association (VEBA) trust used to fund medical benefits, as well as a \$15.1 million increase in income tax payments. During 2006, we decided that we would no longer pre-fund the VEBA trust as the tax benefit from the pre-funding no longer exceeded the associated interest cost. As such, during 2006 we made minimal contributions to the trust as we did not pre-fund the trust and we utilized the prepaid funds in the trust to cover benefit payments. Beginning in 2007, we began funding the VEBA trust throughout the year as needed to pay benefits.

Included in cash provided by operating activities of continuing operations were the following operating cash outflows:

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Income tax payments	\$ 59,997	\$ 89,944	\$ 74,891	\$ (29,947)	\$ 15,053
Interest payments	50,441	57,077	57,035	(6,636)	42
VEBA trust contributions to fund medical benefits	36,100	34,100	4,500	2,000	29,600
Employee profit sharing and pension contributions	35,126	15,720	12,000	19,406	3,720
Contract acquisition payments	9,008	14,230	17,029	(5,222)	(2,799)
Severance payments	8,645	9,606	5,092	(961)	4,514

Net cash used by investing activities for 2008 was \$124.8 million higher than 2007 due primarily to a \$102.6 million increase in payments for acquisitions, net of cash acquired, as well as proceeds in 2007 of \$19.2 million from the sale of our industrial packaging product line. Net cash used by financing activities for 2008 was \$157.2 million lower than 2007 due to the pay-off of a \$325.0 million long-term debt maturity in 2007 and payments on short-term debt of \$45.5 million in 2007. These decreases in cash used by financing activities were partially offset by net proceeds in 2007 from the issuance of \$200.0 million of long-term notes, as well as a \$10.6 million increase in share repurchases in 2008. Additionally, proceeds from issuing shares under employee plans were \$13.1 million lower in 2008 due to fewer stock options being exercised, and borrowings on short-term debt were \$10.8 million in 2008 as we funded acquisitions and share repurchases.

Net cash used by investing activities for 2007 was \$22.0 million lower than 2006 due to payments in 2006 for the Johnson Group acquisition, proceeds from the sale of our industrial packaging product line in 2007 and lower capital asset purchases in 2007. Net cash used by financing activities for 2007 was \$20.3 million higher than 2006 due to the pay-off of a \$325.0 million long-term debt maturity and share repurchases of \$11.3 million completed in 2007. These increases in cash used were partially offset by net proceeds from the 2007 issuance of \$200.0 million of long-term notes, higher payments on short-term debt in 2006, the pay-off of a long-term debt maturity of \$50.0 million in 2006 and lower dividend payments in 2007 resulting from the decision in the third quarter of 2006 to lower our quarterly dividend rate from \$0.40 to \$0.25 per share. Net cash provided by investing activities of discontinued operations in 2006 was \$3.0 million due to the sale of a facility in Europe.

Significant cash inflows, excluding those related to operating activities, for each year were as follows:

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Net proceeds from short-term debt	\$ 10,800	\$	\$	\$ 10,800	\$
Proceeds from sales of marketable securities ⁽¹⁾		1,057,460		(1,057,460)	1,057,460
Proceeds from issuance of long-term debt, net of debt issuance costs		196,239		(196,239)	196,239
Proceeds from sale of facilities and product line	4,181	19,214	9,247	(15,033)	9,967
Proceeds from issuing shares under employee plans	2,801	15,923	8,936	(13,122)	6,987
Proceeds from redemptions of life insurance policies			15,513		(15,513)
Net proceeds from sale of discontinued operations			2,971		(2,971)

(1) During 2007, we purchased short-term marketable securities using the proceeds from the \$200.0 million debt we issued in May 2007, as well as using cash generated from operating activities. On October 1, 2007, we sold our remaining marketable securities to repay a debt maturity.

Significant cash outflows, excluding those related to operating activities, for each year were as follows:

(in thousands)	2008	2007	2006	Change	
				2008 vs. 2007	2007 vs. 2006
Purchases of marketable securities ⁽¹⁾	\$ 104,879	\$ 1,057,460	\$ 16,521	\$ (1,057,460)	\$ 1,057,460
		2,316		102,563	(14,205)

Payments for acquisitions, net of cash acquired					
Cash dividends paid to shareholders	51,422	52,048	66,973	(626)	(14,925)
Net payments on short-term debt		45,460	99,686	(45,460)	(54,226)
Purchases of capital assets	31,865	32,286	41,012	(421)	(8,726)
Payments for common shares repurchased	21,847	11,288		10,559	11,288
Payments on long-term debt	1,755	326,582	51,362	(324,827)	275,220

(1) During 2007, we purchased short-term marketable securities using the proceeds from the \$200.0 million debt we issued in May 2007, as well as using cash generated from operating activities. On October 1, 2007, we sold our remaining marketable securities to repay a debt maturity.

We anticipate that net cash provided by operating activities of continuing operations will be between \$175 million and \$200 million in 2009, compared to \$198 million in 2008. We anticipate that lower performance-based compensation payments in 2009, as well as working capital improvements, will be partially offset by increased restructuring-related payments. We anticipate that cash generated by operating activities in 2009 will be utilized for dividend payments of approximately \$50 million, capital expenditures of approximately \$40 million, debt reduction and possibly, small acquisitions. Our capital spending will be focused on expanding our use of digital printing technology and investments in manufacturing productivity and revenue growth initiatives. We have no maturities of long-term debt until 2012. As of December 31, 2008, we had \$411.2 million available for borrowing under our committed lines of credit. Effective February 5, 2009, we terminated our \$225.0 million line of credit, which was due to expire in July 2009. We believe our remaining \$275.0 million credit facility, which does not expire until July 2010, along with cash generated by operating activities, will be sufficient to support our operations, including capital expenditures, small acquisitions, required debt service and dividend payments, for the next 12 months.

The credit agreement governing our committed line of credit requires us to maintain a ratio of earnings before interest and taxes to interest expense of 3.0 times, as measured quarterly on an aggregate basis for the preceding four quarters. Significant asset impairment charges in the future could impact our ability to comply with this debt covenant, in which case, our lenders could demand immediate repayment of amounts outstanding under our line of credit. See *Business Challenges/Market Risks* for information regarding asset impairments. We would have been in compliance with this debt covenant even if our reported pre-tax earnings for 2008 had been \$52 million lower than we reported. As such, we do not consider it likely that we will violate this debt covenant in 2009.

CAPITAL RESOURCES

Our total debt was \$853.3 million as of December 31, 2008, an increase of \$9.3 million from December 31, 2007.

Capital Structure

(in thousands)	December 31,		
	2008	2007	Change
Amounts drawn on credit facilities	\$ 78,000	\$ 67,200	\$ 10,800
Current portion of long-term debt	1,440	1,754	(314)
Long-term debt	773,896	775,086	(1,190)
Total debt	853,336	844,040	9,296
Shareholders' equity	53,066	41,107	11,959
Total capital	\$ 906,402	\$ 885,147	\$ 21,255

We have an outstanding authorization from our board of directors to purchase up to 10 million shares of our common stock. This authorization has no expiration date, and 6.5 million shares remained available for purchase under this authorization as of December 31, 2008. We repurchased a total of 1.1 million shares during the first and third quarters of 2008 for \$21.8 million and we repurchased 0.4 million shares during 2007 for \$11.3 million. No shares were repurchased in 2006. Further information regarding changes in shareholders' equity can be found in the consolidated statements of shareholders' equity (deficit) appearing in Item 8 of this report.

Debt Structure

(in thousands)	December 31,				Change
	2008	2007	Weighted- average interest	Weighted- average interest	
	Amount	Amount	rate	rate	
Fixed interest rate	\$ 773,896	\$ 773,646	5.7%	5.7%	\$ 250
Floating interest rate	78,000	67,200	0.9%	5.6%	10,800
Capital lease	1,440	3,194	10.4%	10.4%	(1,754)
Total debt	\$ 853,336	\$ 844,040	5.2%	5.7%	\$ 9,296

Further information concerning our outstanding debt can be found under the caption Note 13: Debt of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

We may, from time to time, consider retiring outstanding debt through open market purchases, privately negotiated transactions or otherwise. Any such repurchases or exchanges would depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

As necessary, we utilize our committed lines of credit to meet our working capital requirements. As of December 31, 2008, we had two committed lines of credit totaling \$500.0 million. Effective February 5, 2009, we terminated the \$225.0 million line of credit, which was due to expire in July 2009. The credit agreement governing our line of credit contains customary covenants regarding limits on levels of subsidiary indebtedness and requiring a ratio of earnings before interest and taxes to interest expense of 3.0 times, as measured quarterly on an aggregate basis for the preceding four quarters. We were in compliance with all debt covenants as of December 31, 2008, and we expect to remain in compliance with all debt covenants throughout the next 12 months. See *Business Challenges/Market Risks* for further information regarding asset impairments and their impact on our compliance with our debt covenant.

As of December 31, 2008, amounts were available for borrowing under our committed lines of credit as follows:

(in thousands)	Total available	Expiration date	Commitment fee
Five year line of credit	\$ 275,000	July 2010	.175%
Five year line of credit	225,000	July 2009	.225%
Total committed lines of credit	500,000		
Amounts drawn on credit facilities	(78,000)		
Outstanding letters of credit	(10,835)		
Net available for borrowing as of December 31, 2008	\$ 411,165		

We believe our remaining \$275 million credit facility, along with cash generated by operating activities, are sufficient to support our operations, including capital expenditures, small acquisitions, required debt service and dividend payments, for the next 12 months.

Absent certain defined events of default under our debt instruments, and as long as our ratio of earnings before interest, taxes, depreciation and amortization to interest expense is in excess of two-to-one, our debt covenants do not restrict our ability to pay cash dividends at our current rate.

CONTRACT ACQUISITION COSTS

Other non-current assets include contract acquisition costs of our Financial Services segment. These costs, which are essentially pre-paid product discounts, are recorded as non-current assets upon contract execution and are amortized, generally on the straight-line basis, as reductions of revenue over the related contract term. Cash payments made for contract acquisition costs were \$9.0 million in 2008, \$14.2 million in 2007 and \$17.0 million in 2006, and we anticipate cash payments of approximately \$20 million in 2009. Changes in contract acquisition costs during the last three years were as follows:

(in thousands)	2008	2007	2006
Balance, beginning of year	\$ 55,516	\$ 71,721	\$ 93,664
Additions	8,808	11,984	14,633
Amortization	(26,618)	(28,189)	(36,576)
Balance, end of year	\$ 37,706	\$ 55,516	\$ 71,721

The number of checks being written has been in decline since the mid-1990s, which has contributed to increased competitive pressure when attempting to retain or acquire clients. Both the number of financial institution clients requesting contract acquisition payments and the amount of the payments increased in the mid-2000s, and has fluctuated significantly from year to year. Although we anticipate that we will selectively continue to make contract

acquisition payments, we cannot quantify future amounts with certainty. The amount paid depends on numerous factors such as the number and timing of contract executions and renewals, competitors' actions, overall product discount levels and the structure of up-front product

discount payments versus providing higher discount levels throughout the term of the contract. When the overall discount level provided for in a contract is unchanged, contract acquisition costs do not result in lower net revenue. These costs impact the timing of cash flows. An up-front cash payment is made rather than providing higher product discount levels throughout the term of the contract. Beginning in 2006, we sought to reduce the use of up-front product discounts by structuring new contracts with incentives throughout the duration of the contract. We plan to continue this strategy. See *Business Challenges/Market Risks* for discussion of the recoverability of contract acquisition costs.

Liabilities for contract acquisition payments are recorded upon contract execution. These obligations are monitored for each contract and are adjusted as payments are made. Contract acquisition payments due within the next year are included in accrued liabilities in our consolidated balance sheets. These accruals were \$4.3 million as of December 31, 2008 and \$2.5 million as of December 31, 2007. Accruals for contract acquisition payments included in other non-current liabilities in our consolidated balance sheets were \$1.2 million as of December 31, 2008 and \$3.4 million as of December 31, 2007.

OFF-BALANCE SHEET ARRANGEMENTS, GUARANTEES AND CONTRACTUAL OBLIGATIONS

It is not our general business practice to enter into off-balance sheet arrangements or to guarantee the performance of third parties. In the normal course of business we periodically enter into agreements that incorporate general indemnification language. These indemnifications encompass such items as product or service defects, including breach of security, intellectual property rights, governmental regulations and/or employment-related matters. Performance under these indemnities would generally be triggered by our breach of terms of the contract. In disposing of assets or businesses, we often provide representations, warranties and/or indemnities to cover various risks including, for example, unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that any likely liability under these indemnities would have a material adverse effect on our financial position, annual results of operations or annual cash flows. We have recorded liabilities for known indemnifications related to environmental matters. Further information can be found under the caption Note 14: Other commitments and contingencies of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

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.

As of December 31, 2008, our contractual obligations were as follows:

(in thousands)	Total	2009	2010 and 2011	2012 and 2013	2014 and thereafter
Long-term debt and related interest	\$ 1,010,505	\$ 43,844	\$ 87,688	\$ 372,063	\$ 506,910
Amounts drawn on credit facilities	78,000	78,000			
Capital lease obligation and related interest	1,503	1,503			
Operating lease obligations	19,395	9,119	9,317	959	
Purchase obligations	105,893	43,399	45,955	16,539	
Other long-term liabilities	48,816	35,065	6,959	1,954	4,838
Total	\$ 1,264,112	\$ 210,930	\$ 149,919	\$ 391,515	\$ 511,748

Purchase obligations include amounts due under contracts with third party service providers. These contracts are primarily for information technology services. Additionally, purchase obligations include amounts due under Direct Checks

direct mail advertising agreements and Direct Checks and Financial Services royalty agreements. We routinely issue purchase orders to numerous vendors for the purchase of inventory and other supplies. These purchase orders are not included in the purchase obligations presented here, as our business partners typically allow us to cancel these purchase orders as necessary to accommodate business needs. Of the contracts with third party service providers, \$89.9 million of our total purchase obligations allow for early termination upon the payment of early termination fees. If we were to terminate these agreements, we would have incurred early termination fees of \$31.6 million as of December 31, 2008.

Other long-term liabilities consist primarily of amounts due for our postretirement benefit plans and liabilities for uncertain tax positions, deferred compensation and workers' compensation. Of the \$98.9 million reported as other long-term liabilities in our consolidated balance sheet as of December 31, 2008, \$85.1 million is excluded from the obligations shown in the table above. The excluded amounts, including the current portion of each liability, are comprised primarily of the following:

Benefit payments for postretirement benefit plans We have contributed funds to these plans for the purpose of funding our obligations. Thus, we have the option of paying benefits from the assets of the plans or from the general funds of the company. Additionally, we expect the plan assets to earn income over time. As such, we cannot predict when or if payments from the general funds of the company will be required. As of December 31, 2008, our postretirement benefit plans were underfunded by a total of \$64.5 million.

Payments for uncertain tax positions Due to the nature of the underlying liabilities and the extended time often needed to resolve income tax uncertainties, we cannot make reliable estimates of the amount or timing of cash payments that may be required to settle these liabilities. Our liability for uncertain tax positions, including accrued interest and penalties, was \$15.5 million as of December 31, 2008, excluding the tax benefits of deductible interest.

A portion of the amount due under our deferred compensation plan Under this plan, some employees may begin receiving payments upon the termination of employment or disability, and we cannot predict when these events will occur. As such, \$1.3 million of our deferred compensation liability as of December 31, 2008 is excluded from the obligations shown in the table above.

Insured environmental remediation costs As of December 31, 2008, \$8.0 million of the costs included in our environmental accruals are covered by an environmental insurance policy which we purchased in 2002. The insurance policy does not cover properties acquired subsequent to 2002. The insurance policy covers pre-existing conditions from third-party claims and cost overruns through 2032 at certain owned, leased and divested sites, as well as any new conditions discovered at certain owned or leased sites through 2012. As a result, we expect to receive reimbursements from the insurance company for environmental remediation costs we incur for these insured sites. The related receivables from the insurance company are reflected in other current assets and other non-current assets in our consolidated balance sheets based on the amounts of our environmental accruals for insured sites.

Total contractual obligations do not include the following:

Payments to our defined contribution pension and 401(k) plans The amounts payable under our defined contribution pension and 401(k) plans are dependent on the number of employees providing services throughout the year, their wage rates and in the case of the 401(k) plans, whether employees elect to participate in the plans.

Profit sharing and cash bonus payments Amounts payable under our profit sharing and cash bonus plans are dependent on our operating performance.

Income tax payments which will be remitted on our earnings.

RELATED PARTY TRANSACTIONS

We have not entered into any material related party transactions during the past three years.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of our financial condition and results of operation is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. Our accounting policies are discussed under the caption: Note 1: Significant accounting policies of the Notes to Consolidated Financial Statements appearing in Item 8 of this report. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the result of which forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. The estimates and judgments utilized are reviewed by management on an ongoing basis and by the audit committee of our board of directors at the end of each quarter prior to the public release of our financial results.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

We consider the estimates discussed below to be critical to an understanding of our financial statements because they place the most significant demands on management's judgment about the effect of matters that are inherently uncertain, and the impact of different estimates or assumptions could be material to our consolidated financial statements.

Goodwill and Indefinite-Lived Assets

As of December 31, 2008, goodwill was comprised of the following:

(in thousands)

Acquisition of NEBS in June 2004	\$ 492,082
Acquisition of Designer Checks, Inc. in February 2000	77,970
Acquisition of Hostopia.com Inc. in August 2008	68,555
Acquisition of the Johnson Group in October 2006	7,320
Acquisition of Direct Checks in December 1987	4,267
Acquisition of Logo Design Mojo, Inc. in April 2008	1,336
Acquisition of Dots and Pixels, Inc. in July 2005	856
Acquisition of All Trade Computer Forms, Inc. in February 2007	658
Goodwill	\$ 653,044

Further information regarding the acquisitions which occurred during the past three years can be found under the caption Note 4: Acquisitions and disposition of the Notes to Consolidated Financial Statements appearing in Item 8 of this report. Goodwill and indefinite-lived assets are tested for impairment on an annual basis as of July 31, or more frequently if events or circumstances occur which could indicate impairment. We completed an additional impairment analysis as of December 31, 2008 due to the continuing impacts of the economic downturn on our expected operating results and the broader effects of recent U.S. market conditions on the fair value of the assets. In addition to the required impairment analyses, we continually evaluate the remaining useful lives of our indefinite-lived assets to determine whether events and circumstances continue to support an indefinite useful life. If we determine that one of these assets has a finite useful life, we must first test the asset for impairment and then amortize the asset's remaining carrying value over its estimated remaining useful life. Further information regarding the fair value measurements completed during 2008 is provided under the caption Note 2: Supplementary balance sheet and cash flow information of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

We completed the annual impairment analysis of goodwill and indefinite-lived assets during the third quarter of 2008. As a result of this analysis, we recorded non-cash asset impairment charges of \$9.3 million related to the two

indefinite-lived trade names in our Small Business Services segment due to the impact of the economic downturn on our expected operating results and the broader effects of recent U.S. market conditions on the fair value of the assets. We completed an additional

impairment analysis as of December 31, 2008, based on the continuing impact of the economic downturn on our expected operating results. As a result, we recorded an additional asset impairment charge of \$0.3 million related to the NEBS trade name during the fourth quarter of 2008, bringing the carrying value of this asset to \$25.8 million as of December 31, 2008. The impairment analysis completed as of December 31, 2008, indicated no additional impairment of our other indefinite-lived trade name, the Safeguard trade name, which had a carrying value of \$24.0 million as of December 31, 2008. The fair value of the Safeguard trade name exceeded its carrying value by \$0.3 million as of December 31, 2008. Because of the further deterioration in our expected operating results, we determined that the NEBS trade name no longer has an indefinite life, and thus, will be amortized over its estimated economic life of 20 years on the straight-line basis beginning in 2009. As such, this asset will no longer be subject to annual impairment testing, but will be tested for impairment in accordance with our policy on impairment of long-lived assets and amortizable intangibles, as outlined under the caption Note 1: Significant accounting policies of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

In determining the fair value of our trade names, we utilize the relief from royalty method, which calculates the cost savings associated with owning rather than licensing the trade name. An assumed royalty rate is applied to forecasted revenue and the resulting cash flows are discounted. As of December 31, 2008, we assumed a discount rate of 14.2% and a royalty rate of 2% for our evaluation of the Safeguard trade name. A one percentage point increase in the discount rate would reduce the indicated fair value of the asset by \$2.1 million and a one percentage point decrease in the royalty rate would reduce the indicated fair value of the asset by \$12.1 million. As of December 31, 2008, we assumed a discount rate of 14.2% and a royalty rate of 5% for our evaluation of the NEBS trade name. A one percentage point increase in the discount rate would reduce the indicated fair value of the asset by \$1.7 million and a one percentage point decrease in the royalty rate would reduce the indicated fair value of the asset by \$5.2 million. In addition to the impairment of indefinite-lived trade names, we also recorded a \$0.4 million non-cash impairment charge during 2008 related to an amortizable trade name due to a change in our branding strategy. Due to the ongoing uncertainty in market conditions, we will perform additional impairment analyses of our Safeguard indefinite-lived trade name if a decline in our expected operating results, discount rate or royalty rate is indicated.

Our impairment analysis as of December 31, 2008 indicated no impairment of goodwill. In completing our goodwill impairment analysis, we test the appropriateness of our reporting units estimated fair values by reconciling the aggregate reporting units fair values with our market capitalization. The aggregate fair value of our reporting units included a 25% control premium, which is an amount we estimate a buyer would be willing to pay in excess of the current market price of our company in order to acquire a controlling interest. The premium is justified by the expected synergies, such as expected increases in cash flows resulting from cost savings and revenue enhancements. Due to the ongoing uncertainty in market conditions, we will perform additional impairment analyses if a decline in market value or in our expected operating results is indicated. As of December 31, 2008, the calculated fair value of one of our reporting units exceeded its carrying value of \$76.9 million by \$2.7 million. Our fair value calculation was based on a closing stock price of \$14.96 per share at December 31, 2008. Both before and after December 31, 2008, our common stock traded at prices lower than this closing price. If such a decline in our stock price occurs in the future for a sustained period, it may be indicative of a further decline in our fair value and would likely require us to record an impairment charge for a portion of the \$40.2 million of goodwill allocated to this reporting unit.

Accordingly, we believe that a non-cash goodwill impairment charge related to this reporting unit and/or further impairment charges related to our indefinite-lived trade name are reasonably possible in the future. The calculated fair values of our other reporting units exceeded their carrying values by amounts between \$26 million and \$391 million.

The evaluation of asset impairment requires us to make assumptions about future cash flows and revenues over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. If these estimates and assumptions change, we may be required to recognize impairment losses in the future.

Income Taxes

When preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax obligations based on expected taxable income, statutory tax rates and tax credits allowed in the various jurisdictions in which we operate.

In interim

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reporting periods, we use an estimate of our annual effective tax rate based on the facts available at the time. Changes in the mix or estimated amount of annual pre-tax income could impact our estimated effective tax rate in interim periods. In the event there is a significant unusual or one-time item recognized in our results of operations, the tax attributable to that item is separately calculated and recorded in the interim period the unusual or one-time item occurred. The actual effective tax rate is calculated at year-end.

Tax laws require certain items to be included in our tax return at different times than the items are reflected in our results of operations. As a result, the annual effective tax rate reflected in our results of operations is different than that reported on our tax return (i.e., our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some are temporary differences that will reverse over time, such as depreciation expense on capital assets. These temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the expense, net of the expected tax benefit, in our statements of income. We must assess the likelihood that our deferred tax assets will be realized through future taxable income, and to the extent we believe that realization is not likely, we must establish a valuation allowance against those deferred tax assets. Deferred tax liabilities generally represent items for which we have already taken a deduction in our tax return, but we have not yet recognized the items as expense in our results of operations. Significant judgment is required in evaluating our tax positions, and in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We had deferred tax assets in excess of deferred tax liabilities of \$8.3 million as of December 31, 2008 and \$4.7 million as of December 31, 2007, including valuation allowances of \$0.8 million as of December 31, 2008 and \$0.6 million as December 31, 2007. The valuation allowances relate primarily to Canadian operating loss carryforwards which we do not expect to realize.

On a regular basis, our income tax returns are reviewed by various domestic and foreign taxing authorities. As such, we record accruals for items which we believe may be challenged by these taxing authorities. On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. This standard defines the threshold for recognizing the benefits of tax return positions in the financial statements as *more-likely-than-not* to be sustained by the taxing authorities based solely on the technical merits of the position. If the recognition threshold is met, the tax benefit is measured and recognized as the largest amount of tax benefit that, in our judgment, is greater than 50% likely to be realized. The total amount of unrecognized tax benefits as of December 31, 2008 was \$11.5 million, excluding accrued interest and penalties. If the unrecognized tax benefits were recognized in our consolidated financial statements, \$6.9 million would affect our effective tax rate. Interest and penalties recorded for uncertain tax positions are included in our income tax provision. As of December 31, 2008, \$4.0 million of interest and penalties was accrued, excluding the tax benefits of deductible interest. The statute of limitations for federal tax assessments for 2004 and prior years has closed, with the exception of 2000. Our federal income tax returns for 2005 through 2008 remain subject to Internal Revenue Service examination. In general, income tax returns for the years 2004 through 2008 remain subject to examination by major state and city tax jurisdictions. In the event that we have determined not to file tax returns with a particular state or city, all years remain subject to examination by the tax jurisdiction. The ultimate outcome of tax matters may differ from our estimates and assumptions. Unfavorable settlement of any particular issue would require the use of cash and could result in increased income tax expense. Favorable resolution would result in reduced income tax expense.

Changes in unrecognized tax benefits during 2008 and 2007 can be found under the caption: Note 9: Income tax provision of the Notes to Consolidated Financial Statements appearing in Item 8 of this report. Within the next 12 months, it is reasonably possible that our unrecognized tax benefits will change in the range of a decrease of \$5.8 million to an increase of \$0.6 million as we attempt to settle certain federal and state matters or as federal and state statutes of limitations expire. We are not able to predict what, if any, impact these changes may have on our effective tax rate or cash flows.

We reduced our income tax provision \$2.4 million in 2008 and \$3.0 million in 2007 for amendments to prior year tax returns claiming refunds primarily associated with the funding of medical costs through our VEBA trust, as well as state income tax credits and related interest. Also during 2008, we reduced our income tax provision \$1.2 million for

the settlement of amounts due to us under a tax sharing agreement related to the spin-off of our eFunds business in 2000. During 2006, we reduced our income tax provision \$1.5 million for net accrual reversals related to settled issues, primarily resulting from the expiration of the statutes of limitations in various state income tax jurisdictions. Also during 2006, we reduced our income tax provision \$5.0 million for the true-up of certain deferred income tax balances. As this item was not material to 2006 or prior periods, we recorded a one-time, discrete benefit to our provision for income taxes for 2006.

Postretirement Benefits

Detailed information regarding our postretirement benefit plan, including a description of the plan, its related future cash flows, plan assets and the actuarial assumptions used in accounting for the plan, can be found under the caption: Note 12: Pension and other postretirement benefits of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

Our net postretirement benefit expense was \$4.8 million for 2008 and 2007 and \$7.8 million for 2006. Our business segments record postretirement benefit expense in cost of goods sold and SG&A expense, based on the composition of their workforces. Our postretirement benefit expense and liability are calculated utilizing various actuarial assumptions and methodologies. These assumptions include, but are not limited to, the discount rate, the expected long-term rate of return on plan assets, the expected health care cost trend rate and the average remaining life expectancy of plan participants. We analyze the assumptions used each year when we complete our actuarial valuation of the plan. If the assumptions utilized in determining our postretirement benefit expense and liability differ from actual events, our results of operations for future periods could be impacted.

Discount rate The discount rate is used to reflect the time value of money. It is the assumed rate at which future postretirement benefits could be effectively settled. The discount rate assumption is based on the rates of return on high-quality, fixed-income instruments currently available whose cash flows match the timing and amount of expected benefit payments. In determining the discount rate, we utilize the Hewitt Top Quartile and the Citigroup Pension Discount yield curves to discount each cash flow stream at an interest rate specifically applicable to the timing of each respective cash flow. The present value of each cash flow stream is aggregated and used to impute a weighted-average discount rate. In previous years, we also considered Moody's high quality corporate bond rates when selecting our discount rate. However, as the number of bonds included in this index fell significantly during 2008 and those bonds do not match the timing of our expected cash flows as well, we no longer utilize these rates. The discount rate established at year-end for purposes of calculating our benefit obligation is also used in the calculation of the interest component of benefit expense for the following year. In measuring the accumulated postretirement benefit obligation as of December 31, 2008, we assumed a discount rate of 6.6%. A 0.25 point change in the discount rate would increase or decrease our annual postretirement benefit expense by approximately \$0.2 million and would increase or decrease our postretirement benefit obligation by approximately \$2.6 million.

Expected long-term rate of return on plan assets The long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for expected benefit payments. We base this assumption on an evaluation of our historical trends and experience, taking into account current and expected market conditions. In measuring net postretirement benefit expense for 2008, we assumed an expected long-term rate of return on plan assets of 8.5%. A 0.25 point change in this assumption would increase or decrease our annual postretirement benefit expense by approximately \$0.2 million.

Expected health care cost trend rate The health care cost trend rate represents the expected annual rate of change in the cost of health care benefits currently provided due to factors other than changes in the demographics of plan participants. In measuring the accumulated postretirement benefit obligation as of December 31, 2008, our initial health care inflation rate for 2009 was assumed to be 7.5% for participants under the age of 65 and 8.5% for participants over the age of 65. Our ultimate health care inflation rate was assumed to be 5.25% in 2012 and beyond for participants under the age of 65 and 5.25% in 2014 and beyond for participants over the age of 65. A one percentage point increase in the health care inflation rate for each year would increase the accumulated postretirement benefit obligation by \$2.6 million and the service and interest cost components of our annual postretirement benefit expense by \$0.2 million. A one percentage point decrease in the health care inflation rate for each year would decrease the accumulated postretirement benefit obligation by \$2.4 million and the service and interest cost components of our annual postretirement benefit expense by \$0.1 million.

Average remaining life expectancy of plan participants In determining the average remaining life expectancy of plan participants, our actuaries use a mortality table which includes estimated death rates for each age. We use the RP-2000 Combined Healthy Participant Table projected to the measurement date with Scale AA in determining this assumption.

When actual events differ from our assumptions or when we change the assumptions used, an unrecognized actuarial gain or loss results. The gain or loss is recognized immediately in the consolidated balance sheet within accumulated comprehensive loss and is amortized into postretirement benefit expense over the average remaining service period of plan participants, which is currently 8.2 years. As of December 31, 2008 and 2007, our unrecognized net actuarial loss was \$128.1 million and \$96.7 million, respectively, and was comprised of the following:

(in thousands)	2008	2007
Return on plan assets	\$ 51,004	\$ 9,148
Claims experience	20,733	23,938
Health care cost trend	19,161	21,242
Discount rate assumption	13,007	19,105
Other	24,157	23,299
Unrecognized net actuarial loss	\$ 128,062	\$ 96,732

See *Business Challenges/Market Risks* for discussion of the risks related to our postretirement benefit plan.

Restructuring Accruals

Over the past several years, we have recorded restructuring accruals as a result of facility closings and other cost management efforts. Cost management is one of our strategic objectives and we are continually seeking ways to lower our cost structure. These accruals primarily consist of employee termination benefits payable under our ongoing severance benefit plan. We record accruals for employee termination benefits when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. As such, judgment is involved in determining when it is appropriate to record restructuring accruals. Additionally, we are required to make estimates and assumptions in calculating the restructuring accruals, as many times employees choose to voluntarily leave the company prior to their termination date or they secure another position within the company. In these situations, the employees do not receive termination benefits. To the extent our assumptions and estimates differ from our actual costs, subsequent adjustments to restructuring accruals have been and will be required. We reversed previously recorded restructuring accruals of \$2.4 million in 2008, \$2.6 million in 2007 and \$0.2 million in 2006 primarily as a result of fewer employees receiving severance benefits than originally estimated. Further information regarding our restructuring accruals can be found under the caption *Note 6: Restructuring charges* of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

NEW ACCOUNTING PRONOUNCEMENTS

Information regarding the accounting pronouncement adopted during 2008 can be found under the caption: *Note 1: Significant accounting policies* of the Notes to Consolidated Financial Statements appearing in Item 8 of this report.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which modifies the required accounting for business combinations. This guidance applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as *true mergers* or *mergers of equals*. SFAS No. 141(R) changes the accounting for business acquisitions and will impact financial statements at the acquisition date and in subsequent periods. We are required to apply the new guidance to business combinations completed after December 31, 2008. We are not able to predict the impact this guidance will have on the accounting for acquisitions we may complete in future periods. For acquisitions completed prior to January 1, 2009, the new standard requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period must be recognized in earnings rather than as an adjustment to the cost of the acquisition. We do not expect this new guidance to have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance addresses the determination of the useful life of intangible assets which have legal, regulatory or contractual provisions that potentially limit a company's use of an asset. Under the new guidance, a

company

should consider its own historical experience in renewing or extending similar arrangements. We are required to apply the new guidance to intangible assets acquired after December 31, 2008. As this guidance applies only to assets we may acquire in the future, we are not able to predict its impact, if any, on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This guidance states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share using the two-class method outlined in SFAS No. 128, *Earnings per Share*. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The terms of our restricted stock unit and restricted stock awards do provide a nonforfeitable right to receive dividend equivalent payments on unvested awards. As such, these awards are considered participating securities under the new guidance. Effective January 1, 2009, we will begin reporting earnings per share under the two-class method and will restate all historical earnings per share data. We do not expect the adoption of this statement to have a significant impact on reported earnings per share.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This standard provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. Any additional disclosures required under this guidance will be included in our annual report on Form 10-K for the year ending December 31, 2009.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information. We are filing this cautionary statement in connection with the Reform Act. When we use the words or phrases "should result," "believe," "intend," "plan," "are expected to," "targeted," "will continue," "will approximate," "is anticipated," "estimate," "project" or similar expressions in this Annual Report on Form 10-K, in future filings with the Securities and Exchange Commission (SEC), 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 incorrect. The material uncertainties and other factors known to us are discussed in Item 1A of this report and are incorporated into this Item 7 of the report as if fully stated herein. 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to changes in interest rates primarily as a result of the borrowing activities used to support our capital structure, maintain liquidity and fund business operations. We do not enter into financial instruments for speculative or trading purposes. During 2008, we used our committed lines of credit to fund acquisitions, working capital and debt service requirements. The nature and amount of debt outstanding can be expected to vary as a result of future business requirements, market conditions and other factors. As of December 31, 2008, our total debt was comprised of the following:

(in thousands)	Carrying amount	Fair value ⁽¹⁾	Weighted- average interest rate
Long-term notes maturing December 2012	\$ 299,250	\$ 173,250	5.00%
Long-term notes maturing October 2014	274,646	96,250	5.13%
Long-term notes maturing June 2015	200,000	106,000	7.38%
Amounts drawn on credit facilities	78,000	78,000	0.91%
Capital lease obligation maturing in September 2009	1,440	1,440	10.41%
Total debt	\$ 853,336	\$ 454,940	5.23%

(1) Based on quoted market rates as of December 31, 2008, except for our capital lease obligation which is shown at carrying value.

We may, from time to time, consider retiring outstanding debt through open market purchases, privately negotiated transactions or otherwise. Any such repurchases or exchanges would depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

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 2008.

We are exposed to changes in foreign currency exchange rates. Investments in, loans and advances to foreign subsidiaries and branches, as well as the operations of these businesses, are denominated in foreign currencies, primarily the Canadian dollar. The effect of exchange rate changes is expected to have a minimal impact on our results of operations and cash flows, as our foreign operations represent a relatively small portion of our business.

See *Business Challenges/Market Risks* for further discussion of market risks.

Item 8. Financial Statements and Supplementary Data.**Report of Independent Registered Accounting Firm**

To the Shareholders and Board of Directors of Deluxe Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Deluxe Corporation and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in

conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial

reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 9 and 12 to the consolidated financial statements, effective January 1, 2007, the Company changed the manner in which it accounts for uncertain income tax positions and the Company changed the measurement date it uses to measure the funded status of its defined benefit pension and other postretirement benefit plans.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
February 18, 2009

DELUXE CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share par value)

	December 31,	
	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,590	\$ 21,615
Trade accounts receivable-net of allowances for uncollectible accounts	68,572	84,268
Inventories and supplies	25,791	29,918
Deferred income taxes	17,825	14,901
Cash held for customers	26,078	23,285
Current assets of discontinued operations	1,008	3,935
Other current assets	12,222	14,023
Total current assets	167,086	191,945
Long-Term Investments (including \$1,855 and \$3,025, respectively, of investments at fair value)	36,794	36,013
Property, Plant, and Equipment-net of accumulated depreciation	128,105	138,860
Intangibles-net of accumulated amortization	154,081	148,263
Goodwill	653,044	584,923
Non-Current Assets of Discontinued Operations		2,841
Other Non-Current Assets	79,875	107,910
Total assets	\$ 1,218,985	\$ 1,210,755
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 61,598	\$ 78,659
Accrued liabilities	142,599	149,975
Short-term debt	78,000	67,200
Long-term debt due within one year	1,440	1,754
Total current liabilities	283,637	297,588
Long-Term Debt	773,896	775,086
Deferred Income Taxes	9,491	10,194
Other Non-Current Liabilities	98,895	86,780
Commitments and Contingencies (Notes 9, 13, 14 and 18)		
Shareholders Equity:		
Common shares \$1 par value (authorized: 500,000 shares; issued: 2008 51,131; 2007 51,887)	51,131	51,887
Additional paid-in capital	54,207	65,796
Retained earnings (accumulated deficit)	12,682	(37,530)
Accumulated other comprehensive loss	(64,954)	(39,046)
Total shareholders equity	53,066	41,107

Total liabilities and shareholders equity	\$ 1,218,985	\$ 1,210,755
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See Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2008	2007	2006
Revenue	\$ 1,468,662	\$ 1,588,885	\$ 1,619,337
Restructuring charges (reversals)	14,867	(368)	1,942
Other cost of goods sold	551,646	574,972	598,038
Total cost of goods sold	566,513	574,604	599,980
Gross Profit	902,149	1,014,281	1,019,357
Selling, general and administrative expense	670,991	743,449	770,218
Restructuring charges	13,400	4,701	10,479
Asset impairment charges	9,942		44,698
Net gain on sale of facilities and product line	(1,418)	(3,773)	(4,582)
Operating Income	209,234	269,904	198,544
Interest expense	(50,421)	(55,294)	(56,661)
Other income	1,363	5,405	905
Income Before Income Taxes	160,176	220,015	142,788
Income tax provision	54,304	74,898	41,950
Income From Continuing Operations	105,872	145,117	100,838
Net (Loss) Income From Discontinued Operations	(4,238)	(1,602)	116
Net Income	\$ 101,634	\$ 143,515	\$ 100,954
Basic Earnings per Share:			
Income from continuing operations	\$ 2.08	\$ 2.82	\$ 1.98
Net (loss) income from discontinued operations	(0.08)	(0.03)	
Basic earnings per share	2.00	2.79	1.98
Diluted Earnings per Share:			
Income from continuing operations	\$ 2.05	\$ 2.79	\$ 1.96
Net (loss) income from discontinued operations	(0.08)	(0.03)	
Diluted earnings per share	1.97	2.76	1.96
Cash Dividends per Share	\$ 1.00	\$ 1.00	\$ 1.30

See Notes to Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2008	2007	2006
Net Income	\$ 101,634	\$ 143,515	\$ 100,954
Other Comprehensive Income, Net of Tax:			
Reclassification of loss on derivative instruments from other comprehensive income to net income	1,383	2,281	2,559
Pension and postretirement benefit plans:			
Minimum pension liability adjustment			(269)
Net actuarial loss arising during the period	(25,540)	(6,094)	
Reclassification of amounts from other comprehensive income to net income:			
Amortization of prior service credit	(2,447)	(2,468)	
Amortization of net actuarial loss	5,943	6,156	
Unrealized foreign currency translation adjustment	(5,247)	3,263	255
Unrealized gains on securities:			
Unrealized holding gains arising during the year			268
Less reclassification adjustments for gains included in net income			(89)
Other Comprehensive (Loss) Income	(25,908)	3,138	2,724
Comprehensive Income	\$ 75,726	\$ 146,653	\$ 103,678
Related Tax (Expense) Benefit of Other Comprehensive Income Included in Above Amounts:			
Reclassification of loss on derivative instruments from other comprehensive income to net income	\$ (837)	\$ (1,356)	\$ (1,493)
Pension and postretirement benefit plans:			
Minimum pension liability adjustment			151
Net actuarial loss arising during the period	15,757	3,659	
Reclassification of amounts from other comprehensive income to net income:			
Amortization of prior service credit	1,512	1,491	
Amortization of net actuarial loss	(3,666)	(3,708)	
Unrealized gains on securities:			
Unrealized holding gains arising during the year			(191)
Less reclassification adjustments for gains included in net income			63

See Notes to Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT)
(in thousands)

	Common shares Number of shares	Par value	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive loss	Total shareholders equity (deficit)
Balance, December 31, 2005	50,735	\$ 50,735	\$ 37,864	\$ (159,401)	\$ (11,224)	\$ (82,026)
Net income				100,954		100,954
Cash dividends				(66,973)		(66,973)
Common shares issued	810	810	8,126			8,936
Tax impact of share-based awards			728			728
Reclassification of share-based awards to accrued liabilities			(1,919)			(1,919)
Common shares retired	(31)	(31)	(724)			(755)
Fair value of share-based compensation	5	5	6,026			6,031
Minimum pension liability, net of tax					(269)	(269)
Adoption of FASB Statement No. 158, net of tax					(33,373)	(33,373)
Loss on derivatives, net of tax					2,559	2,559
Currency translation adjustment					255	255
Unrealized gain on securities, net of tax					179	179
Balance, December 31, 2006	51,519	51,519	50,101	(125,420)	(41,873)	(65,673)
Net income				143,515		143,515
Cash dividends				(52,048)		(52,048)
Common shares issued	767	767	15,971			16,738
Tax impact of share-based awards			297			297
Common shares repurchased	(359)	(359)	(10,929)			(11,288)
Other common shares retired	(40)	(40)	(1,354)			(1,394)
Fair value of share-based			11,710			11,710

compensation							
Adoption of measurement date provision of FASB Statement No. 158, net of tax (Note 12)				(745)	(69)	(814)	
Adoption of FIN No. 48 (Note 9)				(3,074)		(3,074)	
Adoption of FASB Statement No. 159, net of tax (Note 1)				242	(242)		
Amounts related to postretirement benefit plans, net of tax (Note 12)					(2,406)	(2,406)	
Loss on derivatives, net of tax					2,281	2,281	
Currency translation adjustment					3,263	3,263	
Balance, December 31, 2007	51,887	51,887	65,796	(37,530)	(39,046)	41,107	
Net income				101,634		101,634	
Cash dividends				(51,422)		(51,422)	
Common shares issued	380	380	2,542			2,922	
Tax impact of share-based awards			(2,468)			(2,468)	
Common shares repurchased	(1,054)	(1,054)	(20,793)			(21,847)	
Other common shares retired	(82)	(82)	(1,639)			(1,721)	
Fair value of share-based compensation			10,769			10,769	
Amounts related to postretirement benefit plans, net of tax (Note 12)					(22,044)	(22,044)	
Loss on derivatives, net of tax					1,383	1,383	
Currency translation adjustment					(5,247)	(5,247)	
Balance, December 31, 2008	51,131	\$ 51,131	\$ 54,207	\$ 12,682	\$ (64,954)	\$ 53,066	

See Notes to Consolidated Financial Statements

DELUXE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash Flows from Operating Activities:			
Net income	\$ 101,634	\$ 143,515	\$ 100,954
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Net loss (income) from discontinued operations	4,238	1,602	(116)
Depreciation	21,881	21,786	25,298
Amortization of intangibles	42,079	45,774	59,237
Asset impairment charges	9,942		44,698
Amortization of contract acquisition costs	26,618	28,189	36,576
Employee share-based compensation expense	9,683	13,533	6,191
Deferred income taxes	(790)	5,280	(37,375)
Other non-cash items, net	21,912	14,772	3,802
Changes in assets and liabilities, net of effects of acquisitions, product line disposition and discontinued operations:			
Trade accounts receivable	10,578	6,065	(1,709)
Inventories and supplies	321	(1,264)	(1,234)
Other current assets	(1,807)	3,719	28,728
Non-current assets	5,404	(1,665)	(6,995)
Accounts payable	(9,768)	667	(7,781)
Contract acquisition payments	(9,008)	(14,230)	(17,029)
Other accrued and other non-current liabilities	(34,430)	(22,668)	5,650
Net cash provided by operating activities of continuing operations	198,487	245,075	238,895
Cash Flows from Investing Activities:			
Purchases of capital assets	(31,865)	(32,286)	(41,012)
Payments for acquisitions, net of cash acquired	(104,879)	(2,316)	(16,521)
Purchase of customer list	(3,637)		
Purchases of marketable securities		(1,057,460)	
Proceeds from sales of marketable securities		1,057,460	
Proceeds from sale of facilities and product line	4,181	19,214	9,247
Proceeds from redemptions of life insurance policies			15,513
Other	427	4,459	(111)
Net cash used by investing activities of continuing operations	(135,773)	(10,929)	(32,884)
Cash Flows from Financing Activities:			
Net proceeds (payments) from short-term debt	10,800	(45,460)	(99,686)
Proceeds from issuance of long-term debt, net of debt issuance costs		196,329	
Payments on long-term debt	(1,755)	(326,582)	(51,362)
Change in book overdrafts	(6,370)	(3,006)	3,285

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Proceeds from issuing shares under employee plans	2,801	15,923	8,936
Excess tax benefit from share-based employee awards	112	1,242	1,213
Payments for common shares repurchased	(21,847)	(11,288)	
Cash dividends paid to shareholders	(51,422)	(52,048)	(66,973)
Net cash used by financing activities of continuing operations	(67,681)	(224,890)	(204,587)
Effect of Exchange Rate Change on Cash	(2,053)	1,161	158
Cash Provided (Used) by Operating Activities of Discontinued Operations	995	(401)	179
Cash Provided by Investing Activities of Discontinued Operations			2,971
Net Proceeds from Sale			
Net Change in Cash and Cash Equivalents	(6,025)	10,016	4,732
Cash and Cash Equivalents: Beginning of Year	21,615	11,599	6,867
End of Year	\$ 15,590	\$ 21,615	\$ 11,599

See Notes to Consolidated Financial Statements

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DELUXE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Significant accounting policies

Consolidation The consolidated financial statements include the accounts of Deluxe Corporation and its wholly-owned subsidiaries. All intercompany accounts, transactions and profits have been eliminated.

Reclassifications We have reclassified certain amounts presented in the consolidated financial statements for 2007 and 2006 to conform to the current period presentation. These reclassifications consisted of presenting restructuring charges separately in the consolidated statements of income and reporting our Russell & Miller retail packaging and signage business as discontinued operations (see Note 5). The reclassifications had no impact on previously reported net income or shareholders' equity.

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

Foreign currency translation The financial statements of our foreign subsidiaries are measured in the respective subsidiaries' functional currencies, primarily Canadian dollars, and are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rates during the year. The resulting translation gains and losses are reflected in accumulated other comprehensive loss in the shareholders' equity section of our consolidated balance sheets. Foreign currency transaction gains and losses are recorded in other income in our consolidated statements of income.

Cash and cash equivalents We consider all cash on hand and other highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value. As a result of our cash management system, checks issued by us but not presented to the banks for payment may create negative book cash balances. Such negative balances are included in accounts payable and totaled \$7.1 million as of December 31, 2008 and \$13.5 million as of December 31, 2007.

Marketable securities Marketable securities which were purchased and sold during 2007 consisted of investments in tax-exempt mutual funds. They were classified as available for sale and were carried at fair value on the consolidated balance sheet, based on quoted prices in active markets for identical assets. The cost of securities sold was determined using the specific identification method.

Trade accounts receivable Trade accounts receivable are initially recorded at fair value upon the sale of goods or services to customers. They are stated net of allowances for uncollectible accounts, which represent estimated losses resulting from the inability of customers to make the required payments. When determining the allowances for uncollectible accounts, we take several factors into consideration including the overall composition of accounts receivable aging, our prior history of accounts receivable write-offs, the type of customer and our day-to-day knowledge of specific customers. Changes in the allowances for uncollectible accounts are included in selling, general and administrative (SG&A) expense in our consolidated statements of income. The point at which uncollected accounts are written off varies by type of customer, but generally does not exceed one year from the date of sale.

Inventories and supplies Inventories and supplies are stated at the lower of average cost or market. Average cost approximates computation on a first-in, first-out basis. Supplies consist of items not used directly in the production of goods, such as maintenance and janitorial supplies utilized in the production area.

Cash held for customers As part of our Canadian payroll services business, we collect funds from clients to pay their payroll and related taxes. We hold these funds temporarily until payments are remitted to the clients' employees and the appropriate taxing authorities. These funds are reported as cash held for customers in our consolidated balance sheets. The corresponding liability for these obligations is included in accrued liabilities in our consolidated balance sheets.

Long-term investments Long-term investments consist primarily of cash surrender values of life insurance contracts. The carrying amounts reported in the consolidated balance sheets for these investments approximate fair value. Additionally, long-term investments include an investment in a domestic mutual fund with a fair value of \$1.9 million as of December 31, 2008 and \$3.0 million as of December 31, 2007. Fair value is based on quoted prices in active markets for identical assets, which is considered a Level 1 fair value measurement under Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. Effective January 1, 2007, we elected to report the mutual fund investment using the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This investment corresponds to a liability under an officers' deferred compensation plan which is not available to new participants and is fully funded by the mutual fund investment. The liability under the plan equals the fair value of the mutual fund investment. Under SFAS No. 159, the investment is reported as a trading security, and changes in the fair value of both the plan asset and liability are netted within SG&A expense in the consolidated statements of income. Dividends earned by the mutual fund investment, as reported by the fund, realized gains and losses and permanent declines in value are also netted within SG&A expense in the consolidated statements of income. The cost of securities sold is determined using the average cost method. During 2008, we recognized a net unrealized loss of \$1.3 million on the mutual fund investment and during 2007, we recognized a net unrealized loss of \$0.1 million. Prior to January 1, 2007, the mutual fund investment was classified as an available for sale security, and unrealized gains and losses, net of tax, were reported in accumulated other comprehensive loss in the shareholders' equity section of our consolidated balance sheet. As required by SFAS No. 159, the cumulative unrealized gain related to the mutual fund investment of \$0.2 million, net of tax, as of January 1, 2007, was reclassified from accumulated other comprehensive loss to accumulated deficit as of January 1, 2007. The unrealized pre-tax gain on this investment as of January 1, 2007 was \$0.4 million.

Property, plant and equipment Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are stated at historical cost. Buildings have been assigned 40-year lives and machinery and equipment are generally assigned lives ranging from one to 11 years, with a weighted-average life of 8.1 years as of December 31, 2008. Buildings, machinery and equipment are generally depreciated using accelerated methods. Leasehold and building improvements are depreciated on the straight-line basis over the estimated useful life of the property or the life of the lease, whichever is shorter. Maintenance and repairs are expensed as incurred. Gains or losses resulting from the disposition of property, plant and equipment are included in SG&A expense in the consolidated statements of income, with the exception of building sales. Such sales are reported separately in the consolidated statements of income.

Intangibles Intangible assets are stated at historical cost. Amortization expense is generally determined on the straight-line basis over periods ranging from one to 20 years, with a weighted-average life of 6.5 years as of December 31, 2008. Customer lists and distributor contracts are amortized using accelerated methods. Each reporting period, we evaluate the remaining useful lives of our amortizable intangibles to determine whether events and circumstances warrant a revision to the remaining period of amortization. If our estimate of an asset's remaining useful life is revised, the remaining carrying amount of the asset is amortized prospectively over the revised remaining useful life. As of December 31, 2008, one of our trade name assets has been assigned an indefinite life. As such, this asset is not amortized, but is subject to impairment testing on at least an annual basis. As of December 31, 2007, two of our trade name assets had been assigned indefinite lives. See Note 7 for information regarding the asset that was modified from an indefinite-lived asset to an amortizable asset. Gains or losses resulting from the disposition of intangibles are included in SG&A expense in the consolidated statements of income.

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

value of internal-use software is reviewed in accordance with our policy on impairment of long-lived assets and amortizable intangibles.

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

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

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

Impairment of non-amortizable intangibles and goodwill In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we evaluate the carrying value of non-amortizable intangibles and goodwill on July 31st of each year and between annual evaluations if events occur or circumstances change that would indicate a possible impairment. 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) an adverse action or assessment by a regulator, or (4) an adverse change in market conditions which are indicative of a decline in the fair value of the assets.

When evaluating whether our indefinite-lived trade name is impaired, we compare the carrying amount of the asset to its estimated fair value. The estimate of fair value is based on a relief from royalty method which calculates the cost savings associated with owning rather than licensing the trade name. An assumed royalty rate is applied to forecasted revenue and the resulting cash flows are discounted. Should the estimated fair value be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss is calculated as the amount by which the carrying value of the asset exceeds the fair value of the asset. The impairment analyses completed during 2008 indicated impairment of trade names in our Small Business Services segment. See Note 7 for further information regarding these impairment charges and Note 18 for related information regarding market risks. In addition to the required impairment analyses, we continually evaluate the remaining useful life of our indefinite-lived asset to determine whether events and circumstances continue to support an indefinite useful life. If we determine that the asset has a finite useful life, we must first test the asset for impairment and then amortize the asset's remaining carrying value over its estimated remaining useful life (see Note 7).

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. In calculating fair value, we use the income approach. The income approach is a valuation technique under which we estimate future cash flows using each reporting unit's financial forecast from the perspective of an unrelated market participant. Future estimated cash flows are discounted to their present value to calculate fair value. For reasonableness, the summation of our reporting units' fair values is compared to our consolidated fair value as indicated by our market capitalization plus an appropriate control premium. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. An impairment loss is calculated by comparing the implied fair value of the reporting unit goodwill to its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. Since the fair value of all our reporting units exceeded their carrying values, the impairment analyses completed during 2008, 2007 and 2006 indicated no goodwill impairment. See Note 18 for related information regarding market risks.

Contract acquisition costs We record contract acquisition costs when we sign or renew certain contracts with our financial institution clients. These costs, which are essentially pre-paid product discounts, consist of cash payments or accruals related to amounts owed to financial institution clients by our Financial Services segment. Contract acquisition costs are generally amortized as reductions of revenue on the straight-line basis over the related contract term. Currently, these

amounts are being amortized over periods ranging from one to 10 years, with a weighted-average life of 5.7 years as of December 31, 2008. Whenever events or changes occur that impact the related contract, including significant declines in the anticipated profitability, we evaluate the carrying value of the contract acquisition costs to determine if impairment has occurred. Should a financial institution cancel a contract prior to the agreement's termination date, or should the volume of orders realized through a financial institution fall below contractually-specified minimums, we generally have a contractual right to a refund of the remaining unamortized contract acquisition costs. These costs are included in other non-current assets in the consolidated balance sheets. See Note 18 for related information regarding market risks.

Advertising costs Deferred advertising costs include materials, printing, labor and postage costs related to direct response advertising programs of our Direct Checks and Small Business Services segments. These costs are amortized as SG&A expense over periods (not exceeding 18 months) that correspond to the estimated revenue streams of the individual advertisements. The actual revenue streams are analyzed at least annually to monitor the propriety of the amortization periods. Judgment is required in estimating the future revenue streams, especially with regard to check re-orders which can span an extended period of time. Significant changes in the actual revenue streams would require the amortization periods to be modified, thus impacting our results of operations during the period in which the change occurred and in subsequent periods. For our Direct Checks segment, approximately 82% of the costs of individual advertisements are expensed within six months of the advertisement. The majority of the deferred advertising costs of our Small Business Services segment are fully amortized within six months of the advertisement. Deferred advertising costs are included in other non-current assets in the consolidated balance sheets, as portions are amortized over periods in excess of one year.

Non-direct response advertising projects are expensed the first time the advertising takes place. Catalogs provided to financial institution clients of the Financial Services segment are accounted for as prepaid assets until they are shipped to financial institutions. The total amount of advertising expense for continuing operations was \$110.5 million in 2008, \$120.0 million in 2007 and \$115.2 million in 2006.

Restructuring charges Over the past several years, we have recorded restructuring accruals as a result of facility closings and cost management efforts. These accruals primarily consist of employee termination benefits payable under our ongoing severance benefit plan. We record accruals for employee termination benefits when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. As such, judgment is involved in determining when it is appropriate to record restructuring accruals. Additionally, we are required to make estimates and assumptions in calculating the restructuring accruals, as many times employees choose to voluntarily leave the company prior to their termination date or they secure another position within the company. In these situations, the employees do not receive termination benefits. To the extent our assumptions and estimates differ from our actual costs, subsequent adjustments to restructuring accruals have been and will be required. Restructuring accruals are included in accrued liabilities in our consolidated balance sheets. In addition to severance benefits, we also typically incur other costs related to restructuring activities including, but not limited to, equipment moves, training and travel. These costs are expensed as incurred.

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

Derivative financial instruments In the past, we have used derivative financial instruments to hedge interest rate exposures related to the issuance of long-term debt (see Note 8). We do not use derivative financial instruments for speculative or trading purposes.

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

hedged items that relate to the hedged risk. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive loss, net of tax. We present amounts used to settle cash flow hedges as financing activities in our consolidated statements of cash flows. Changes in fair values of derivatives not qualifying as hedges are reported in income.

Revenue recognition We recognize revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectibility is reasonably assured. The majority of our revenues are generated from the sale of products for which revenue is recognized upon shipment or customer receipt, based upon the transfer of title. Our services, which account for the remainder of our revenue, consist primarily of fraud prevention and payroll services, as well as web hosting and applications services. We recognize these service revenues as the services are provided. In some situations, our web hosting and applications services are billed on a quarterly, semi-annual or annual basis. When a customer pays in advance for services, we defer the revenue and recognize it as the services are performed. Up-front set-up fees related to our web hosting and applications services are deferred and recognized as revenue on the straight-line basis over their estimated economic life. Deferred revenue is included in accrued liabilities in our consolidated balance sheets.

Revenue includes amounts billed to customers for shipping and handling and pass-through costs, such as marketing materials for which our financial institution clients reimburse us. Costs incurred for shipping and handling and pass-through costs are reflected in cost of goods sold. For sales with a right of return, a reserve for sales returns is recorded in accordance with SFAS No. 48, *Revenue Recognition When Right of Return Exists*, based on significant historical experience.

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

Revenue is presented in the consolidated statements of income net of rebates, discounts, amortization of contract acquisition costs and sales tax. We enter into contractual agreements with financial institution clients for rebates on certain products we sell. We record these amounts as reductions of revenue in the consolidated statements of income and as accrued liabilities in the consolidated balance sheets when the related revenue is recorded. At times we may also sell products at discounted prices or provide free products to customers when they purchase a specified product. Discounts are recorded as reductions of revenue when the related revenue is recorded. The cost of free products is recorded as cost of goods sold when the revenue for the related purchase is recorded. Additionally, reported revenue for our Financial Services segment does not reflect the full retail price paid by end-consumers to their financial institutions. Revenue reflects the amounts paid to us by our financial institution clients.

Employee share-based compensation Our share-based compensation consists of non-qualified stock options, restricted stock units, restricted stock and an employee stock purchase plan. On January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*, using the modified prospective method. Prior to this, we were applying the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, in accounting for employee share-based awards. As such, our results of operations for all periods presented include compensation expense for all outstanding employee share-based awards. We elected to utilize the transition method outlined in Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, in accounting for the income tax consequences of employee share-based compensation awards. Upon the adoption of SFAS No. 123(R), we had a positive income tax windfall pool.

The fair value of stock options is measured on the grant date using the Black-Scholes option pricing model. The related compensation expense is recognized on the straight-line basis, net of estimated forfeitures, over the option's vesting period. The fair value of restricted stock and a portion of our restricted stock unit awards is measured on the grant date based on the market value of our common stock. The related compensation expense, net of estimated forfeitures, is recognized over the applicable service period. Certain of our restricted stock unit awards may be settled in cash if an employee voluntarily chooses to leave the company. These awards are included in accrued liabilities in the consolidated balance sheets and are re-measured at fair value as of each balance sheet date. Compensation expense for the 15% discount provided under our employee stock purchase plan is recognized over the six-month purchase period. Prior to August 1, 2006, our plan contained a look-back provision under which the purchase price was calculated at 85% of the lower of the stock's market value at the beginning or end of the six-month purchase period. We utilized the Black-Scholes option pricing model to calculate the fair value of these awards, and the resulting compensation expense was recognized over the six-month purchase period.

Earnings per share Basic earnings per share is based on the weighted-average number of common shares outstanding during the year. Diluted earnings per share is based on the weighted-average number of common shares outstanding during the year, adjusted to give effect to potential common shares such as stock options, restricted stock units and unvested restricted stock issued under our stock incentive plan (see Note 10). When determining the denominator for the diluted earnings per share calculation under the treasury stock method, we exclude from assumed proceeds the impact of pro forma deferred tax assets.

Comprehensive income Comprehensive income includes charges and credits to shareholders' equity that are not the result of transactions with shareholders. Our total comprehensive income consists of net income, gains and losses on derivative instruments, changes in the funded status and amortization of amounts related to our pension and postretirement benefit plans, and foreign currency translation adjustments. In 2006, total comprehensive income also included minimum pension liability adjustments and unrealized gains and losses on securities. These items are no longer included in comprehensive income due to the adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The items of comprehensive income, with the exception of net income, are included in accumulated other comprehensive loss in our consolidated balance sheets and statements of shareholders' equity (deficit).

Recently adopted accounting pronouncement In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 110. This guidance allows companies, in certain circumstances, to utilize a simplified method in determining the expected term of stock option grants when calculating the compensation expense to be recorded under SFAS No. 123(R), *Share-Based Payment*. The simplified method can be used after December 31, 2007 only if a company's stock option exercise experience does not provide a reasonable basis upon which to estimate the expected option term. Through 2007, we utilized the simplified method to determine the expected option term, based upon the vesting and original contractual terms of the option. On January 1, 2008, we began calculating the expected option term based on our historical option exercise data. This change did not have a significant impact on the compensation expense recognized for stock options granted in 2008.

Accounting pronouncements not yet adopted In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which modifies the required accounting for business combinations. This guidance applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as true mergers or mergers of equals. SFAS No. 141(R) changes the accounting for business acquisitions and will impact financial statements at the acquisition date and in subsequent periods. We are required to apply the new guidance to business combinations completed after December 31, 2008. We are not able to predict the impact this guidance will have on the accounting for acquisitions we may complete in future periods. For acquisitions completed prior to January 1, 2009, the new standard requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period must be recognized in earnings rather than as an adjustment to the cost of the acquisition. We do not expect this new guidance to have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance addresses the determination of the useful life of intangible assets which have legal, regulatory or contractual provisions that potentially limit a company's use of an asset. Under the new guidance, a company should consider its own historical experience in renewing or extending similar arrangements. We are required to apply the new guidance to intangible assets acquired after December 31, 2008. As this guidance applies only to assets we may acquire in the future, we are not able to predict its impact, if any, on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This guidance states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalent payments are participating securities and should be included in the computation of earnings per share using the two-class method outlined in SFAS No. 128, *Earnings per Share*. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The terms of our restricted stock unit and restricted stock awards do provide a nonforfeitable right to receive dividend equivalent payments on unvested awards. As such, these awards are considered participating securities under the new guidance. Effective January 1, 2009, we will begin reporting earnings per share under the two-class method and will restate all historical earnings per share data. We do not expect the adoption of this statement to have a significant impact on reported earnings per share.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This standard provides guidance on an employer's disclosures about plan assets of a defined

benefit pension or other postretirement plan. Any additional disclosures required under this guidance will be included in our annual report on Form 10-K for the year ending December 31, 2009.

Note 2: Supplementary balance sheet and cash flow information

Trade accounts receivable Net trade accounts receivable was comprised of the following at December 31:

(in thousands)	2008	2007
Trade accounts receivable	\$ 74,502	\$ 91,145
Allowances for uncollectible accounts	(5,930)	(6,877)
Trade accounts receivable net	\$ 68,572	\$ 84,268

Changes in the allowances for uncollectible accounts were as follows:

(in thousands)	2008	2007	2006
Balance, beginning of year	\$ 6,877	\$ 7,915	\$ 7,676
Bad debt expense	7,756	8,233	8,732
Write-offs, net of recoveries	(8,703)	(9,271)	(8,493)
Balance, end of year	\$ 5,930	\$ 6,877	\$ 7,915

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

(in thousands)	2008	2007
Raw materials	\$ 4,047	\$ 4,510
Semi-finished goods	10,807	11,046
Finished goods	6,608	8,271
Total inventories	21,462	23,827
Supplies, primarily production	4,329	6,091
Inventories and supplies	\$ 25,791	\$ 29,918

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

(in thousands)	2008	2007
Land and land improvements	\$ 35,097	\$ 35,895
Buildings and building improvements	133,865	133,664
Machinery and equipment	300,029	295,197
Total	468,991	464,756
Accumulated depreciation	(340,886)	(325,896)
Property, plant and equipment net	\$ 128,105	\$ 138,860

Intangibles Intangibles were comprised of the following at December 31:

(in thousands)	2008			2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived:						
Trade names	\$ 24,000	\$	\$ 24,000	\$ 59,400	\$	\$ 59,400
Amortizable intangibles:						
Internal-use software	315,493	(260,320)	55,173	278,782	(243,472)	35,310
Customer lists/relationships	125,530	(96,963)	28,567	110,165	(85,199)	24,966
Distributor contracts	30,900	(22,792)	8,108	30,900	(19,016)	11,884
Trade names	54,861	(19,920)	34,941	29,569	(16,123)	13,446
Other	8,505	(5,213)	3,292	7,667	(4,410)	3,257
Amortizable intangibles	535,289	(405,208)	130,081	457,083	(368,220)	88,863
Intangibles	\$ 559,289	\$ (405,208)	\$ 154,081	\$ 516,483	\$ (368,220)	\$ 148,263

Total amortization of intangibles was \$42.1 million in 2008, \$45.8 million in 2007 and \$59.2 million in 2006. Of these amounts, amortization of internal-use software was \$17.5 million in 2008, \$16.6 million in 2007 and \$25.2 million in 2006. Based on the intangibles in service as of December 31, 2008, estimated amortization expense for each of the next five years ending December 31 is as follows:

(in thousands)

2009	\$40,210
2010	26,125
2011	17,217
2012	7,354
2013	4,804

We acquire internal-use software in the normal course of business. In conjunction with acquisitions (see Note 4), we also acquired certain other amortizable intangible assets. The following intangible assets were acquired during the years indicated:

(in thousands)	2008		2007		2006	
	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period	Amount	Weighted-average amortization period
Internal-use software	\$ 39,418	3 years	\$ 17,394	4 years	\$ 18,984	3 years
Customer lists/relationships	19,292	11 years			4,200	5 years
Trade names	1,016	9 years			1,400	5 years
Other	900	3 years				

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Acquired intangibles	\$ 60,626	6 years	\$ 17,394	4 years	\$ 24,584	4 years
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Goodwill As of December 31, 2008, goodwill was comprised of the following:

(in thousands)

Acquisition of New England Business Service, Inc. (NEBS) in June 2004	\$ 492,082
Acquisition of Designer Checks, Inc. in February 2000 ⁽¹⁾	77,970
Acquisition of Hostopia.com Inc. in August 2008 (see Note 4)	68,555
Acquisition of the Johnson Group in October 2006 (see Note 4) ⁽¹⁾	7,320
Acquisition of Direct Checks in December 1987	4,267
Acquisition of Logo Design Mojo, Inc. in April 2008 (see Note 4) ⁽¹⁾	1,336
Acquisition of Dots and Pixels, Inc. in July 2005	856
Acquisition of All Trade Computer Forms, Inc. in February 2007 (see Note 4)	658
 Goodwill	 \$ 653,044

(1) This goodwill is deductible for income tax purposes.

Changes in goodwill were as follows:

(in thousands)	Small Business Services	Direct Checks&n
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