

DELUXE CORP
Form 10-K
February 22, 2011

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, 2010

Commission file number: 1-7945

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

Minnesota (State or other jurisdiction of incorporation or organization)	41-0216800 (I.R.S. Employer Identification No.)
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3680 Victoria St. N., Shoreview, Minnesota (Address of principal executive offices)	55126-2966 (Zip Code)
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Registrant's telephone number, including area code: (651) 483-7111

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

Common Stock, par value \$1.00 per share (Title of each class)	New York Stock Exchange (Name of each exchange on which registered)
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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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(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). oYes xNo

The aggregate market value of the voting stock held by non-affiliates of the registrant is \$953,547,338 based on the last sales price of the registrant's common stock on the New York Stock Exchange on June 30, 2010. The number of outstanding shares of the registrant's common stock as of February 7, 2011, was 51,416,410.

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.

DELUXE CORPORATION
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2010

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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

Our vision is to be the best at helping small businesses and financial institutions grow. Through our various businesses and brands, we help small businesses and financial institutions better grow, operate and protect their businesses. We employ a multi-channel strategy to provide a suite of life-cycle driven solutions to our customers. We use direct marketing, a North American sales force, financial institution and telecommunication client referrals, the internet, and independent distributors and dealers to provide our customers a wide range of customized products and services. We produce personalized printed products, such as checks, forms, business cards, stationery, greeting cards and labels, as well as promotional products, marketing materials and retail packaging supplies. In addition, we offer a growing suite of business services, including web design and hosting, fraud protection, payroll, logo design, search engine marketing, business networking and other web-based services. In the financial services industry, we sell check programs and services which help financial institutions build lasting relationships with their clients, including fraud prevention, customer acquisition, regulatory and compliance, direct mail marketing analytics and profitability programs. We also sell personalized checks, accessories 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 16: 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®, Stephen-Fossler, Johnson Group, Hostopia®, PartnerUp®, Logo Mojo®, Aplus.netSM and MerchEngines.comSM. This is our largest segment in terms of revenue 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 grow, operate and protect their businesses. This segment sells personalized printed products, which include business checks, printed forms (e.g., billing forms, work orders, purchase orders, invoices), promotional products, marketing materials and related services, as well as retail packaging supplies and a suite of business services, including web design and hosting, fraud protection, payroll, logo design, search engine marketing and business networking. We have sold these products and services to approximately four million small businesses in the last 24 months in the United States, Canada and portions of Europe.

The majority of Small Business Services products are distributed through more than one channel. Our primary channels are direct response advertising via mail and the internet, referrals from financial institutions and telecommunications clients, Safeguard distributors, and a network of independent local dealers. These efforts are supplemented by the account development efforts of an outbound telemarketing group. We have continued to shift a portion of our advertising efforts to the internet as our customers are increasingly using the internet to procure

products and services. 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 Services segment's financial institution clients and our telecommunications clients, as well as from other marketing initiatives, including internet and direct mail solicitations;
- Expand sales of higher growth business services, including web design, hosting and other web services, fraud protection, payroll, logo design, search engine marketing and business networking, as well as expand sales in areas such as full color, web-to-print and imaging;

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- Increase our share of the amount small businesses spend on the types of products and services in our portfolio through improved customer segmentation and analytics; and
 - Continue to optimize our cost and expense structure.

We continue 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 strengthening our portfolio of products and services, attracting new customers, improving our use of technology, and enhancing brand awareness and positioning. We have refreshed portions of our existing product offerings and have improved some of our newer service offerings, which we believe creates a more valuable suite of products and services. We have also identified opportunities to expand sales to our existing customers and to acquire new customers. Our improved e-commerce platform, www.Deluxe.com/ShopDeluxe, increases our opportunities to market and sell on-line. Also important to our growth are the small business customer referrals we receive through 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 more deeply serve unique customer segments such as contractors, retailers and professional services firms. During 2010, we increased our investment in promoting and strengthening the Deluxe brand to increase brand awareness and loyalty.

In recent years, we have acquired companies which allow us to expand our business services offerings, including web design, hosting and other web services, logo design, search engine marketing and business networking. We expect these higher growth business services will represent an increasing portion of our revenue. During 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 our various product offerings. Hostopia operates in the United States, Canada and portions of Europe. Additionally, we acquired the assets of PartnerUp, Inc. (PartnerUp) and Logo Design Mojo, Inc. (Logo Mojo) during 2008. PartnerUp is an online community that is designed to connect small businesses and entrepreneurs with resources and contacts to build their businesses, and Logo Mojo is a Canadian-based online logo design firm. During 2009, we acquired Abacus America, Inc., a wholly-owned subsidiary of Aplus Holdings Inc., to expand our web services customer base. We also acquired MerchEngines.com during 2009 which added new search engine marketing capabilities.

As in our other two business segments, we continue our efforts within Small Business Services to simplify processes, eliminate complexity and lower costs. During 2010, we closed our Colorado Springs, Colorado customer call center. During 2009, we closed two customer call centers located in Thorofare, New Jersey and Santa Fe Springs, California.

Financial Services

Financial Services' products and services for financial institutions include comprehensive check programs for both personal and business checks, fraud prevention and monitoring services, customer acquisition campaigns, marketing communications, regulatory program services, and services intended to enhance the financial institution customer experience, such as customer loyalty programs. These products and services are sold through multiple channels, including a direct sales force, to approximately 6,200 financial institution clients nationwide, including banks, credit unions and financial services companies. 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 six years. 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 for the Cure® and National Arbor Day Foundation®.

Our strategies within Financial Services are as follows:

- Optimize core check revenue streams and acquire new clients;
- Provide services and products that differentiate us from the competition by helping financial institutions acquire customers, improve profitability and manage regulatory compliance; and
 - Continue to optimize our cost and expense structure.

Our focus on acquiring new clients will continue during 2011. We are also advancing our non-check services, including fraud prevention and monitoring services, customer acquisition campaigns, marketing communications, regulatory program services, and services intended to enhance the financial institution customer experience. During March 2010, we purchased substantially all of the assets of Cornerstone Customer Solutions, LLC, a full-service, marketing solutions provider specializing in the development and execution of analytics-driven direct marketing programs. We also continue to leverage our Deluxe

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Business Advantage program which 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 the products and services sold through this program 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, regulatory program compliance and fraud prevention. Following are some examples:

- Deluxe CallingSM – an outbound calling program aimed at helping financial institutions generate new organic revenue growth and reduce account holder attrition.
 - REALCheckingTM program – a system of deposit products, including reward checking programs, that drives non-interest income, attracts new account holders and increases retention for community financial institutions. We offer this suite of products to our clients through a partnership with BancVue, Ltd. which launched in early 2010.
 - Analytics driven marketing programs – a service that allows financial institutions to monitor customer profitability and better optimize pricing and customer acquisition strategies.
 - Marketing solutions – a variety of strategic and tactical marketing solutions which help financial institutions acquire new customers, deepen existing customer relationships and retain customers.
 - Regulatory compliance –services that assist financial institutions in complying with the current dynamic regulatory environment.
- Deluxe ProventSM – a comprehensive suite of identity protection services.

We expect providing products and services that differentiate us from the competition will help partially offset the impacts of the decline in check usage and the pricing pressures we are experiencing in our check programs. As such, we also continue to focus on accelerating the pace at which we introduce new products and services.

In addition to our various service offerings, we continue to offer our Knowledge ExchangeTM Series for financial institution clients through which we host knowledge exchange expos, conduct web seminars, host special industry conference calls and offer specialized publications. 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. During 2010, the Collaborative focused on how banks and credit unions can thrive in the increasingly regulated banking environment.

Direct Checks

Direct Checks is the nation's leading direct-to-consumer check supplier, selling under various brand names including Checks Unlimited®, Designer® Checks, Checks.com, Check Gallery®, The Styles Check Company®, and Artistic Checks®, among others. 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 12% 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, www.checks.com, 4checks.com, checkgallery.com, styleschecks.com, and artisticchecks.com, among others. In the past 24 months, we have sold our products directly to approximately six million consumers.

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 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 optimize our cost and expense structure.

In April 2010, we acquired Custom Direct, Inc., a provider of direct-to-consumer checks. We are leveraging this acquisition to build a best-in-class direct-to-consumer check experience. We expect the acquisition to contribute to our strategy of optimizing the cash flow generated by this segment. Additionally, we continue to identify opportunities to lower our cost and expense structure in all functional areas, particularly in the areas of marketing and fulfillment. We continue to actively market our products and services through targeted advertising, including a continued focus on e-commerce investment.

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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 losses resulting from 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:

	2010	2009	2008
Checks, including contract settlements	63.9%	63.5%	63.6%
Other printed products, including forms	20.3%	22.1%	23.5%
Services, primarily business	8.7%	6.8%	3.9%
Accessories and promotional products	5.6%	6.0%	7.0%
Packaging supplies and other	1.5%	1.6%	2.0%
Total revenue	100.0%	100.0%	100.0%

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 products and services to approximately 6,200 financial institution clients, as well as to consumers. We also offer personalized checks, business forms, related accessories and other services, including web design and hosting, fraud protection, payroll and logo design, to millions of small businesses. Checks account for the majority of the revenue in our Financial Services and Direct Checks segments and represent 48.3%, 47.7% and 47.8% of Small Business Services total revenue in 2010, 2009 and 2008, respectively. During 2010, we modified the manner in which we determine revenue by product. Small Business Services may, at times, sell several items bundled together as one product, such as checks, deposit tickets and stamps. Previously, we were unable to determine the amount of revenue for each item and thus, the entire amount of revenue for the product was reported as check revenue. Due to changes in our information technology systems, we are now able to attribute that revenue to our various product categories. In addition, we are able to access better information regarding outsourced products and we can more accurately reflect them in our product categories. Amounts for 2009 and 2008 have been reclassified to conform to the 2010 presentation. These reclassifications were not significant.

We have provided products and services to approximately four million small business customers over the past 24 months. We are a leading provider of printed forms to small businesses. 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 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 web design, hosting and other web services, fraud protection, customer loyalty and retention services, payroll, logo design, marketing solutions and business networking.

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 while 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.

We have demonstrated our commitment to innovative technology solutions by implementing a fully automated flat check delivery package, for which we have a patent pending, to mitigate the effect of postal rate increases. During 2010, we completed the automation of our flat check packaging process. We also continue to sponsor “sustainability” initiatives which encompass environmentally friendly practices. We have aligned with suppliers that promote sustainable business practices and we continually seek opportunities to eliminate wasted material, reduce cycle times and use more environmentally friendly materials. More than 90% of our check and form paper is purchased from Forest Stewardship Council certified supplier mills, our vinyl checkbook covers are produced utilizing a minimum of 85% post-industrial recycled material and we use environmentally friendly janitorial supplies. Our sustainability initiatives have also benefited our results of operations over the past several years as we focused on reducing our consumption of water, electricity and natural gas and improved our transportation efficiency. During 2010, we purchased renewable wind power electricity for seven of our facilities and we were named number three on the Environmental Protection Agency’s (EPA) October 2010 list of top green power purchasers in the printing industry. The green power that we purchase amounts to more than 50% of our total U.S. annual electricity needs. These

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purchases qualify us as an EPA Green Power Leadership Club member. We are now able to produce nearly all of our checks for financial institution clients and direct-to-consumer customers using renewable energy.

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 closed seven manufacturing facilities. The operations and assets of these facilities were relocated to other locations. Aside from our plant consolidations, we continue to seek other innovations to further increase efficiencies and reduce costs. In 2010, this included completing the expansion of 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 2010, approximately 27.5 billion checks were written in 2009. According to this study, checks are no longer the largest single non-cash payment method in the United States, being eclipsed by the debit card. Checks written account for approximately 25% of all non-cash payment transactions, which is a reduction from the Federal Reserve Study released in December 2007 when checks accounted for approximately 35% of all non-cash payment transactions. The Federal Reserve estimates that checks written declined approximately 6.1% percent per year between 2006 and 2009, and we expect this trend to continue. In addition, we believe that recent turmoil in the financial services industry has had a negative impact on our check volumes as some of our clients have experienced higher than normal customer attrition.

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 2009, the most recent period for which information is available, it was estimated that there were approximately 27.5 million small businesses in the United States. This represented approximately 99.7% of all employer firms. According to the same survey, small businesses employ half of all private sector employees and generated 65% of net new jobs created over the past 17 years. According to the Small Business and Tourism Branch of Industry Canada, there are just over one million small businesses in Canada with employees, and 98% of businesses in Canada have fewer than 100 employees.

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 2010 was slightly better than December 2009, but had not rebounded to 2007 levels, and according to estimates of the Small Business Administration's Office of Advocacy, the last year in which the number of small businesses increased was 2006. The economy had a negative impact on our 2010 and 2009 results, and we expect the economic environment will continue to be challenging at least through the first half of 2011.

The business checks and forms portion of the markets serviced by Small Business Services has been declining, and we expect this trend to continue. In addition to the availability of alternative payment methods, continual technological improvements provide small business customers with alternative means to enact and record business transactions. For example, off-the-shelf business software applications, electronic transaction systems and mobile applications have

been designed to replace pre-printed business forms products.

Financial Institution Clients

Checks are most commonly ordered through financial institutions. We estimate approximately 88% 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.
- 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

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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 financial institution 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 six years. However, contracts may be renegotiated or bought out mid-term due to a consolidation of financial institutions.
- Banks, especially larger ones, may request pre-paid product discounts 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.

Turmoil in the financial services industry since 2008 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, at times, been impacted by reduced consumer response rates to direct mail advertisements. Our own experience indicates that declines in our customer response rates may be attributable to the decline in check usage, the gradual obsolescence of standardized forms products and a general decline in direct marketing response rates due, in part, to increasing utilization of e-commerce by both consumers and small businesses. We continually evaluate our marketing techniques in order to utilize the most effective and affordable advertising media and we continue to shift a greater portion of our advertising investment to the internet.

Competition

The small business forms and supplies industry and the business services industry are all highly fragmented with many small local suppliers, large national retailers and internet-based service providers. 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 and telecommunications clients, competitive 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 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.

Our business services offerings also face intense competition, primarily from internet-based service providers. With relatively low barriers to entry in this industry, we expect the intensity of competition to increase in the future from other established and emerging companies. The competitive factors affecting business services include the breadth, quality and ease of use of web and other services, price, and the responsiveness and quality 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, direct deposit, and electronic and other bill paying

services.

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. We believe the key items which differentiate us from our competition include our mix of proprietary printing press and digital press capabilities, our automated flat check delivery package, online performance dashboard and portal analytics tools for financial institution branches, and our personalized customer call center experience. At times, check suppliers have reduced the prices of their products during the selection process in an attempt to gain greater volume. The corresponding pricing pressure has resulted in reduced profit margins. Pricing pressure will continue to impact our results of operations through lower pricing levels or client losses. 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. We make an effort to reduce the use of up-front product discounts by structuring new contracts with incentives throughout the duration of the contract.

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Seasonality

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 due to the holidays, sales of tax forms are stronger in the first and fourth quarters of the year, and check sales for our Direct Checks segment have historically been stronger in the first quarter of the year.

Raw Materials, Supplies and Service Providers

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.

We have entered into agreements with third party providers for information technology services, including telecommunications and network server and transaction processing services. We believe we would be able to obtain an alternative source of supply if one or more of our service providers failed to perform.

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, which could limit business opportunities. The complexity of compliance with these regulations may also increase the cost of doing business. Additionally, we expect that the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act will have a significant impact on our financial institution clients, although the full impact is not known at this time.

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 relating to consumer privacy may be adopted in the future with respect to the internet, e-commerce or marketing practices. Such laws or regulations may impede the growth of the internet and/or the 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. At this time, we are not aware of any changes in these laws and regulations which will have a significant impact on our business in 2011.

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, 2010, we employed 5,203 employees in the United States and 562 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