# FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-09-10** | Period of Report: **1999-06-26**
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## FILER

**NEW ENGLAND BUSINESS SERVICE INC**

CIK:**205700**| IRS No.: **042942374** | State of Incorp.:**DE** | Fiscal Year End: **0627**
Type: **10-K405** | Act: **34** | File No.: **001-11427** | Film No.: **99709885**
SIC: **2761** Manifold business forms

Business Address
*500 MAIN ST*
*GROTON MA 01471*
*5084486111*

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

(Mark One)

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 26, 1999

OR

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

For the transition period from to

Commission File No. 1-11427

NEW ENGLAND BUSINESS SERVICE, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 04-2942374 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification number) |
| 500 Main Street Groton, Massachusetts | 01471 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (978) 448-6111

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

<TABLE>
<CAPTION>

| Title of each class | Name of each exchange on which registered |
|---|---|
| <S> | <C> |
| Common Stock ($1.00 par value) | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

</TABLE>

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]     No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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]

The aggregate market value of the Registrant's Common Stock, par value $1.00 per share, held by stockholders who are not affiliates of the Registrant at August 27, 1999 as computed by reference to the closing price of such stock on that date was approximately $385,034,782.

The number of shares of Registrant's Common Stock, par value $1.00 per share, outstanding at August 27, 1999 was 13,972,382.

Documents Incorporated By Reference

Portions of the Proxy Statement sent to stockholders in connection with the Annual Meeting to be held on October 22, 1999 are incorporated by reference into Items 10, 11, 12 and 13 (Part III) of this Report. Such Proxy Statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed "filed" for the purposes of this report on Form 10-K.

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# PART I

## ITEM 1. BUSINESS

New England Business Service, Inc. (the "Company") was founded in 1952, incorporated in Massachusetts in 1955 and reincorporated in Delaware in 1986. The Company designs, produces and distributes business forms, checks, envelopes, labels, greeting cards, signs, stationery and related printed products and distributes packaging, shipping and warehouse supplies, software, work clothing, advertising specialties and other business products through direct mail, direct sales, telesales, dealers and the internet to small businesses throughout the United States, Canada, the United Kingdom and France.

In December 1997, the Company acquired all of the outstanding common stock of Rapidforms, Inc. ("Rapidforms") for consideration of approximately $82,136,000 in cash (net of cash acquired). Rapidforms designs, produces and markets business forms, business supplies, in-store retail merchandising supplies, holiday greeting cards and promotional products sold principally by direct mail to small businesses across the United States.

In June 1998, the Company acquired all of the outstanding common stock of McBee Systems, Inc. and all of the assets of McBee Systems of Canada, Inc. (collectively "McBee") for consideration of approximately $48,518,000 in cash (net of cash acquired) and $12,600,000 in Company common stock. McBee manufactures and markets checks and related products to small businesses in the United States and Canada through a dedicated field sales force.

The Company reports its operations in three different segments entitled "Printed Products--Direct Marketing", "Printed Products--Direct Sales" and "Packaging and Display Products". The first two segments sell primarily printed business products such as checks and business forms but use different distribution methods, and the latter segment primarily serves as a reseller of packaging and shipping supplies and retail signage. Additional financial information regarding the segments and the amounts of net sales and operating profit attributable to each of the Company's segments, as well as information for the Company's geographic areas, for the last three fiscal years is contained in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Products

The Company's product line consists of an extensive range of standardized imprinted manual and computer business forms, custom forms, checks and check writing systems, envelopes, labels, greeting cards, signs, stationery and other printed products principally designed and imprinted in-house. The Company also distributes a variety of industrial shipping and packaging products including corrugated boxes, polyethylene bags, tape, labels and shrink wrap as well as retail packaging supplies such as bags, ribbons, gift wrap and bows. In addition, the Company distributes a variety of other business products commonly used by small businesses, including merchandising displays, presentation folders, promotional products, work clothing and software. Products are either specifically designed for individual lines of business or are of a type generally used by small businesses and professional offices. The Company's full range of products are enhanced by high quality, fast delivery, competitive prices and extensive product guarantees.

The Company's standard manual business forms include billing forms, work orders, job proposals, purchase orders, invoices and personnel forms. Standard manual business forms are designed to provide small businesses with the financial and other business records necessary to efficiently manage a business. The Company's stationery line, including letterhead, envelopes and business cards, is available in a variety of formats and ink colors designed to provide small businesses with a professional image. Checks and check writing systems are designed to facilitate payments, the recording of transactional information and the posting of related bookkeeping entries.



The Company also offers a full line of printed products compatible with most accounting software packages commonly used by small businesses. The Company's computer business forms, including checks, billing forms, work orders, purchase orders and invoices, are designed to provide small businesses with the computer compatible records necessary to efficiently manage a business.

Promotional products, including labels, pricing tags, signage, advertising specialties, presentation folders and seasonal greeting cards, are designed to fulfill a variety of selling and marketing activities and to provide small businesses with a professional image. Additionally, the Company markets a line of filing systems, accountants' supplies and appointment products specifically for use in small professional offices.

The majority of the Company's standard products are imprinted to provide small businesses with an affordable, professional image. Standard imprint options include consecutive numbering, logos, customer names, addresses, and phone numbers. The Company also offers a wide range of custom printing alternatives and a custom logo design service.

The Company's packaging and shipping supplies, including bags and bag closures, bubble and polystyrene fill, wrapping materials, boxes, tapes and mailers, are used principally by small wholesalers, manufacturers and distributors to package, distribute and market their products. The Company's line of retail supplies, including signs, merchandising supplies, bags, ribbons, gift wrap and bows, are used by small retailers to display, market and package their products.

The Company also sells the Company Colors(TM) line of work clothing, including an array of jackets, shirts, hats, sweatshirts, and uniforms commonly worn in the workplace. The Company Colors line may be embroidered with business names, logos, and employee names to provide a small business with a coordinated and professional image.

The Company distributes Form Magic(R), a proprietary form-filling software package, third-party accounting software including Peachtree's One-Write Plus(R) and Intuit's Quickbooks(R), and a line of products designed by MySoftware Company. Software distributed by the Company is designed to perform a variety of the tasks required to manage and promote a small business, and is compatible with the business forms and other printed products offered by the Company.

For a further discussion of the risks and uncertainties associated with customer preferences and the market for forms and related printed products, see "Certain Factors That May Affect Future Results" included in Part II, Item 7 to this Annual Report on Form 10-K.

## Product Development and Research

The Company's products are designed principally by an in-house product development staff or are obtained from third-party sources. The Company relies upon direct field research with customers and prospects, focus groups, mail surveys, feedback from distributors, salespeople, representatives and unsolicited suggestions to generate new product ideas. Product design efforts are accomplished or directed by Company design personnel who employ manual and computer design methods to create products. Product design efforts range from minor revisions of existing manual business forms to the creation of an entirely new line of products such as the Company Colors line of work clothing. Throughout the design process, the Company solicits comments and feedback from customers and prospects, and tests market acceptance through a variety of direct mail and selling test methods.

For a further discussion of the risks and uncertainties associated with the technological changes affecting future demand for the Company's standardized business forms and related products, see "Certain Factors That May Affect Future Results" included in Part II, Item 7 to this Annual Report on Form 10-K.



## Sales and Marketing

The Company has established three distinct channels of distribution. The Company's primary channel is direct mail in which approximately 100 million pieces of promotional advertising offering the Company's products are delivered by mail to customers and prospective customers each year under the NEBS(R), RapidForms(R), Chiswick(R), Histacount(R), SYCOM(R), R&M Retail Merchandising(R), Visual Display Solutions(TM), Bags & Bows(TM), NCS National Clothier Supply(R), Main Street(R), Holiday Expressions(TM), Ad Ideas(TM), ASH(R), NAPCO(R), Education Matters(TM), Company Colors, Business Envelopes(TM) and SFL(TM) brand names. The Company's direct mail efforts are also supplemented by the prospecting and account development efforts of an outbound telemarketing group.

The Company's success to date has largely been the result of effective direct marketing and the strength of its customer relationships. Targeted direct mail marketing in combination with focused telemarketing allows the Company to identify and penetrate numerically and geographically dispersed but, in the aggregate, significant markets. The Company targets small businesses with 100 or fewer employees within these markets with specialized promotions and products specifically designed to meet small business needs. In the direct mail channel, the Company's promotional materials contain one or more order forms to be completed by the customer and either mailed, faxed or telephoned to the Company's telesales and customer service group. The Company and its subsidiaries also maintain World Wide Web sites for promotion and order taking.

The Company's promotional materials include several catalogs containing a comprehensive display of the Company's forms and checks, packaging supplies and retail merchandising supplies product offerings. In addition, the Company utilizes smaller catalogs focused on specific products or targeted to a specific small business segment, promotional circulars with samples, flyers, and inserts included with invoices, statements and product shipments. The Company relies to a lesser extent on advertising space in magazines and post card packages to generate sales leads from prospective customers. The Company utilizes the United States or the local country postal service for distribution of most of its advertising materials.

The Company's second principal channel of distribution is through a field sales organization of over 450 people, primarily dedicated to marketing McBee(R) brand checks and check writing systems, Chiswick brand packaging and shipping supplies, or Russell & Miller brand retail merchandising and display products. Initial order support, product reorders and routine service in the direct sales channel is provided by a network of customer service representatives located throughout the United States and Canada.

The principal focus of the McBee sales force is to generate first-time buyers for check and check writing system products. Prospective customer leads are generated for the McBee sales force under referral arrangements with small business accountants and commercial banks representing approximately 21,000 geographically dispersed branch offices. The McBee sales effort typically targets small business customers with fewer than 10 employees.

The principal focus of the Chiswick and Russell & Miller sales force has been to develop high-potential customer relationships initially established through the direct mail channel. The Chiswick and Russell & Miller sales effort typically supports businesses with more than 100 employees or retail chains with geographically dispersed store locations.

The Company's third principal distribution channel is through a network of independent dealers. The Company distributes a full line of private label standard and custom printed products, including manual and computer forms, checks, greeting cards and labels through this dealer network. The Company's independent dealers typically include local printers, business forms dealers, stationers, computer stores and system houses and number approximately 25,000.

The Company believes that its sophisticated and extensive marketing database, customer/prospect lists and referral sources constitute a competitive advantage. The Company is able to select names and plan promotions based on a variety of attributes including status as a customer or prospect, line of business, product purchase history, purchase frequency or purchase dollar volume. With this data, the Company is able to create and deliver cost-effective marketing programs to small businesses through direct mail, direct sales, outbound telemarketing, the internet or the dealer channel.

For a further discussion of the risks and uncertainties associated with the small business market and the Company's direct mail channel, see "Certain Factors That May Affect Future Results" included in Part II, Item 7 to this Annual Report on Form 10-K.

Raw Materials, Production and Distribution

The Company's production and distribution system is designed to process a high volume of small dollar orders on a cost-effective basis. The production and procurement of printed product base stock is driven by forecasts of demand for the Company's products. The Company produces semi-finished base business forms, check stock and related products in long runs on high-speed, roll-fed presses from raw paper. The Company also purchases base stock from a number of industry sources at competitive prices. The raw paper and carbonless paper used by the Company to produce base stock is purchased from a limited number of vendors at competitive prices.

In response to a customer order, the Company's base printed products are subsequently personalized with a variety of imprint options including customer names, addresses, phone numbers, consecutive numbering and logos. The Company operates equipment specifically designed to meet the demands of short-run personalized printing. Typesetting and imprinting of customer headings are accomplished with computerized typesetters, platemaking systems, letter presses, offset presses and digital presses. In addition, the Company utilizes manual and semi-automatic bindery equipment. A number of the Company's imprinting presses have been designed internally or substantially modified to meet the short-run demands of small businesses. These specialized presses allow the Company to produce small-order quantities with greater efficiency than would be possible with stock equipment available from typical printing press equipment suppliers.

During the past two years, the Company has experienced an increase in the proportion of revenue generated by the sale of stock business products produced by third parties, including Chiswick brand industrial packaging and warehouse supplies, and Bags & Bows retail supplies. The Company principally utilizes a "pick and pack" operation to aggregate stock products from warehoused inventory into distinct order groups and to package these order groups for shipment to the customer. The Company's stock business products are obtained from a large number of suppliers at competitive prices.

In addition, the Company relies on a limited number of suppliers to produce and drop-ship products directly to Company customers. The Company believes that alternative sources are generally available for products purchased from third-party vendors, and is continually evaluating its sourcing of these third-party supplied products.

The Company has no significant backlog of orders. The Company's objective is to produce and ship product as expeditiously as possible following receipt of a customer's order. During fiscal year 1999, approximately 70% of printed products were produced and shipped within one day and approximately 90% within four days of order. The Company's stock business products are routinely shipped within 24 hours of receipt of a customer order.

To facilitate expeditious production and shipment of product, the Company maintains significant inventories of raw paper ($1,692,000 at June 26, 1999), and partially printed business forms, packaging, shipping and retail supplies, and related business products ($19,846,000 at June 26, 1999).

The Company primarily ships its products to customers by United Parcel Service of America, Inc. The Company uses Parcel Post and overnight delivery services for distribution of the remainder of its products to customers in the U.S. and for its international businesses.



For a further discussion of the risks and uncertainties associated with the Company's reliance on certain individual third-party vendors to provide raw materials and services critical to the Company's operation, see "Certain Factors That May Affect Future Results" included in Part II, Item 7 to this Annual Report on Form 10-K.

Competition

The small business forms and business supplies industry is highly competitive. The Company believes that it is well positioned in the small business marketplace, with a reputation for reasonable prices and high quality, reliability and service.

The Company's primary competitors for printed products are the local printers, business forms dealers, contract stationers and office products superstores located throughout each of its geographic markets. Local printers have an advantage of physical proximity to customers, but generally do not have the capability of producing a broad array of products, particularly those having a complex construction. In addition, most local printers lack the economies of scale to produce a small order for a single customer on a cost-effective basis. General purpose, preprinted business forms offered by stationers and office product superstores are typically price competitive with the Company's forms, but lack the design and functionality for specific lines of business and the custom printing options available with the Company's products. The Company's principal competitors for stock business products are the large number of local and regional business supplies jobbers, distributors and retailers throughout the United States and Canada.

At present, the Company is aware of more than twenty major independent companies or divisions of larger companies in its geographic markets marketing printed products and business supplies to small businesses through direct mail, distributors, or a direct sales force. The primary competitive factors influencing a customer's purchase decision are product guarantees, breadth of product line, speed of delivery, price and customer service. The Company believes it is the leading direct marketer of business forms, checks and related printed products to the very small business market in the United States, Canada and the United Kingdom. The Company defines the very small business market as businesses with fewer than 20 employees.

For a further discussion of the risks and uncertainties associated with the competitive landscape for the Company's products, see "Certain Factors That May Affect Future Results" included in Part II, Item 7 to this Annual Report on Form 10-K.

Employees

The Company had 3,727 full and part-time employees at June 26, 1999. The Company believes its relationship with its employees to be satisfactory.

Environment

To the Company's knowledge, no material action or liability exists on the date hereof arising from the Company's compliance with federal, state and local statutes and regulations relating to protection of the environment.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Groton, Massachusetts. The Company's principal operating facilities consist of manufacturing, administrative and warehouse facilities and are located in the United States, Canada, the United Kingdom and France. Of its principal operating facilities, the Company owns 901,100 square feet in the aggregate in Flagstaff, Arizona, Groton and Townsend, Massachusetts, Maryville, Missouri, Peterborough, New Hampshire, Thorofare, New Jersey, Ogden, Utah, Midland and Toronto, Ontario and Chester, England, and leases 582,851 square feet in the aggregate in Santa Fe Springs, California, Sudbury, Massachusetts, Parsippany, New Jersey, Athens, Ohio, Damascus, Virginia and Tours, France. The Company



also leases space in over 80 locations in the United States and Canada for sales purposes. The Company has committed to lease an additional 60,000 square feet of warehouse space in Lithia Springs, Georgia beginning in the fall of 1999.

The Company believes its existing production and office facilities are adequate for its present and foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is involved in disputes and/or litigation encountered in the ordinary course of its business. The Company does not believe that the ultimate impact of the resolution of such outstanding matters will have a material effect on the Company's business, operating results or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of stockholders during the fourth quarter of fiscal 1999.

ITEM 4.1 EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers are elected to office by the Board of Directors at the first board meeting following the Annual Meeting of Stockholders or at other board meetings as appropriate, and hold office until the first board meeting following the next Annual Meeting and until a successor is chosen. Information regarding the Company's executive officers is presented below.

Robert J. Murray, age 58, has been a director of the Company since 1991. Mr. Murray has been Chairman of the Board, President and Chief Executive Officer of the Company since 1995. Mr. Murray retired from The Gillette Company, a diversified consumer products company, in 1995, having been with Gillette for more than 34 years. From 1991 until his retirement in 1995, Mr. Murray was Executive Vice President, North Atlantic Group of Gillette. Mr. Murray is a director of Fleet National Bank, LoJack Corporation, Hannaford Bros. Co. and Allmerica Financial Corporation.

George P. Allman, age 57, joined the Company in 1996, and he has been Senior

Vice President and President of Diversified Operations since October 1998. Prior to that, he served as Vice President, Diversified Operations from 1996 to 1998, and as Vice President, Retail Sales and Operations during 1996. Prior to joining the Company, he was a private investor during 1995, and founded and served as President of GPA Associates, Inc., a diversified promotional products supplier, from 1984 to 1995.

Edward M. Bolesky, age 53, joined the Company in 1981, and he has been Senior Vice President and President of NEBS Direct Marketing since October 1998. Prior to that, he served as Vice President, Direct Marketing/Telesales and Service from 1996 to 1998, as Vice President, Business Solutions and Operations from 1995 to 1996, as Vice President, Manufacturing and Information Systems during 1995, as Vice President, Operations from 1994 to 1995, and prior to that in numerous capacities in operations and administration.

John F. Fairbanks, age 38, joined the Company in 1994, and he has been Senior Vice President and President of Chiswick since October 1998. Prior to that, he served as Vice President and Chief Financial Officer from 1996 to 1998, and as Vice President and Corporate Controller during 1996. He also served as Treasurer from 1994 to 1996 and during 1998, and as Secretary from 1994 to 1996. Prior to joining the Company, he served as Vice President and Treasurer of M/A-COM, Inc., a supplier of microwave semiconductors, components and sub-systems, from 1992 to 1994.

Joel S. Hughes, age 54, joined the Company in February 1999, and he has been Senior Vice President, Corporate Channel Marketing since that date. Prior to joining the Company, he served as Vice President of Marketing, Sales and Service of Harvard Business School Publishing from 1992 to 1999.



Daniel M. Junius, age 47, joined the Company in October 1998, and he has been Senior Vice President and Chief Financial Officer and Treasurer since that date. Prior to joining the Company, he served as Vice President, Finance and Chief Financial Officer of Nashua Corporation, a supplier of specialty imaging products and services, from 1995 to 1998, and as Treasurer of Nashua Corporation from 1985 to 1998.

Richard T. Riley, age 43, has been Senior Vice President and President of Rapidforms since October 1998. Mr. Riley joined the Company in 1997 in connection with the Company's acquisition of Rapidforms, Inc., where he has been President since 1992. During 1998 he held the additional office of Vice President of the Company.

Steven G. Schlerf, age 47, joined the Company in 1979, and he has been Senior Vice President, Manufacturing and Technical Operations since October 1998. Prior to that, he served as Vice President, Manufacturing and Technical Operations from 1996 to 1998, as Vice President, Image Manufacturing and Product Development from 1995 to 1996, as Director, Manufacturing from 1991 to 1995, and prior to that in a variety of capacities in manufacturing and operations.

Robert D. Warren, age 48, joined the Company in 1996, and he has been Senior Vice President, Business Management and Development since October 1998. Prior to that, he served as Vice President, Business Management and Development from 1996 to 1998, and as Vice President, Business Management and Business Solutions during 1996. Prior to joining the Company, he served as Vice President, Marketing for Gillette Stationery Products, North America of The Gillette Company from 1992 to 1996.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Common Stock

The Company's Common Stock is listed and traded on the New York Stock Exchange under the symbol "NEB". For the fiscal periods indicated, the high and low sales prices for shares of the Company's Common Stock as reported on the New York Stock Exchange--Composite Transactions Reporting System were as follows:

| Fiscal 1999 | High | Low |
|---|---|---|
| 1st Quarter.......... | 32 1/4 | 26 15/16 |
| 2nd Quarter.......... | 36 3/16 | 27 1/16 |
| 3rd Quarter.......... | 39 9/16 | 24 |
| 4th Quarter.......... | 29 9/16 | 26 1/2 |

| Fiscal 1998 | High | Low |
|---|---|---|
| 1st Quarter........... | 32 1/2 | 25 3/4 |
| 2nd Quarter........... | 33 13/16 | 29 1/8 |
| 3rd Quarter........... | 34 1/4 | 30 5/8 |
| 4th Quarter........... | 34 1/2 | 30 |

As of August 27, 1999, there were 605 stockholders of record, and the Company believes that as of such date there were approximately 6,200 beneficial owners of the Company's Common Stock, based on information provided by the Company's transfer agent. Information with respect to dividends paid on the Company's Common Stock during the past two fiscal years is shown in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.



ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SUMMARY
(In thousands, except per share amounts and Other Statistics)

| For the fiscal year ended | June 26, 1999(A) | June 27, 1998(B) | June 28, 1997(C) | June 29, 1996(D) | June 30, 1995(E) |
|---|---|---|---|---|---|
| Income Statistics | | | | | |
| Net sales............... | $ 470,477 | $ 355,767 | $ 263,424 | $ 254,954 | $ 263,724 |

| | | | | | |
|---|---|---|---|---|---|
| Income before income taxes | 43,742 | 41,405 | 31,380 | 21,055 | 28,492 |
| Percent of sales | 9.3% | 11.6% | 11.9% | 8.3% | 10.8% |
| Provision for income taxes | 17,291 | 16,471 | 12,731 | 8,306 | 11,818 |
| Percent of sales | 3.7% | 4.6% | 4.8% | 3.3% | 4.5% |
| Net income before equity in losses of investment | 26,451 | 24,934 | 18,649 | 12,749 | 16,674 |
| Percent of sales | 5.6% | 7.0% | 7.1% | 5.0% | 6.3% |
| Percent of stockholders' equity | 21.8% | 21.8% | 23.1% | 16.8% | 18.2% |
| Per diluted common share | 1.81 | 1.77 | 1.38 | .86 | 1.09 |
| Net income | 26,451 | 24,934 | 18,649 | 11,929 | 16,298 |
| Percent of sales | 5.6% | 7.0% | 7.1% | 4.7% | 6.2% |
| Percent of stockholders' equity | 21.8% | 21.8% | 23.1% | 15.7% | 17.8% |
| Per diluted common share | 1.81 | 1.77 | 1.38 | .81 | 1.07 |
| Dividends per common share | .80 | .80 | .80 | .80 | .80 |
| **Balance Sheet Statistics** | | | | | |
| Current assets | $ 99,703 | $ 101,060 | $ 68,426 | $ 71,334 | $ 77,509 |
| Current liabilities | 45,775 | 50,677 | 33,327 | 27,273 | 32,169 |
| Working capital | 53,928 | 50,383 | 35,099 | 44,061 | 45,340 |
| Current ratio | 2.2 | 2.0 | 2.1 | 2.6 | 2.4 |
| Total assets | 300,262 | 307,577 | 141,196 | 103,542 | 124,546 |
| Long-term debt | 128,000 | 141,000 | 27,000 | 0 | 0 |
| Stockholders' equity | 121,529 | 114,505 | 80,581 | 75,916 | 91,523 |
| Diluted weighted average shares outstanding | 14,640 | 14,106 | 13,525 | 14,811 | 15,295 |
| Book value per common share | 8.65 | 8.01 | 5.92 | 5.42 | 6.16 |
| **Other Financial Statistics** | | | | | |
| Capital expenditures | $ 16,866 | $ 13,275 | $ 9,567 | $ 9,388 | $ 10,804 |
| Depreciation and amortization | 24,845 | 15,218 | 9,090 | 10,329 | 12,676 |
| **Other Statistics** | | | | | |
| Number of employees | 3,727 | 3,738 | 2,164 | 2,014 | 2,055 |
| Number of stockholders | 6,200 | 6,000 | 6,000 | 5,800 | 5,600 |
| Number of 24-month customers | 2,526,000 | 2,507,000 | 1,651,000 | 1,535,000 | 1,565,000 |
| Facilities (in square feet) | 1,531,000 | 1,594,000 | 886,000 | 708,000 | 743,000 |

</TABLE>

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(A) Included in the 1999 results is a $.3 million pretax gain, or $.01 per diluted share, from the settlement of the Company's Canadian defined benefit pension plan.

(B) Included in the 1998 results is a $.9 million pretax gain, or $.04 per diluted share, from the settlement of the Company's U.S. defined-benefit pension plan and curtailment of the Company's Canadian defined-benefit pension plan.

(C) Included in the 1997 results is a $3.8 million pretax charge, or $.17 per diluted share, related to the elimination of the Company's retail initiative with Kinko's and a $2.2 million pretax gain, or $.10 per diluted share, from the curtailment of the Company's U.S. defined-benefit pension plan.

(D) Included in the 1996 results is a $3.0 million pretax charge, or $.12 per diluted share, related to the closure of the Company's Flagstaff, Arizona manufacturing facility.

(E) Included in the 1995 results is a $2.0 million pretax charge, or $.07 per diluted share, related to integration of the Company's SYCOM subsidiary.

See the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

New England Business Service, Inc. (the "Company") was founded in 1952, incorporated in Massachusetts in 1955 and reincorporated in Delaware in 1986. The Company designs, produces and distributes business forms, checks, envelopes, labels, greeting cards, signs, stationery and related printed products and distributes packaging, shipping and warehouse supplies, software, work clothing and other business products through direct mail, direct sales, telesales, dealers and the internet to small businesses throughout the United States, Canada, the United Kingdom and France.

In December 1997, the Company acquired all of the outstanding common stock of Rapidforms, Inc. ("Rapidforms") for consideration of approximately $82,136,000 in cash (net of cash acquired). Rapidforms designs, produces and markets business forms, business supplies, in-store retail merchandising supplies, holiday greeting cards and promotional products sold principally by direct mail to small businesses across the United States.

In June 1998, the Company acquired all of the outstanding common stock of McBee Systems, Inc. and all of the assets of McBee Systems of Canada, Inc. (collectively "McBee") for consideration of approximately $48,518,000 in cash (net of cash acquired) and $12,600,000 in Company common stock. McBee manufactures and markets checks and related products to small businesses in the United States and Canada through a dedicated field sales force.

Any sentence followed by an asterisk (*) in this section constitutes a forward-looking statement which reflects the Company's current expectations. There can be no assurance the Company's actual performance will not differ materially from those projected in such forward-looking statements due to the important factors described in the section of this Management's Discussion and Analysis of Financial Condition and Results of Operations titled "Certain Factors That May Affect Future Results".

Results of Operations

1999 versus 1998

Over the past several years the Company had made a series of acquisitions intended to augment the three segments of the Company's business. The first two segments, Printed Products--Direct Marketing and Printed Products--Direct Sales, sell primarily printed business products. The third segment, Packaging and Display Products, serves as a reseller of packing and shipping supplies and retail signage. Net sales increased $114.7 million, or 32.2%, to $470.5 million for fiscal year 1999 from $355.8 million in fiscal year 1998. The

Rapidforms and McBee acquisitions during fiscal 1998 were primarily responsible for the sales increase of approximately $103.5 million, or 29.0%, in the Printed Products--Direct Marketing and Printed Products--Direct Sales segments. The remaining increase in sales, $11.2 million, or 3.2%, was attributable to growth in the Packing and Display Products segment, which was primarily the result of the Rapidforms acqusition as one of its subsidiaries is classified in this segment.

For fiscal year 1999, cost of sales decreased to 36.6% of sales from 38.0% in fiscal year 1998. This decrease was due to an increase in revenue generated by higher margin products associated with the acquisition of McBee, increased handling charges which help offset transportation charges and increased efficiencies in the Company's U.S operating units primarily selling business forms and related printed products tied in part, to acquisition integration related efficiencies. These factors counteracted the impact of $1.4 million in costs incurred in fiscal year 1999 in conjunction with activities related to integration of manufacturing facilities among Rapidforms, McBee and the Company's other plants as well as decreasing margins due to product mix shifts away from the Company's core printed products at NEBS and Rapidforms. Cost of sales as a percentage of sales is anticipated to decrease slightly during fiscal year 2000 due to continued improvement in integration efficiencies.*



Selling and advertising expense increased to 37.2% of sales in fiscal year 1999 from 34.2% of sales in fiscal year 1998. The increase was due primarily to the direct sales force employed by McBee which generates a higher selling and advertising expense as a percentage of sales than in the Company's other businesses. The Company also incurred $623,000 in costs during the year in connection with efforts to harmonize product offerings among Rapidforms, McBee and the Company. In addition, amortization expense related to the intangible assets of acquisitions climbed from 1.7% of sales in fiscal year 1998 to 2.6% of sales in fiscal year 1999 due to the effect of intangible assets created in the McBee acquisition and the full year impact of the Rapidforms acquisition. Selling and advertising expense as a percentage of sales is expected to increase slightly during fiscal year 2000 due to increased marketing efforts in most of the businesses.*

General and administrative expense remained flat at 15.2% of sales in fiscal year 1999 and 1998. The year-to-year similarity was the result of a lower ratio of general and administrative expense to sales associated with the Company's McBee subsidiary, which offset $642,000 of general and administrative spending related primarily to systems integration efforts among Rapidforms, McBee and the Company. During fiscal year 1999, the Company continued to increase spending levels associated with its program to re-engineer financial and operational information systems. It should be noted that the adoption of AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," reduced amounts charged to expense in fiscal 1999 by $1,907,000. General and administrative expense as a percentage of sales is expected to increase slightly during fiscal year 2000 due to an increase in spending on information systems.*

During fiscal year 1998, the Company amended its defined benefit pension plan for Canadian employees of NEBS Business Forms, Ltd. to freeze participation and to allow participants to rollover accrued benefits under the plan to a defined contribution retirement plan. The Company recorded a curtailment gain of $313,000 during fiscal year 1998 associated with the freeze and resultant benefit rollover. During fiscal year 1999, the Company settled this plan and recorded a settlement gain of $259,000.

Interest expense increased over the prior year to 1.8% of sales in fiscal year 1999 compared to 1.3% of sales in fiscal year 1998. This increase in expense was attributable to debt incurred to finance the acquisitions of Rapidforms in December, 1997 and McBee in June of 1998.

The provision for income taxes as a percentage of pretax income decreased from 39.8% in fiscal year 1998 to 39.5% in fiscal year 1999 due to a reduction in the Company's effective state tax rate.

The Company will continue to seek opportunities to acquire companies, businesses and product lines to enhance the Company's competitive position in the marketplace or to gain access to new markets, products, competencies or technologies.* In addition, the Company is continuing to capitalize on the marketing and cost reduction opportunities presented by integration of the businesses acquired during fiscal years 1997 and 1998.* The Company will continue to seek opportunities to enhance the cost structure of the Company, to improve operating efficiencies, and to fund investments in support of the Company's strategies.*

In June, 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard will be adopted by the Company in fiscal year 2001. The Company is still evaluating the impact of this standard on its consolidated financial statements.

1998 versus 1997

Net sales increased $92.4 million, or 35.1%, to $355.8 million for fiscal year 1998 from $263.4 million in fiscal year 1997. Of the net sales increase, $84.8 million, or 91.8%, was attributable to acquisitions completed during fiscal years 1998 and 1997. The acquisitions of Rapidforms and McBee during fiscal year 1998 accounted for $38.0 million and $4.7 million of the increase, respectively. The acquisitions of Chiswick Trading, Inc. and Standard Forms, Ltd. during fiscal year 1997 contributed $38.3 million and $3.8 million, respectively, to the acquisition-related net sales growth during fiscal year 1998. The balance of the net sales increase of $7.6 million was primarily attributable to price increases effected during the fiscal year and to moderate growth in certain product lines.



Cost of sales as a percentage of net sales increased from 35.7% in fiscal year 1997 to 38.0% in fiscal year 1998. The increased percentage was primarily the result of an increase in revenue generated by lower margin products associated with the businesses acquired by the Company during fiscal years 1998 and 1997. The acquired businesses higher cost of sales is due to the nature of their products, markets and distribution methods.

Selling and advertising expense as a percentage of sales decreased slightly from 34.3% in fiscal year 1997 to 34.2% in fiscal year 1998. The impact of a higher ratio of selling and advertising expense to net sales in the acquired businesses and a significant increase in amortization expense associated with acquisition related intangibles was more than fully offset by improved selling and advertising efficiency in the Company's core businesses.

General and administrative expense decreased as percentage of net sales from 17.4% in fiscal year 1997 to 15.2% in fiscal year 1998. The decline was principally the result of a lower ratio of general and administrative expense to net sales associated with the Company's newly acquired businesses and a reduction in corporate general and administrative expense during fiscal year

1998. The reductions in the ratio of general and administrative expense to net sales was partially offset by increased spending levels associated with the Company's program to reengineer its financial and operational information systems.

During fiscal year 1998, payments related to accruals for the previous year's exit costs were completed and there were no significant changes in estimates of such exit costs.

During fiscal year 1997, the Company amended its defined benefit pension plan for U.S.-based employees of New England Business Service, Inc. to freeze participation and to eliminate further benefit accruals. In fiscal year 1998, the Company terminated the defined benefit pension plan and settled all plan obligations. The Company recorded a plan curtailment gain of $2,187,000 and a plan settlement gain of $556,000 in fiscal years 1997 and 1998, respectively, associated with the amendment and termination of this plan.

Interest expense, net of interest income, increased from $64,000 in fiscal year 1997 to $4,334,000 or 1.2% of net sales in fiscal year 1998. The increase in net interest expense is the result of the issuance of debt to finance acquisitions completed during the two fiscal years.

The provision for income taxes as a percentage of pretax income decreased from 40.6% in fiscal year 1997 to 39.8% in fiscal year 1998 principally due to a reduction in the Company's effective state tax rate.

In fiscal 1998, the Company adopted SFAS No. 128, "Earnings Per Share", which did not have a significant impact on the consolidated financial statements.

Year 2000

During fiscal year 1996, the Company established a five-year plan to upgrade the majority of its critical operational information systems. This information systems reengineering plan was developed to enhance system performance and to address Year 2000 issues. The Company has experienced delays in certain facets of the reengineering effort, and, as a result, has modified its Year 2000 plan to principally focus on system remediation rather than system replacement. The Company's operational information systems have been inventoried and assessed for Year 2000 compliance, and approximately 95% of the Company's mission critical systems have been remediated as of June 26, 1999. The Company believes, based on available information, that it will be able to complete the remediation and testing of all critical operating systems by October 1999.*

In addition, the Company is communicating with key suppliers, vendors and business partners in order to assess their ability to maintain normal operations in the Year 2000. Such key suppliers include, but are not limited to, MCI WorldCom, R.R. Donnelley and Sons, Appleton Papers, and United Parcel Service of America, Inc. To the extent that the Company is not satisfied with the status of a vendor's Year 2000 compliance or remediation plans, the Company expects to develop and implement appropriate contingency plans.* Such contingency plans will include the development of alternative sources for the product or service provided by the non-compliant vendor.* The Company is currently not aware of any major Year 2000 compliance problems with any of its key suppliers. In addition, the Company will monitor the Year 2000 activities of U.S., Canadian,



French and U.K. postal services and pertinent local and regional utilities.

However, due to the lack of alternative sources for such services, the Company can make no assurances that Year 2000 related disruptions in postal, electrical or similar services would not have a material adverse effect on the Company's financial performance or long-term prospects.

The Company has also inventoried and assessed the majority of the systems associated with the functioning of its plant, property and equipment. The date-related issues associated with the proper functioning of such assets are insignificant and are not expected to represent a material risk to the Company.* Further, the Company has approximately 2.5 million active customers, and the failure of any one customer due to a Year 2000 issue would not have a material adverse impact on the Company's financial performance or long-term prospects.*

The Company believes the postal service and utility exposures represent the worst case scenarios. While the Year 2000 issue involves additional costs to the Company, the Company believes, based on available information, that it will be able to manage the Year 2000 transition of its internal systems without having any material adverse effect on its business operations or financial prospects.*

The Company's cash outlays for capital improvements and period expenses associated with the information systems reengineering project and for Year 2000 compliance were projected to cumulatively total $21 million during fiscal years 1997 through 2000, the majority of which has been expensed as of June 26, 1999. Due to the modification of the Company's plans to focus on remediation rather than replacement, $6 million has been expensed for remediation in fiscal year 1999 along with $2 million of additional capital and another $1 million will be expensed in fiscal year 2000.*

For a further discussion of the risks and uncertainties associated with the Year 2000 issue and the Company's reliance on individual third-party vendors to provide raw materials and services critical to the Company's operation, see "Certain Factors That May Affect Future Results" included in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Liquidity and Capital Resources

Cash provided by operating activities amounted to $46.4 million in fiscal year 1999, approximately $3.9 million, or 9.0%, higher than the $42.5 million provided in fiscal year 1998. This increase in cash provided by operating activities was composed of a $1.5 million increase in net income and a $9.5 million increase in non-cash depreciation and amortization expense, offset in part by a comparative reduction of $9.1 million in the amount of cash provided by working capital and other non-cash adjustments to reported net income. In fiscal year 1998, cash provided by operating activities increased $4.7 million, or 12.6%, from the $37.8 million dollars provided in fiscal year 1997 due principally to a $6.3 million increase in net income and a $6.1 million increase in non-cash depreciation and amortization expense, offset in part by a comparative reduction of $7.7 million in the amount of cash provided by working capital and other non-cash adjustments to reported net income.

Working capital as of June 26, 1999 amounted to $53.9 million including $5.5 million of cash and short-term investments. This balance represents an increase of $3.5 million from the working capital balance of $50.4 million, including cash and short-term investments of $10.8 million, at the end of fiscal year 1998. This increase in working capital is not a significant change from the prior year, as there were no acquisitions during the year, and excess cash is used to reduce outstanding debt on a timely basis.

Working capital increased in fiscal year 1998 by $15.3 million principally due to an increase in cash provided by operating activities and the addition of the working capital balances of companies acquired during fiscal year 1998. The Company does not expect to experience any significant change to the amount of working capital investment required to support its business during fiscal year 2000.*

Capital expenditures of $16.9 million in fiscal year 1999 represented a $3.6 million increase from the $13.3 million expended in fiscal year 1998 and a $7.3 million increase from the $9.6 million expended in fiscal year 1997. Capital expenditures over the three-year period have included significant investment in the purchase,



development and implementation of information systems infrastructure and operating systems. In addition, capital expenditures in fiscal year 1999 included a $1.2 million expansion of the Company's Midland, Ontario manufacturing facility and in fiscal year 1998 included the construction of a $3.0 million telemarketing facility in Flagstaff, Arizona. The Company expects capital expenditures to approximate $18.0 million dollars in fiscal year 2000, which will include additional planned improvements in information systems infrastructure and new warehouse space being constructed in Lithia Springs, Georgia.*

The Company repurchased 509,600 shares of the Company's common stock for $14.0 million in cash during fiscal year 1999 and 1,056,100 shares of common stock for $17.7 million in cash during fiscal year 1997. The Company did not repurchase any shares of common stock in fiscal 1998. In addition, the Company declared and paid a cash dividend of $.80 per share during each of the last three fiscal years, amounting to a total of $11.5 million in fiscal 1999, $11.0 million in fiscal 1998 and $10.7 million in fiscal 1997.

In addition to its present cash and short-term investment balances, the Company has consistently generated sufficient cash internally to fund its needs for working capital, dividends and capital expenditures. The Company currently has a committed, unsecured, revolving line of credit agreement which totals $165 million and which matures on December 18, 2002. At June 26, 1999, the Company had $128.0 million of outstanding debt under this credit facility. The credit agreement contains various restrictive covenants which, among other things, require the Company to maintain certain minimum levels of consolidated net worth and specific consolidated debt and fixed charge ratios. As of June 26, 1999, the Company was in compliance with these provisions.

In order to effectively fix the interest rate on a portion of the debt outstanding under the revolving line of credit, the Company has entered into interest rate swap agreements with two of the banks party to the credit agreement. These swap agreements contain notional principal amounts and other terms determined with respect to the Company's forecasts of future cash flows and borrowing requirements. At June 26, 1999, the notional principal amount outstanding of the interest rate swap agreements totaled $85 million.

In order to minimize the Company's exposure to foreign currency fluctuations with respect to an intercompany loan to foreign subsidiaries and affiliates, the Company has entered into a short-term forward exchange rate contract with a major commercial bank in a currency amount directly corresponding to the short-term intercompany loan amount. At June 26, 1999, the Company had an outstanding forward exchange rate contract for $1.7 million worth of Pound Sterling.

The Company anticipates that its current cash on hand, cash flow from operations and additional availability under the line of credit will be sufficient to meet the Company's liquidity requirements for its operations and capital expenditures during fiscal year 2000.* However, the Company may pursue additional acquisitions from time to time, which would likely be funded through the use of available cash, the issuance of stock, the obtaining of additional credit, or any combination thereof.*

Certain Factors That May Affect Future Results

From time to time, the Company or its representatives have made or may make forward-looking statements that reflect the Company's current expectations, orally or in writing, in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Annual Report on Form 10-K, in other reports filed under the Securities Act of 1934, in press releases or in statements made with the approval of an authorized executive officer. The words or phrases "is expected," "will continue," "anticipates," "estimates," or similar expressions in any of these communications are intended to identify "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as enacted by the Private Securities Litigation Reform Act of 1995.

There can be no assurance the Company's actual performance will not differ materially from that projected in such forward-looking statements due to important factors including but not limited to those described below. These factors include increasing competition, economic cycles, technological change, paper and postal costs,



customer preferences, response rates, prospect lists, governmental regulations, inherent risks in acquisitions, disruptions to the Company's operating systems, Year 2000 risks to computer systems and reliance on vendors, all of which are described in further detail below.

Increasing Competition; Pressure on Price and Margins.

The Company operates in a highly competitive marketplace, in which it competes with a variety of direct mail marketers, retailers, dealers, distributors and local printers in the marketing of business forms, checks, stationery and business supplies to small businesses. Over the course of the past decade, providers of business forms, checks, and stationery have experienced growth in excess of manufacturing capacity. In addition, the Company has faced increasing competition from low-price, high-volume office supply chain stores. Improvements in the cost and quality of printing technology have increasingly allowed dealers, distributors and local printers to gain access to products of complex design and functionality at competitive prices. The Company currently anticipates that these trends will continue. No assurance can be given that competition will not have an adverse effect on the Company's business. In addition, if any of the Company's competitors were to seek to gain or retain market share by reducing prices or increasing promotional discounting, the Company could be compelled to reduce its prices or match the discounts and thereby reduce its gross margin and profitability.

Economic Cycles; Variability of Performance.

The Company's standardized forms and check business accounts for a majority of its sales and profitability. The forms and check industry is highly competitive and generally characterized by mature products designed within well-established industry standards. The Company relies, in part, on net small business formations for growth in demand for its standardized form and check products. As a result, the Company's growth rate is closely correlated to the strength of its target small business market. The Company's revenue trends and operating profitability have been materially adversely affected by recession-related contractions in the small business economy in the past. The Company will continue to experience quarterly and annual variations in net sales and net income as a result of changes in the levels of small business formations and failures or from other economic events having an impact on small businesses generally.

Technological Change; Product Obsolescence and Risks to Competitive Advantage.

The Company's standardized business forms and related products are designed to provide small businesses with the financial and business records required to manage a business. Steady technological improvements have provided small businesses in several market segments with alternative means to enact and record business transactions. PC-based, point-of-sale, electronic form and electronic transaction systems have been designed to automate several of the functions performed by the Company's products. The price and performance characteristics of personal laser and ink-jet printing equipment have improved markedly in the recent past, thereby allowing small businesses a cost-competitive means to print low-quality versions of Company forms on plain paper. In addition, the internet has the potential to eliminate the Company's advantage of scale in direct marketing by providing all competitors with equal access to customers who purchase products over the Internet. In response, the Company has focused resources on the acquisition, development and procurement of new products less susceptible to technological obsolescence and has moved to develop a comprehensive electronic catalog of products to be utilized over the internet. It should be noted that the Company's small business customers have to-date proven to be relatively slow adopters of new technology which has minimized the adverse impact of these technological trends. However, the Company can give no assurance that continued technological change will not have a material adverse impact on the long-term prospects for the Company's business.

Paper Costs and Postal Rates; Risks to Margins.

The cost of paper used to produce the Company's products, catalogs and advertising materials constitutes, directly or indirectly, a significant percentage of consolidated revenues. In addition, the Company is reliant on the U.S. Postal Service for delivery of most of the Company's promotional materials. Until recently, coated paper costs for promotional materials have increased steadily. In addition, certain segments of the paper market



periodically have demonstrated considerable price volatility. Postal rates for third class mail have also increased sporadically and at times significantly in the past decade. The Company has been able to counteract the impact of postal and paper cost increases with cost reduction programs and selected product price increases. Due to increased competition in the small business forms, checks, stationery and supplies marketplace, no assurance can be given that the Company will be able to increase product pricing to compensate for future paper or postal cost increases. The inability to raise prices in response to paper or postal cost increases could reduce the Company's operating profitability and net income.

Customer Preferences; Investment Requirements & Sales Risk.

The Company's core business is the direct marketing, manufacturing and distribution of standardized forms, checks, and related products to small businesses. Newly-formed small business owners are increasingly demanding custom and color-coordinated products to create an image in addition to enabling the management of business transactions. The relative prices charged by local printers, contract printers and dealers for providing these custom and full-color printed products have been declining due to technological advances in composition systems and printing equipment. As a direct result, the cost advantage inherent to the Company's standardized forms and related printed products has declined. The Company is responding with focused investment in the infrastructure required to sell, compose, print and distribute custom and full-color products. In addition, the Company expects to continue to invest in its direct sales, dealer and internet-based channels that more readily support the interactive marketing required to sell custom and full-color products. However, the Company can give no assurance that the rate of decline in demand for standardized forms and related printed products will not accelerate, or that the Company will be able to maintain its inherent cost advantage. If any of such potential risks materialize, the Company's future net sales and net income could be materially adversely affected.

Response Rates and Customer Retention; Sales Risk.

Customer and prospect response rates to the Company's catalogs and promotional materials have remained relatively stable over time. Continued stability in prospect response and customer retention is primarily dependent on the continued relevancy of the range of the Company's products to the small business marketplace. New product introductions, to date, have generally offset declines in response rates and retention attributable to product obsolescence. However, the Company can make no assurances that its new product introductions will continue to offset the rate of obsolescence of its standardized forms products in the future. An increase in the rate of product obsolescence or a decline in new product introductions could negatively impact response rates and customer retention which, in turn, would have a materially adverse impact on the Company's long-term financial performance.

Prospect Lists; Sales Risk.

The Company's direct mail business has been characterized by a consistent level of average annual sales per customer. As such, net sales growth is dependent, in part, on an increase in customers served by the Company. Growth in the total number of direct mail customers served by the Company depends upon continued access to high-quality lists of newly-formed small businesses. In the past, the Company's ability to compile proprietary prospect lists was a distinct competitive advantage. However, the external list compilation industry has grown more sophisticated and currently markets comprehensive lists of newly-formed businesses to the Company and its competitors. At present, the Company relies on the speed of its delivery of promotional materials to prospective customers to gain advantage over competitors. However, the Company can make no assurances that its promotional material delivery advantage will be maintained over time. A deterioration in the Company's delivery advantage could have a materially adverse impact on the Company's business and financial performance.

Governmental Regulations; Sales Risk.

Future governmental legislation or regulation including, but not limited to, the following potential regulatory actions have the potential to have a material adverse impact on the Company's business prospects: 1) enactment of privacy laws could constrain the Company's ability to mail promotional materials or to telemarket to small businesses; 2) modification to U.S. Postal Service regulations with the effect of increasing postal rates or reducing postal delivery efficiency could have an adverse impact on the Company's marketing efforts; and 3) institution of a "general sales tax", "value added tax" or similar national tax could reduce demand for the Company's products. Although the Company has no current knowledge or belief that such adverse regulation, of a material nature, is pending or imminent, it can make no assurance that adverse governmental regulation will not have a material adverse impact on the Company's business in the future.

Acquisitions; Inherent Risk.

From time to time the Company has acquired, or may acquire in the future, a majority ownership position in a company or substantially all of the assets related to a specific line of business. Such acquisitions are undertaken to enhance the Company's competitive position in the marketplace or to gain access to new markets, products, competencies or technologies. The Company has performed in the past and will perform in the future a business, financial and legal due diligence review in advance of an acquisition to corroborate the assumptions critical to projected future performance of an acquired entity and to identify the risks inherent to such projections. However, the Company can make no assurances that its due diligence review will identify all potential risks associated with the purchase, integration or operation of any acquired enterprise. If any of such potential risks materialize, the Company's future net sales and net income could be materially adversely affected.

Operating Systems; Disasters and Disruptions.

The Company has become increasingly dependent upon its manufacturing, administrative and computer processing infrastructure and operations to support its high volume of small dollar value orders on an efficient, cost competitive and profitable basis. The Company has implemented commercially reasonable safeguards to reduce the likelihood of property loss or service disruptions and has secured property and business interruption insurance to minimize the adverse financial consequences arising from a select group of risks. However, the Company can make no assurances that its infrastructure and operations are not susceptible to loss or disruption, whether caused by (i) intentional or unintentional acts of Company personnel or third party service providers, or (ii) natural disasters including, but not limited to, earthquakes, fire or severe storms. In addition, the Company can make no assurance that its insurance coverage will adequately respond to all potential causes of property loss or service disruption. In the event that any such acts or disasters lead to property loss or operating system disruption for which property and business interruption insurance coverage is unavailable or insufficient, the Company's financial performance and long-term prospects could be materially adversely affected.

Computer Systems; Year 2000 Impact.

The Company and its vendors have become increasingly reliant on computer systems to process transactions and to provide relevant business information. The majority of computer systems designed prior to the mid-1990s are susceptible to a well-publicized problem associated with an inability to process date-related information beyond the Year 2000. Without proactive modifications to routines and programs, many systems of the Company and its vendors could be rendered useless in January, 2000. The Company has created a comprehensive plan to address the Year 2000 issue with respect to both internal systems and to systems employed by critical vendors. However, the Company can make no assurance that all Year 2000 risks to Company and critical vendor systems can be identified and successfully negated through modification of existing programs or other means prior to January, 2000. In the event that any Year 2000 program deficiencies remain undetected, or in the event that any programming modifications do not adequately address the Year 2000 issues, the Company or its vendors could experience critical operating system failures. Any such operating system failures could have a material adverse impact on the Company's financial performance and long-term prospects.

Raw Materials and Services; Reliance on Certain Vendors.

The Company has become increasingly reliant on certain individual third-party vendors to provide raw materials and services critical to the Company's operations in order to gain the advantage of volume-related favorable pricing and, in some instances, favorable contract terms. Such critical vendors and the nature of the



products or services provided include, but are not limited to, governmental postal services for the delivery of marketing materials and in some countries, customer packages, MCI WorldCom for the provision of toll-free telephone services, R.R. Donnelley and Sons, Inc. for printing and processing of marketing materials, Appleton Papers, Inc. for carbonless paper, and United Parcel Service of America, Inc. for product delivery services in the U.S. In the past, the Company has been adversely affected by disruption in the services provided or lack of availability of the products produced by its critical vendors resulting from a variety of factors including labor actions, inclement weather, disasters, systems failures and market conditions. The Company can make no assurance that its critical vendors will remain capable of providing the level of service or quantity of product required to support the Company's business, or that the Company could immediately identify alternative sources for provision of the product or service on a similar cost basis. Any such service disruption or product shortage could have a material adverse impact on the Company's operating performance and net income.

Other Risks; Variability of Performance.

The Company has experienced in the past and will experience in the future quarterly and annual variations in net sales and net income as a result of many factors, including, but not limited to, the timing of catalog mailings, catalog response rates, product mix, margins on new product introductions, the timing and levels of selling, general and administrative expenses, cost reduction programs, timing of holidays and inclement weather. The Company's planned operating expenses are based on sales forecasts. If net sales performance falls below expectations in any given quarter or year, the Company's operating results could be materially adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to a number of market risks, primarily due to the effects of changes in foreign currency exchange rates and interest rates. Investments in and loans and advances to foreign subsidiaries and branches, and their resultant operations, denominated in foreign currencies, create exposures to changes in exchange rates. The Company's utilization of its revolving line of credit (which carries a variable interest rate) creates an exposure to changes in interest rates. The effect, however, of changes in exchange rates and interest rates on the Company's earnings generally has been small relative to other factors that also affect earnings, such as business unit sales and operating margins. This is because (i) foreign earnings have not been repatriated, the magnitude of foreign currency transactions has been minimal and forward foreign currency contracts have been entered into to hedge foreign exchange fluctuations; (ii) interest rates have not fluctuated significantly and a significant portion of the Company's borrowings are fixed through interest swaps. The Company does have a component of its borrowings that is not hedged. A 10% upward movement in interest rates would impact earnings and cash flows by approximately $1.6 million dollars. For more information on these market risks and financial exposures, see the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. The Company does not hold or issue financial instruments for trading, profit or speculative purposes.

In order to minimize the Company's exposure to foreign currency fluctuations with respect to a short-term intercompany loan created to fund the operating cash requirements of the Company's European operations (see the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K), the Company has entered into a forward exchange rate contract for the amount of the loan and associated interest. The currency hedged is the British pound. While there is no specified repayment date for the loan, the forward exchange rate contract is of limited duration and is replaced periodically as it matures.

In order to effectively convert the interest rate of a portion of the Company's debt from a Eurodollar based floating rate to a fixed rate, the Company has entered into interest rate swap agreements with major commercial banks. Although the Company is exposed to credit and market risk in the event of future nonperformance by any of the banks, management has no reason to believe that such an event will occur.

Upon reviewing its derivatives and other foreign currency and interest rate instruments, based on historical foreign currency rate movements and the fair value of market-rate sensitive instruments at year-end, the Company does not believe that near term changes in foreign currency or interest rates will have a material impact on its future earnings, fair values or cash flows.



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The Company's financial statements, together with the independent auditors' report thereon, appear beginning on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company will furnish to the Securities and Exchange Commission not later than 120 days after the close of its fiscal year ended June 26, 1999 a definitive Proxy Statement (the "Proxy Statement") for the Annual Meeting of Stockholders to be held on October 22, 1999. The information required by this Item concerning the directors of the Company is incorporated by reference to "Election of Directors" in the Proxy Statement. The information required by this Item concerning the executive officers of the Company appears in Part I, Item 4.1 to this Annual Report on Form 10-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Information regarding compliance with Section 16(a) beneficial ownership reporting requirements is located in the Proxy Statement under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to "Election of Directors" and "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to "Voting Securities" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to "Certain Relationships and Related Transactions" and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" in the Proxy Statement.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

(a)(1) Consolidated Financial Statements

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(a)(2) Financial Statement Schedule

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Schedules I, III, IV and V are omitted as they are not applicable or required under Regulation S-X.

(a)(3) List of Exhibits

Exhibits required to be filed by Item 601 of Regulation S-K are listed in the exhibit index beginning on page X-1.

(b) Reports on Form 8-K

Not applicable.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

New England Business Service, Inc.
(Registrant)

/s/ Robert J. Murray
By: ________________________________
(Robert J. Murray, Chairman, President and Chief Executive Officer)

Date: September 10, 1999

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned officers and directors of New England Business Service, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Robert J. Murray and Daniel M. Junius, and each of them, with full power to act without the other, his or her true and lawful attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities (until revoked in writing) to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1999, and any and all amendments thereto, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Name | Title | Date |
| --- | --- | --- |
| /s/ Robert J. Murray<br>------------------------------<br>(Robert J. Murray) | Chairman, President and Chief Executive Officer and Director (Principal Executive Officer) | September 10, 1999 |

| | | |
|---|---|---|
| /s/ Neil S. Fox<br>(Neil S. Fox) | Director | September 10, 1999 |
| /s/ Robert L. Gable<br>(Robert L. Gable) | Director | September 10, 1999 |
| /s/ Benjamin H. Lacy<br>(Benjamin H. Lacy) | Director | September 10, 1999 |
| /s/ Herbert W. Moller<br>(Herbert W. Moller) | Director | September 10, 1999 |
| /s/ Richard H. Rhoads<br>(Richard H. Rhoads) | Director | September 10, 1999 |
| /s/ Brian E. Stern<br>(Brian E. Stern) | Director | September 10, 1999 |
| /s/ M. Anne Szostak<br>(M. Anne Szostak) | Director | September 10, 1999 |
| /s/ Daniel M. Junius<br>(Daniel M. Junius) | Senior Vice President-Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | September 10, 1999 |



INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>



NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 26, 1999 and June 27, 1998
(In thousands of dollars except share data)

<TABLE>
<CAPTION>

| <S> | June 26, 1999 <C> | June 27, 1998 <C> |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents......................... | $ 5,484 | $ 10,823 |
| Accounts receivable (less allowance for doubtful accounts of $4,899 in 1999 and $4,257 in 1998)... | 52,546 | 50,985 |
| Inventories....................................... | 21,538 | 20,970 |
| Direct mail advertising materials, net and prepaid expenses.......................................... | 12,946 | 12,289 |
| Deferred income tax benefit....................... | 7,189 | 5,993 |
| Total current assets.......................... | 99,703 | 101,060 |
| Property and Equipment: | | |
| Land and buildings.............................. | 42,169 | 35,712 |
| Equipment....................................... | 103,453 | 96,250 |
| Property and equipment.......................... | 145,622 | 131,962 |
| Less accumulated depreciation................... | (90,450) | (80,032) |
| Property and equipment, net..................... | 55,172 | 51,930 |
| Property Held for Sale............................ | 839 | 1,131 |
| Deferred Income Tax Benefit....................... | 6,353 | 2,652 |
| Goodwill, net..................................... | 62,626 | 75,586 |
| Tradenames, net................................... | 31,610 | 30,332 |
| Customer Lists, net............................... | 31,590 | 43,878 |
| Other Assets...................................... | 12,369 | 1,008 |
| Total......................................... | $300,262 | $307,577 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable.................................. | $ 15,478 | $ 16,038 |
| Federal and state income taxes.................... | -- | 2,733 |
| Accrued profit-sharing/bonus distribution......... | 2,496 | 2,426 |
| Accrued payroll expense........................... | 11,245 | 8,794 |
| Accrued employee benefit expense.................. | 4,990 | 3,305 |
| Accrued exit costs/restructuring charge........... | 1,135 | 5,389 |
| Deferred income taxes............................. | 2,068 | 1,879 |
| Other accrued expenses............................ | 8,363 | 10,113 |
| Total current liabilities..................... | 45,775 | 50,677 |
| Revolving Line of Credit.......................... | 128,000 | 141,000 |

| | | |
|---|---|---|
| Deferred Income Taxes | 4,958 | 1,395 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock | | |
| Common stock, par value, $1 per share--authorized, 40,000,000 shares; issued, 15,358,436 shares in 1999 and 15,185,240 shares in 1998; outstanding, 14,053,634 shares in 1999 and 14,300,533 shares in 1998 | 15,358 | 15,185 |
| Additional paid-in capital | 49,500 | 44,559 |
| Accumulated other comprehensive loss | (2,654) | (2,337) |
| Retained earnings | 86,902 | 71,962 |
| Total | 149,106 | 129,369 |
| Less treasury stock, at cost--1,304,802 shares in 1999 and 884,707 shares in 1998 | (27,577) | (14,864) |
| Total stockholders' equity | 121,529 | 114,505 |
| Total | $300,262 | $307,577 |

</TABLE>

See notes to consolidated financial statements.



NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

For the Fiscal Years Ended June 26, 1999, June 27, 1998 and June 28, 1997
(In thousands except per share data)

<TABLE>
<CAPTION>

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Net Sales | $470,477 | $355,767 | $263,424 |
| Operating Expenses: | | | |
| Cost of sales including shipping costs | 172,241 | 135,225 | 94,048 |
| Selling and advertising | 175,026 | 121,571 | 90,367 |
| General and administrative | 71,454 | 54,101 | 45,949 |
| Exit costs | -- | -- | 3,803 |
| Total operating expenses | 418,721 | 310,897 | 234,167 |
| Income From Operations | 51,756 | 44,870 | 29,257 |
| Other Income (Expense): | | | |
| Interest income | 221 | 237 | 420 |
| Interest expense | (8,494) | (4,571) | (484) |
| Gain on pension curtailment/settlement | 259 | 869 | 2,187 |
| Total other income (expense) | (8,014) | ( 3,465) | 2,123 |
| Income Before Income Taxes | 43,742 | 41,405 | 31,380 |
| Provision For Income Taxes | 17,291 | 16,471 | 12,731 |
| Net Income | 26,451 | 24,934 | 18,649 |

| | | | |
|---|---|---|---|
| Other Comprehensive Loss | (317) | (575) | (1) |
| Comprehensive Income | $ 26,134 | $ 24,359 | $ 18,648 |
| Per Share Amounts: | | | |
| Basic earnings per share | $ 1.84 | $ 1.81 | $ 1.39 |
| Diluted earnings per share | $ 1.81 | $ 1.77 | $ 1.38 |
| Dividends | $ .80 | $ .80 | $ .80 |
| Basic Weighted Average Shares Outstanding | 14,352 | 13,781 | 13,397 |
| Plus incremental shares from assumed conversion of stock options | 288 | 325 | 128 |
| Diluted Weighted Average Shares Outstanding | 14,640 | 14,106 | 13,525 |

</TABLE>

See notes to consolidated financial statements.



NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

For the Fiscal Years Ended June 26, 1999, June 27, 1998 and June 28, 1997
(In thousands)

<TABLE>
<CAPTION>

| | Common Stock Issued | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | At Par Value Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Treasury Stock | Total |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance, June 29, 1996 | 14,005 | $14,005 | $13,603 | $(1,761) | $ 50,069 | $ 0 | $ 75,916 |
| Issuance of common stock to employees pursuant to stock plans including tax benefit | 246 | 246 | 4,899 | | | 877 | 6,022 |
| Issuance of common stock to acquire a business | 365 | 365 | 8,035 | | | | 8,400 |
| Dividends paid | | | | | (10,694) | | (10,694) |
| Acquisition of treasury stock | | | | | | (17,711) | (17,711) |
| Foreign currency translation adjustment | | | | (1) | | | (1) |
| Net income | | | | | 18,649 | | 18,649 |
| Balance, June 28, 1997 | 14,616 | 14,616 | 26,537 | (1,762) | 58,024 | (16,834) | 80,581 |
| Issuance of common stock to employees pursuant to stock plans including tax benefit | 187 | 187 | 5,804 | | | 1,970 | 7,961 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuance of common stock to acquire a business.. | 382 | 382 | 12,218 | | | | 12,600 |
| Dividends paid.......... | | | | | (10,996) | | (10,996) |
| Foreign currency translation adjustment............. | | | | (575) | | | (575) |
| Net income.............. | | | | | 24,934 | | 24,934 |
| | ------ | ------- | ------- | ------- | -------- | -------- | -------- |
| Balance, June 27, 1998.. | 15,185 | 15,185 | 44,559 | (2,337) | 71,962 | (14,864) | 114,505 |
| Issuance of common stock to employees pursuant to stock plans including tax benefit.. | 173 | 173 | 4,941 | | | 1,318 | 6,432 |
| Dividends paid.......... | | | | | (11,511) | | (11,511) |
| Acquisition of treasury stock.................. | | | | | | (14,031) | (14,031) |
| Foreign currency translation adjustment............. | | | | (317) | | | (317) |
| Net income.............. | | | | | 26,451 | | 26,451 |
| | ------ | ------- | ------- | ------- | -------- | -------- | -------- |
| Balance, June 26, 1999.. | 15,358 | $15,358 | $49,500 | $(2,654) | $ 86,902 | $(27,577) | $121,529 |
| | ====== | ======= | ======= | ======= | ======== | ======== | ======== |

</TABLE>

See notes to consolidated financial statements.



NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

For the Fiscal Years Ended June 26, 1999, June 27, 1998 and June 28, 1997
(In thousands of dollars)

<TABLE>
<CAPTION>

| <S> | 1999 <C> | 1998 <C> | 1997 <C> |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net income.................................... | $ 26,451 | $ 24,934 | $ 18,649 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation................................ | 12,432 | 9,296 | 8,280 |
| Amortization................................ | 12,413 | 5,922 | 810 |
| Gain on pension settlement/curtailment....... | (259) | (869) | (2,187) |
| (Gain)/loss on disposal of equipment......... | 514 | (94) | 935 |
| Deferred income taxes....................... | (640) | 1,852 | 2,569 |
| Exit costs.................................. | (2,875) | (1,119) | (381) |
| Provision for losses on accounts receivable.. | 4,151 | 3,293 | 2,612 |
| Employee benefit charges.................... | 3,003 | 3,980 | (143) |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Accounts receivable....................... | (5,685) | (3,332) | 61 |
| Inventories and advertising material....... | (2,466) | (1,503) | 2,566 |
| Prepaid expenses.......................... | 1,244 | 2,054 | (732) |
| Accounts payable.......................... | 32 | (3,908) | 852 |
| Income taxes payable...................... | (2,750) | 2,228 | 2,198 |

| | | | |
|---|---|---|---|
| Other accrued expenses | 792 | (205) | 1,674 |
| Net cash provided by operating activities | 46,357 | 42,529 | 37,763 |
| Cash Flows From Investing Activities: | | | |
| Additions to property and equipment | (16,866) | (13,275) | (9,567) |
| Acquisition of businesses--net of cash acquired | (256) | (131,596) | (40,174) |
| Proceeds from sale of facilities and equipment | 877 | 262 | 406 |
| Proceeds from sale of other assets | 140 | -- | -- |
| Investment in other assets | (20) | (371) | -- |
| Purchases of investments | -- | (1,561) | (3,800) |
| Proceeds from sale and maturities of investments | -- | 2,023 | 14,199 |
| Net cash used by investing activities | (16,125) | (144,518) | (38,936) |
| Cash Flows From Financing Activities: | | | |
| Repayment of debt | (113,500) | (25,650) | (13,495) |
| Proceeds from credit line--net of issuance costs | 100,500 | 138,900 | 39,342 |
| Proceeds from issuance of common stock | 2,923 | 3,469 | 4,486 |
| Acquisition of treasury stock | (14,031) | -- | (17,711) |
| Dividends paid | (11,511) | (10,996) | (10,694) |
| Net cash provided (used) by financing activities | (35,619) | 105,723 | 1,928 |
| Effect of Exchange Rate Changes on Cash | 48 | (276) | 102 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (5,339) | 3,458 | 857 |
| Cash and Cash Equivalents at Beginning of Year | 10,823 | 7,365 | 6,508 |
| Cash and Cash Equivalents at End of Year | $ 5,484 | $ 10,823 | $ 7,365 |
| Supplemental Cash Flow Disclosure: | | | |
| Interest paid | $ 8,867 | $ 3,791 | $ 365 |
| Income taxes paid | $ 20,232 | $ 11,574 | $ 7,553 |
| Stock issued in connection with acquisitions | $ -- | $ 12,600 | $ 8,400 |
| Stock issued pursuant to employee benefit plans | $ 2,774 | $ 3,836 | $ 1,123 |

</TABLE>

See notes to consolidated financial statements.



NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business and Basis of Consolidation--The financial statements include the accounts of New England Business Service, Inc. and its whollyowned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company sells primarily printed business products such as checks and business forms through a variety of channels and also serves as a reseller of packaging and shipping supplies and retail signage.

Foreign Currency Translation--The financial statements of the Company's foreign subsidiaries are measured in the respective subsidiary's functional currency and then translated into U.S. dollars. All balance sheet accounts have been translated using the year-end rate of exchange, while income statement accounts have been translated using the average rates prevailing throughout the year. Resulting translation gains or losses are accumulated in a separate component of stockholders' equity entitled "Accumulated other comprehensive loss." Foreign currency transaction gains and losses, including those related to intercompany transactions, are recorded directly in the income statement and are immaterial.

Cash and Cash Equivalents--The Company considers its holdings in short-term money market accounts and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Inventories--Inventories are generally carried at the lower of first-in, first-out cost or market. At year end, inventories consisted of:

<TABLE>
<CAPTION>

| <S> | 1999 <C> | 1998 <C> |
|---|---|---|
| Raw paper | $ 1,692,000 | $ 1,622,000 |
| Business forms and related office products | 19,846,000 | 19,348,000 |
| Total | $21,538,000 | $20,970,000 |

</TABLE>

Direct Mail Advertising--The Company expenses the production costs of advertising at the time the advertising is initiated, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefit; this period is generally not in excess of six months. Direct-response advertising consists primarily of product catalogs and associated mailing costs. As of June 26, 1999 and June 27, 1998, $8,400,000 and $6,578,000, respectively, was reported as direct advertising assets. Advertising expense included in selling and advertising was approximately $56,680,000 in 1999, $46,271,000 in 1998, and $36,411,000 in 1997.

Property and Equipment--Property and equipment are carried at cost. Depreciation is computed over the estimated useful lives (three to twenty years) of the assets using the straight-line method. Property held for sale is stated at the lower of cost or estimated net realizable value.

Goodwill--Goodwill acquired is being amortized on a straight-line basis over periods of 20 to 40 years. Accumulated amortization amounted to $3,369,000 and $1,649,000 at June 26, 1999 and June 27, 1998, respectively.



Customer Lists, Tradenames and Other Assets--Customer lists, tradenames and other assets are amortized using the straight-line method or the effective-interest method over their estimated lives. The range of estimated lives and accumulated amortization balances for each category of assets are as follows:

| Description | Lives | 1999 Accumulated Amortization | 1998 Accumulated Amortization |
|---|---|---|---|
| Customer lists | 2-18 years | $14,861,000 | $6,509,000 |
| Tradenames | 40 years | 1,090,000 | 268,000 |
| Other assets: | | | |
| Covenant not to compete | 5 years | 270,000 | 150,000 |
| Debt issue costs | 5 years | 175,000 | 62,000 |
| Assembled workforce | 6 years | 885,000 | -- |
| Bank referral agreements | 20 years | 401,000 | -- |

Revenue Recognition--Revenue from sales is recognized when a product is shipped.

Income Taxes--The provision for income taxes is determined based upon the Company's computed total income tax obligation for the year and the change in the Company's deferred tax balances from year to year. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Such deferred tax assets and liabilities are also adjusted to reflect changes in the U.S. and applicable foreign tax laws when enacted. Future tax benefits are recognized to the extent realization of such benefit is more likely than not to occur.

Significant Estimates--In the process of preparing its consolidated financial statements, the Company estimates the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. The primary estimates underlying the Company's consolidated financial statements include allowances for doubtful accounts, inventory obsolescence, deferrals of mail advertising costs, accruals for bonuses, recoverability of deferred tax assets, goodwill and other intangible assets. Actual results may differ from these estimates.

Per Share Amounts--Basic earnings per share amounts are computed based upon the weighted average number of shares of common stock outstanding during each fiscal year. Diluted earnings per share amounts are computed by also giving consideration to potentially dilutive stock options outstanding. A reconciliation of outstanding shares is shown on the statements of consolidated income and comprehensive income.

Concentration of Credit Risk--The Company extends credit to approximately 1.8 million geographically dispersed customers on an unsecured basis in the normal course of business. No individual industry or industry segment is significant to the Company's customer base. The Company has in place policies governing the extension of credit and collection of amounts due from customers.

Derivatives--The Company has entered into a variety of intercompany transactions between members of the consolidated group (which have different functional currencies) that present foreign currency risk. The Company has purchased foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on its reported income; however, these contracts do not qualify under generally accepted accounting principles for hedge treatment. Accordingly, these contracts are carried in the financial statements at the current forward foreign exchange rates, with the changes in forward rates reflected directly in income. The offsetting exchange movements on the intercompany balances are also recognized directly to income.

The Company has entered into interest rate swaps that qualify as matched swaps that are linked by designation with a balance sheet liability and have opposite interest rate characteristics of such balance sheet item. Matched interest rate swaps qualify for settlement accounting. Under settlement accounting, periodic net cash settlements under the swap agreements are recognized in income on an accrual basis. These settlements are offset against interest expense in the statements of consolidated income and comprehensive income.



Impairment of Long-Lived Assets--The Company evaluates the recoverability of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." There were no adjustments to the carrying value of any long-lived assets in 1999, 1998 or 1997.

Accounting for Stock-Based Compensation--SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic-value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations.

New Accounting Pronouncements--In March 1998, the AICPA issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company has adopted this statement in the current fiscal year. In fiscal year 1999, approximately $1,907,000 in costs which previously would have been expensed have been capitalized under the caption "Property and equipment, net." The AICPA has also issued SOP 98-5 "Reporting on the Costs of Start-Up Activities." The policies promulgated by this statement had previously been followed by the Company, and thus, the implementation did not impact the consolidated financial statements.

In June, 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard will be adopted by the Company in fiscal year 2001. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

Reclassifications--Certain reclassifications have been made to the 1998 and 1997 financial statements to conform with the 1999 presentation.

## 2. Acquisitions

### Fiscal 1997 Acquisitions

On January 8, 1997, the Company acquired the outstanding stock of Standard Forms Limited ("SFL"), a U.K.-based company, for approximately $4,300,000. The Company incurred acquisition fees of approximately $300,000 in connection with the acquisition. SFL markets business forms and stationery by direct mail and through a direct sales force, principally to automotive accounts in the U.K. and in France. The acquisition was accounted for using the purchase method of accounting. Accordingly, SFL's results of operations are included in the accompanying financial statements from the date of acquisition. The excess purchase price, including acquisition costs, over the fair value of the net tangible assets acquired, was $4,952,000, of which $1,000,000 was allocated to SFL's customer list and the balance of $3,952,000 to goodwill. The goodwill is being amortized over a period of 25 years.

On March 31, 1997, the Company acquired substantially all of the assets and assumed certain liabilities of Chiswick Trading, Inc. ("Chiswick") for consideration of approximately $34,600,000 in cash (net of cash acquired), and 365,217 shares of Company common stock valued at approximately $8,400,000, for an aggregate purchase price of approximately $43,000,000. The Company incurred acquisition fees of approximately $400,000 in connection with the acquisition. Chiswick markets retail and industrial packaging, and shipping and warehouse supplies, sold primarily to small wholesalers, manufacturers and retailers. The acquisition was accounted for using the purchase method of accounting. Accordingly, Chiswick's results of operations are included in the accompanying financial statements from the date of acquisition. The purchase price, including acquisition costs, was allocated to the net tangible assets acquired based on the fair value of such assets and liabilities. The excess cost over fair value of the net tangible assets acquired was $34,724,000, of which $6,000,000 was allocated to customer lists, $1,000,000 to a non-compete agreement and the balance of $27,724,000 to goodwill. The goodwill is being amortized over a period of 40 years.



Fiscal 1998 Acquisitions

On December 23, 1997, the Company acquired all of the outstanding common stock of Rapidforms, Inc. ("Rapidforms") for consideration of approximately $82,136,000 in cash (net of cash acquired). The Company also incurred fees of approximately $407,000 in connection with the acquisition. Rapidforms and its subsidiaries collectively sell business forms, stationery, merchandising products and office supplies primarily by direct mail to small businesses throughout the United States. The acquisition was accounted for using the purchase method of accounting. Accordingly, Rapidforms' results of operations are included in the accompanying financial statements from the date of acquisition. The purchase price, including acquisition costs, was allocated to the net tangible assets acquired based on the fair value of such assets and liabilities. The excess cost over fair value of the net tangible assets acquired was $63,009,000, of which $21,000,000 was allocated to customer lists, $15,700,000 to tradenames, and the balance of $26,309,000 to goodwill. The goodwill is being amortized on a straight-line basis over a period of 40 years, while customer lists and the tradenames arising from this transaction are being amortized over their respective useful lives.

As part of the purchase accounting for the Rapidforms acquisition and included in the allocation of the acquisition costs, a liability of $2,910,000 was recorded to cover the anticipated costs related to a plan to close redundant Rapidforms manufacturing and warehouse facilities and to reduce manufacturing personnel. Approximately $2,610,000 of the liability is related to employee termination benefits, and approximately $300,000 is related to termination of certain contractual obligations. The liability associated with the Rapidforms integration plan remaining as of June 26, 1999 was $188,000.

On June 3, 1998, the Company acquired all of the outstanding common stock of McBee Systems, Inc. and all of the assets of McBee Systems of Canada, Inc. (collectively "McBee") for consideration of approximately $48,518,000 in cash (net of cash acquired), and 382,352 shares of Company common stock valued at approximately $12,600,000, for an aggregate purchase price of $61,118,000. The Company also incurred fees of approximately $780,000 in connection with the acquisition. McBee manufactures and markets a line of checks and related products to small businesses throughout the United States and Canada through a dedicated field sales force. The acquisition was accounted for using the purchase method of accounting. Accordingly, McBee's results of operations are included in the accompanying financial statements from the date of acquisition. The purchase price, including acquisition costs, was allocated to the net tangible assets acquired based on the fair value of such assets and liabilities. The excess cost over fair value of the net tangible assets acquired was $52,898,000, of which $15,600,000 was allocated to customer lists, $15,600,000 to tradenames, $4,900,000 to an assembled work force, $7,400,000 to bank referral agreements, and the balance of $9,398,000 to goodwill. The goodwill is being amortized on a straight-line basis over a period of 40 years, while customer lists, the assembled work force, the bank referral agreements and the tradenames arising from this transaction are being amortized over their respective useful lives.

As part of the purchase accounting for the McBee acquisition and included in the allocation of the acquisition costs, a liability of $1,642,000 was recorded to cover the anticipated costs (primarily employee termination benefits) related to a plan to close redundant McBee manufacturing and warehouse facilities and to reduce manufacturing personnel. The liability associated with the McBee integration plan remaining as of June 26, 1999 was $947,000.



The following unaudited pro forma financial information reflects the consolidated results of operations of the Company for the years ended June 27, 1998 and June 28, 1997 as though the acquisitions described above had occurred on the first day of the respective fiscal year. The pro forma operating results are presented for comparative purposes only and do not purport to present the Company's actual operating results had the acquisitions been consummated on June 29, 1997 or June 30, 1996, or results which may occur in the future.

| | 1998 | 1997 |
|---|---|---|
| Net sales | $457,581,000 | $443,182,000 |
| Net income | 24,961,000 | 18,932,000 |
| Net income per diluted share | 1.73 | 1.34 |

3. Debt Obligations and Leases

The Company had previously entered into a five year, $165,000,000, committed, unsecured, revolving line of credit agreement that expires on December 18, 2002. Under this credit agreement, the Company has the option to borrow at the Eurodollar rate plus a spread or the agent bank's base lending rate prevailing from time to time. The effective interest rate as of June 26, 1999 was 5.60%. The credit agreement contains various restrictive covenants which, among other things, require the Company to maintain certain minimum levels of consolidated net worth and specific consolidated debt and fixed charge ratios. At June 26, 1999, $128,000,000 was outstanding under this line. Debt issuance costs incurred in connection with this facility are amortized over the term of the agreement using the effective-interest method.

The Company leases facilities and equipment under long-term operating leases with non-related parties. The future minimum rental commitments for operating leases of certain facilities and equipment are as follows:

| Fiscal Year Ended June | |
|---|---|
| 2000 | $6,128,000 |
| 2001 | 4,333,000 |
| 2002 | 2,674,000 |
| 2003 | 2,572,000 |
| 2004 | 2,656,000 |
| Thereafter | 7,517,000 |

Total rental expense was $6,587,000, $2,988,000, and $1,053,000, in 1999, 1998, and 1997, respectively. Included in those amounts were payments for properties leased from a former executive officer of $1,171,000, $998,000 and $184,000 in 1999, 1998 and 1997, respectively.

4. Financial Instruments

In order to minimize exposure to foreign currency fluctuations with respect to short-term, dollar-based intercompany loans to fund SFL's operations (see Notes 1 and 2), the Company has entered into forward exchange rate contracts for the amount of the loans and associated interest. At June 26, 1999, the Company had an outstanding forward rate contract for $1,700,000 worth of Pound Sterling. The fair value of this contract was nominal at the end of the year. Gains or losses on this contract and those previously closed have been immaterial.



The Company has entered into interest rate swap agreements with two major commercial banks in order to effectively convert the interest rate of a portion of the Company's outstanding revolving credit debt from a Eurodollar-based floating rate to a fixed rate. The agreements expire on different dates, and the total notional principal amount decreases over time. Although the Company is exposed to credit and market risk in the event of future non-performance by any of the banks, management has no reason to believe that such an event will occur. Information regarding the agreements as of June 26, 1999 follows:

| Notional Principal Amount | Fixed Interest Rate | Fair Value | Agreement Expiration Date |
|---|---|---|---|
| $45,000,000 | 5.79% | $(129,800) | June 8, 2001 |
| 40,000,000 | 5.62% | (7,500) | January 30, 2001 |

As of June 26, 1999 and June 27, 1998, the carrying value of all other financial instruments approximated fair value.

5. Equity Transactions

The Company has issued a stock purchase right to stockholders for each outstanding share of common stock of the Company. Each right becomes exercisable upon the occurrence of certain events, as provided in the Rights Agreement, and entitles the registered holder to purchase from the Company a "Unit" consisting of one one-hundredth of a share of preferred stock at a purchase price of $75.00 per Unit, subject to adjustment to prevent dilution. In addition, upon the occurrence of certain events, the registered holder will thereafter have the right to receive, upon payment of the purchase price, additional shares of common stock and/or cash and/or other securities, as provided in the Rights Agreement. The rights will expire on October 20, 2004. The Company may redeem the rights at a price of $.01 per right. The Company also has authorized but not issued 1,000,000 shares of $1.00 par value preferred stock.

During fiscal 1997, the Company repurchased 1,015,100 shares of the Company's common stock for approximately $16,679,000, which completed a repurchase authorized in April 1996. On October 25, 1996, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's common stock over a two year period. As of June 28, 1997, 41,000 shares had been purchased under the October 1996 repurchase plan at a cumulative cost of approximately $1,032,000, and no additional purchases were made during 1998 or 1999 under that plan. On October 23, 1998, the Company's Board of Directors authorized the repurchase of up to two million additional shares of the Company's common stock over a two year period, replacing the October, 1996 authorization. As of June 26, 1999, 509,600 shares had been purchased under the October, 1998 authorization, at a cumulative cost of $14,030,743.

6. Stock Options

At the Company's October 1997 annual meeting, the stockholders approved the NEBS Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan (the "1997 Plan"). The 1997 Plan amended and restated the Company's 1990 plan (described below) and 1994 plan (also described below) and incorporated the two plans into the 1997 Plan. Under the 1997 Plan, the Company was authorized to issue 1,300,000 shares of common stock pursuant to the granting of stock options or stock appreciation rights in addition to the shares remaining available for issuance under the 1990 and 1994 option plans.

At the Company's 1994 annual meeting, the stockholders approved the NEBS 1994 Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan (the "1994 Plan"). Under the 1994 Plan, the Company was authorized to issue up to 1,200,000 shares of common stock pursuant to the granting of stock options or stock appreciation rights.

At the Company's 1990 annual meeting, the stockholders approved the NEBS 1990 Key Employee Stock Option and Stock Appreciation Rights Plan (the "1990 Plan"). Under the 1990 Plan, the Company was authorized to issue up to 1,000,000 shares of common stock pursuant to the granting of stock options or stock appreciation rights.



At the Company's 1980 annual meeting, the stockholders approved the NEBS 1980 Stock Option Plan (the "1980 Plan"). Under the 1980 Plan, the Company was authorized to issue up to 900,000 shares of common stock pursuant to stock options or stock appreciation rights. The 1980 Plan expired in 1990, although shares of common stock may be issued pursuant to options still outstanding.

Under the terms of the Company's stock option plans, options are granted to purchase stock at fair market value on the date of the option grant. Options granted have been exercisable in full in terms of up to nine years from the date of grant and the options expire no later than ten years from the date of grant. Generally, the options vest and become exercisable over a four year period, commencing one year after the grant date. As of June 26, 1999, 2,759,083 shares of common stock are reserved for issuance under the Company's stock option plans, of which 2,210,111 are subject to outstanding options and 548,972 remain available for future option grants.

Options for 1,053,769 shares, 854,907 shares and 624,538 shares were immediately exercisable under all option arrangements at June 26, 1999, June 27, 1998 and June 28, 1997, respectively. There were no outstanding stock appreciation rights under any of the plans during 1999, 1998 or 1997.

A summary of stock option activity under the Company's stock option plans during 1999, 1998, and 1997 follows:

| | Number of Shares | Per Share Option Price | Weighted-Average Exercise Price |
|---|---|---|---|
| June 29, 1996 | 1,299,709 | $14.75 - 25.25 | $18.47 |
| Granted | 720,432 | 15.38 - 26.38 | 21.69 |
| Exercised | (245,436) | 14.75 - 22.25 | 17.31 |
| Expired | (112,210) | 15.38 - 25.25 | 21.45 |
| June 28, 1997 | 1,662,495 | 14.75 - 26.38 | 19.89 |
| Granted | 470,500 | 29.13 - 33.13 | 30.69 |
| Exercised | (180,890) | 14.75 - 25.75 | 18.59 |
| Expired | (60,235) | 15.38 - 30.00 | 20.66 |
| June 27, 1998 | 1,891,870 | 14.75 - 33.13 | 22.66 |
| Granted | 597,452 | 28.88 - 33.88 | 28.03 |
| Exercised | (188,344) | 14.75 - 30.00 | 19.03 |
| Expired | (90,867) | 15.38 - 33.13 | 28.49 |
| June 26, 1999 | 2,210,111 | | |

The following table presents information with regard to all stock options outstanding at June 26, 1999:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Contractual Life (years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $14.75 - 15.88 | 280,066 | 5.7 | $15.29 | 234,577 | $15.27 |
| 17.88 - 19.75 | 459,788 | 6.1 | 18.30 | 425,377 | 18.31 |
| 20.13 - 20.75 | 114,172 | 6.3 | 20.68 | 112,422 | 20.69 |

| | | | | | |
|---|---|---|---|---|---|
| 25.75 - 33.88 | 1,356,085 | 8.6 | 28.34 | 281,393 | 27.81 |
| | 2,210,111 | 7.0 | $24.20 | 1,053,769 | $20.42 |

</TABLE>

The Company applies APB Opinion No. 25 to account for its various stock plans. Accordingly, pursuant to the terms of the plans, no compensation cost has been recognized for the stock plans. However, if the Company



had determined compensation cost for stock option grants issued during 1999 and 1998 under the provisions of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts shown below:

<TABLE>
<CAPTION>

| <S> | 1999 <C> | 1998 <C> | 1997 <C> |
|---|---|---|---|
| Net income: | | | |
| As reported | $26,451,000 | $24,934,000 | $18,649,000 |
| Pro forma | 24,911,000 | 24,357,000 | 17,999,000 |
| Net income per diluted share: | | | |
| As reported | $ 1.81 | $ 1.77 | $ 1.38 |
| Pro forma | 1.70 | 1.73 | 1.33 |

</TABLE>

The pro forma net income reflects the compensation cost only for those options granted since 1996. Compensation cost is reflected over a stock option's vesting period and compensation cost for options granted prior to June 30, 1995 is not considered. Therefore, the full potential impact of compensation cost for the Company's stock plans under SFAS No. 123 may not be reflected in the pro forma net income amounts presented above.

The fair value of each stock option granted in 1999, 1998 and 1997 under the Company's stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model. The following key assumptions were used to value grants issued for each year:

<TABLE>
<CAPTION>

| <S> | Weighted-Average Risk Free Rate <C> | Average Expected Life <C> | Volatility <C> | Dividend Yield <C> |
|---|---|---|---|---|
| 1997 | 6.28% | 7.5 years | 29.91% | 3.7% |
| 1998 | 5.54% | 5.4 years | 28.53% | 2.6% |
| 1999 | 5.94% | 5.5 years | 24.12% | 2.8% |

</TABLE>

The weighted-average fair values per share of stock options granted during 1999, 1998 and 1997 were $6.98, $8.51 and $6.40, respectively. It should be noted that the Black-Scholes option pricing model used in the calculation was designed to value readily tradable stock options with relatively short lives. The options granted to employees are not tradable and have contractual lives of up to ten years. However, management believes that the assumptions used and the model applied to value the awards yield a reasonable estimate of the fair value of the grants made under the circumstances.

At the 1994 annual meeting, the stockholders approved the New England Business Service, Inc. Stock Compensation Plan (the "Stock Compensation Plan"). Under the Stock Compensation Plan, up to 300,000 shares of common stock may be issued to the Company's directors and employees in lieu of cash compensation otherwise payable. At June 26, 1999, 286,295 shares remain reserved for issuance under the Stock Compensation Plan. The number and value of shares issued under this plan have been nominal.

7. 401(k) and Profit-Sharing Plans

The Company sponsors several 401(k) plans covering substantially all of the Company's domestic employees. Contributions to the plans are made by way of participant salary deferrals and Company contributions. Company contributions include combinations of matching, fixed and discretionary contributions subject to a maximum Company obligation ranging from 4% to 9% of an employee's eligible pay. The Company's aggregate contributions to the plans were $6,410,000 in fiscal 1999, $4,795,000 in fiscal 1998, and $1,123,000 in fiscal 1997.

The Company and its subsidiaries maintained a profit-sharing plan for substantially all employees who completed one year of service. Distributions were based on net income and payments were made five times a



year. For 1997, distributions under the plans (which were charged to general and administrative expense) aggregated $1,138,000. The Company terminated this plan during 1997. In conjunction with the termination of this plan, the Company instituted a transition plan, under which substantially all employees received a predetermined portion of their salary during the third and fourth quarters of fiscal 1997. Payments under the transition plan amounted to $1,908,000 and were also charged to general and administrative expense.

8. Pension Plans

The Company sponsored a defined-benefit, trusteed pension plan (the "DB Plan") which provided retirement benefits for the majority of its domestic employees. During the second quarter of 1997, the Company amended its DB Plan. The amendment specifically froze plan participation at December 31, 1996 and eliminated further benefit accruals after June 28, 1997. The Company recorded a plan curtailment gain of $2,187,000 as a component of other income during 1997 associated with the plan amendment. In 1998 the Company terminated the plan and settled all obligations. The Company recorded a plan settlement gain of $556,000 associated with the DB plan termination. The Company also maintains two similar plans for its Canadian employees. During fiscal 1998, the Company amended its Canadian DB Plan to freeze participation at December 31, 1997 and recorded a plan curtailment gain of $313,000 associated with this action. The Company recorded a plan settlement gain of $259,000 during 1999 related to the Canadian plan termination.

The components of net pension income for 1997 are as follows:

<TABLE>
<CAPTION>

| | 1997 |
|---|---|
| <S> | <C> |

| | |
|---|---|
| Service cost-benefits earned during the period | $ 635,000 |
| Interest cost on projected benefit obligation | 1,879,000 |
| Actual return on plan assets | (1,746,000) |
| Net amortization and deferral | (1,903,000) |
| Net pension income | $(1,135,000) |

</TABLE>

The assumptions used for the computation of net pension income for 1997 are as follows:

<TABLE>
<CAPTION>

| <S> | 1997 <C> |
|---|---|
| Discount rate | 8.0% |
| Rate of increase in compensation levels | 5.0% |
| Expected long-term rate of return on assets | 9.0% |

</TABLE>

In addition, the Company has a supplemental executive retirement plan which is currently unfunded. Executive employees are eligible to become members of the plan upon designation by the Board of Directors. Benefits under the plan are based on each participant's annual earnings and years of service. Provision for this benefit is charged to operations over the participant's term of employment. The amounts are not significant.

9. Postretirement Benefits Other Than Pensions

SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the accrual of postretirement benefits other than pensions (such as health care benefits) during the years an employee provides service to the Company. The Company sponsors a defined benefit postretirement plan that provides health and dental care benefits for retired Company officers. The plan is contributory, and retirees' contributions are adjusted annually.



The following table sets forth the plan's funded status and obligations as of June 26, 1999 and June 27, 1998:

<TABLE>
<CAPTION>

| <S> | 1999 <C> | 1998 <C> |
|---|---|---|
| Accumulated postretirement benefit obligation ("APBO"): | | |
| Retirees | $ 461,000 | $ 638,000 |
| Eligible active plan participants | -- | -- |
| Other active plan participants | 522,000 | 589,000 |
| Total | 983,000 | 1,227,000 |
| Plan assets at fair value | -- | -- |
| Accumulated postretirement benefit obligation in excess of plan assets | 983,000 | 1,227,000 |
| Unrecognized net gain (loss) | 259,000 | (73,000) |

| | | |
|---|---|---|
| Net postretirement liability (included in accrued employee benefit expense) | $1,242,000 | $1,154,000 |

</TABLE>

The components of net periodic postretirement benefits cost for 1999, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

| <S> | 1999 | 1998 | 1997 |
|---|---|---|---|
| Service cost | $ 62,000 | $ 47,000 | $ 43,000 |
| Interest on accumulated postretirement benefit obligation | 70,000 | 78,000 | 75,000 |
| Amortization of gain | (14,000) | (5,000) | (3,000) |
| Net periodic postretirement cost | $118,000 | $120,000 | $115,000 |

</TABLE>

For measurement purposes, an 8% annual rate of increase in the cost of providing medical benefits was assumed in 1999 with a reduction of 1% per year to a trend rate of 6% for fiscal 2003.

The weighted average discount rate used in determining the APBO was 7.0% in 1999 and 1998.

The health care cost trend has a significant effect on the amounts reported. An increase of 1% in the rate of increase would have had an effect of increasing the APBO by $142,000 and the net periodic postretirement benefits cost by $25,000.

10. Exit Costs

During the first quarter of fiscal year 1997, the Company reached a decision to eliminate the Company's print desks in Kinko's stores, its administrative offices in Phoenix and its stationery plant in Scottsdale, Arizona. The accompanying statements of consolidated income and comprehensive income include a $3,803,000 pretax charge for exit costs associated with this plan recognized during the year ended June 28, 1997. The $3,803,000 pretax charge for exit costs consisted of estimated costs related to facility closures of $485,000, estimated equipment write-offs of $1,105,000 and estimated termination benefits of $2,213,000. Approximately 230 employees were terminated as a result of the restructuring plan. As of June 26, 1999, the payment of termination benefits, write-offs of equipment and closure of facilities were complete. There was not a material change from the liability originally reported.

11. Income Taxes

The components of income before income taxes were as follows:

<TABLE>
<CAPTION>

| <S> | 1999 | 1998 | 1997 |
|---|---|---|---|
| United States | $43,069,000 | $39,817,000 | $30,149,000 |
| Foreign | 673,000 | 1,588,000 | 1,231,000 |

| | | | |
|---|---|---|---|
| Total.............................. | $43,742,000 | $41,405,000 | $31,380,000 |

</TABLE>



Provisions for income taxes under SFAS No. 109 in 1999, 1998 and 1997 consist of:

<TABLE>
<CAPTION>

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Currently payable: | | | |
| Federal............................ | $14,253,000 | $10,369,000 | $ 7,350,000 |
| State.............................. | 3,004,000 | 3,517,000 | 2,376,000 |
| Foreign............................ | 674,000 | 733,000 | 436,000 |
| Total............................ | 17,931,000 | 14,619,000 | 10,162,000 |
| Deferred............................. | (640,000) | 1,852,000 | 2,569,000 |
| Total............................ | $17,291,000 | $16,471,000 | $12,731,000 |

</TABLE>

The tax effects of significant items comprising the Company's net deferred tax assets as of June 26, 1999 and June 27, 1998 are as follows:

<TABLE>
<CAPTION>

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Current | Noncurrent | Current | Noncurrent |
| <S> | <C> | <C> | <C> | <C> |
| Deferred tax assets: | | | | |
| Pension plans......... | | | $ 119,000 | |
| Accrued vacation...... | $ 1,512,000 | | 1,108,000 | |
| Allowance for doubtful accounts............ | 926,000 | | 612,000 | |
| Accrued expenses...... | 1,201,000 | | 2,719,000 | |
| Sales returns and allowances........... | 327,000 | | 400,000 | |
| Inventory............. | 1,668,000 | | 579,000 | |
| Employee benefit reserves............ | 1,555,000 | | 456,000 | |
| Amortization of intangible assets.... | -- | $ 4,803,000 | -- | $1,960,000 |
| Depreciation.......... | -- | 933,000 | -- | 157,000 |
| Other................. | -- | 617,000 | -- | 535,000 |
| Deferred tax liabilities: | | | | |
| Amortization.......... | -- | (2,343,000) | -- | (299,000) |
| Depreciation.......... | -- | (2,335,000) | -- | (768,000) |
| Deferred mail advertising.......... | (1,813,000) | -- | (1,672,000) | -- |
| Other................. | (255,000) | (280,000) | (207,000) | (328,000) |

| | | | | |
|---|---|---|---|---|
| Net deferred tax assets | $ 5,121,000 | $ 1,395,000 | $ 4,114,000 | $1,257,000 |

Current and non-current amounts have been further segregated on the balance sheet due to the effect of different tax jurisdictions.

A reconciliation of the provisions for income taxes to the U.S. Federal income tax statutory rates follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Statutory tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes (less federal tax benefits) | 4.2 | 6.3 | 6.2 |
| Other--net | .3 | (1.5) | (0.6) |
| Effective tax rate | 39.5% | 39.8% | 40.6% |

12. Segment Information

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", in 1999. Accordingly, it has segmented its operations in a manner that reflects how its chief operating decision maker reviews the results of the businesses that make up the consolidated entity.



The Company has identified three reportable segments. The first segment is titled "Printed Products--Direct Marketing" and represents those business operations that sell primarily printed business products such as checks and business forms to small businesses through direct marketing. The second segment, "Printed Products--Direct Sales," also sells checks and business forms to small businesses; however, they sell the products through either distributors or by directly selling to the customer. "Packaging and Display Products" is the third segment and primarily sells items that require limited value-adding work. These items include packaging and shipping supplies and retail signage and are marketed through a combination of direct marketing and direct selling efforts.

The Company evaluates segment performance and allocates resources based on a profit from operations measure. This measure is akin to income from operations as reported on the statements of consolidated income and comprehensive income in that it excludes interest income and expense. This measure, however, also excludes a number of items that are reported within income from operations. These include amortization, 401(k) expenses, integration charges and corporate overhead. These items are not used by the chief operating decision maker in assessing segment results. In order to reconcile the segment numbers to the Company's income before income taxes, adjustments representing the items listed above totalling $40,954,000, $29,145,000 and $22,118,000 for 1999, 1998 and 1997, respectively, need to be made to the reported segment results.

The following table presents certain segment information:

<TABLE>
<CAPTION>

| | Printed Products: Direct Marketing | Printed Products: Direct Sales | Packaging and Display Products | Total |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 1999 | | | | |
| Net sales............. | $306,660,000 | $93,585,000 | $70,232,000 | $470,477,000 |
| Profit from operations........... | 69,528,000 | 11,294,000 | 3,874,000 | 84,696,000 |
| Depreciation.......... | 9,808,000 | 1,679,000 | 945,000 | 12,432,000 |
| Capital expenditures.. | 12,987,000 | 2,725,000 | 1,154,000 | 16,866,000 |
| 1998 | | | | |
| Net sales............. | $268,814,000 | $27,908,000 | $59,045,000 | $355,767,000 |
| Profit from operations........... | 63,806,000 | 3,060,000 | 3,684,000 | 70,550,000 |
| Depreciation.......... | 8,442,000 | 447,000 | 407,000 | 9,296,000 |
| Capital expenditures.. | 11,010,000 | 1,066,000 | 1,199,000 | 13,275,000 |
| 1997 | | | | |
| Net sales............. | $232,065,000 | $19,613,000 | $11,746,000 | $263,424,000 |
| Profit from operations........... | 53,133,000 | (753,000) | 1,118,000 | 53,498,000 |
| Depreciation.......... | 7,455,000 | 674,000 | 151,000 | 8,280,000 |
| Capital expenditures.. | 8,300,000 | 870,000 | 397,000 | 9,567,000 |

</TABLE>

Total revenues for printed products amounted to $400,245,000, $296,722,000 and $251,678,000 in 1999, 1998 and 1997, respectively. Total revenues for packaging and display products are shown under the "packaging and display products" heading.

Geographic net sales are identified as follows:

<TABLE>
<CAPTION>

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| U.S-based............................ | $431,362,000 | $325,791,000 | $237,130,000 |
| International........................ | 39,115,000 | 29,976,000 | 26,294,000 |
| Total............................ | $470,477,000 | $355,767,000 | $263,424,000 |

</TABLE>



Geographic net property and equipment assets are identified as follows:

<TABLE>
<CAPTION>

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| U.S-based............................... | $47,000,000 | $43,966,000 | $25,402,000 |
| International........................... | 8,172,000 | 7,964,000 | 7,017,000 |
| Total............................... | $55,172,000 | $51,930,000 | $32,419,000 |

</TABLE>

13. Quarterly Financial Information (Unaudited)

The following financial information is in thousands of dollars, except per share amounts.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total Year |
|---|---|---|---|---|---|
| 1999 | | | | | |
| Net sales | $112,686 | $127,297 | $115,044 | $115,450 | $470,477 |
| Gross profit | 70,774 | 80,710 | 72,760 | 73,992 | 298,236 |
| Income before income taxes | 9,127 | 12,737 | 10,436 | 11,442 | 43,742 |
| Net income | 5,478 | 7,912 | 6,219 | 6,842 | 26,451 |
| Diluted earnings per share | .37 | .53 | .42 | .47 | 1.81 |
| Dividends per share | $ .20 | $ .20 | $ .20 | $ .20 | $ .80 |
| 1998 | | | | | |
| Net sales | $ 75,615 | $ 81,651 | $ 98,002 | $100,499 | $355,767 |
| Gross profit | 46,604 | 51,194 | 60,564 | 62,180 | 220,542 |
| Income before income taxes | 9,732 | 10,541 | 10,727 | 10,405 | 41,405 |
| Net income | 5,961 | 6,483 | 6,382 | 6,108 | 24,934 |
| Diluted earnings per share | .43 | .46 | .45 | .43 | 1.77 |
| Dividends per share | $ .20 | $ .20 | $ .20 | $ .20 | $ .80 |

</TABLE>



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of New England Business Service, Inc.:

We have audited the accompanying consolidated balance sheets of New England Business Service, Inc. and subsidiaries as of June 26, 1999 and June 27, 1998 and the related statements of consolidated income and comprehensive income, consolidated stockholders' equity, and consolidated cash flows for each of the three years in the period ended June 26, 1999. Our audits also included the financial statement schedule listed under Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of New England Business Service, Inc. and subsidiaries as of June 26, 1999 and June 27, 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 26, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 1999 the Company changed its method of accounting for the costs of computer software developed for internal use to conform with AICPA Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use".

/s/ Deloitte & Touche LLP

Boston, Massachusetts
July 26, 1999



SCHEDULE II

NEW ENGLAND BUSINESS SERVICE, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
(in thousands of dollars)

<TABLE>
<CAPTION>

| | Balance at Beginning Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions from Reserves(2) | Balance at End of Period |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Reserves deducted from assets to which they apply: | | | | | |
| For doubtful accounts receivable: | | | | | |
| Year ended June 28, 1997.................... | $3,343 | $2,612 | $ 0 | $2,604 | $3,351 |
| Year ended June 27, 1998.................... | 3,351 | 3,293 | 1,053(1) | 3,440 | 4,257 |
| Year ended June 26, 1999.................... | 4,257 | 4,151 | 0 | 3,509 | 4,899 |
| Reserves included in liabilities: | | | | | |
| For sales returns and allowances: | | | | | |
| Year ended June 28, 1997.................... | $1,072 | $ 993 | $ 0 | $1,072 | $ 993 |
| Year ended June 27, 1998.................... | 993 | 866 | 300(1) | 993 | 1,166 |
| Year ended June 26, 1999.................... | 1,166 | 20 | 0 | 201 | 985 |

</TABLE>

--------

(1) Acquired in acquisitions.
(2) Accounts written off.



EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1.1 | Certificate of Incorporation of the Registrant. (Incorporated by reference to Exhibit 7(a) to the Company's Current Report on Form 8-K dated October 31, 1986.) |
| 3.1.2 | Certificate of Merger of New England Business Service, Inc. (a Massachusetts corporation) and the Company, dated October 24, 1986 amending the Certificate of Incorporation of the Company by adding Articles 14 and 15 thereto. (Incorporated by reference to Exhibit 7(a) to the Company's Current Report on Form 8-K dated October 31, 1986.) |
| 3.1.3 | Certificate of Designations, Preferences and Rights of Series A Participating Preferred Stock of the Company, dated October 27, 1989. (Incorporated by reference to Exhibit (3)(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995.) |
| 3.2 | By-Laws of the Registrant, as amended through July 23, 1999; filed herewith. |
| 4.1 | Specimen stock certificate for shares of Common Stock, par value $1.00 per share. (Incorporated by reference to Exhibit (4)(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995.) |
| 4.2 | Amended and Restated Rights Agreement, dated as of October 27, 1989 as amended as of October 20, 1994 (the "Rights Agreement"), between New England Business Service, Inc. and BankBoston, N.A., as rights agent, including as Exhibit B the forms of Rights Certificate Election to Exercise. (Incorporated by reference to Exhibit 4 of the Company's Current Report on Form 8-K dated October 25, 1994.) |
| 10.1.1 | Amended and Restated Revolving Credit Agreement dated as of December 18, 1997, by and among the Company, BankBoston, N.A. ("BankBoston"), Fleet National Bank ("Fleet") and certain other financial institutions. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 7, 1998.) |
| 10.1.2 | First Amendment to Amended and Restated Revolving Credit Agreement dated as of May 29, 1998, by and among the Company, BankBoston, Fleet and certain other financial institutions. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 18, 1998.) |

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| 10.1.3 | Second Amendment to Amended and Restated Revolving Credit Agreement dated as of January 8, 1999, by and among the Company, BankBoston, Fleet and certain other financial institutions. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 26, 1998.) |
| 10.1.4 | Third Amendment to Amended and Restated Revolving Credit Agreement dated as of March 24, 1999, by and among the Company, BankBoston, Fleet and certain other financial institutions. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 1999.) |
| 10.2 | Stock Purchase Agreement by and between New England Business Service, Inc. and CSS Industries, Inc. dated as of December 5, 1997. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated January 7, 1998.) |
| 10.3 | Stock Purchase Agreement by and between New England Business Service, Inc. and ROMO Corp. dated as of May 1, 1998. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 18, 1998.) |
| 10.4 | Asset Purchase Agreement by and among New England Business Service, Inc., NEBS Business Forms Ltd., McBee Systems of Canada, Inc. and ROMO Corp. dated as of May 1, 1998. (Incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K dated June 18, 1998.) |

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| Exhibit Number | Description |
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| <C> | <S> |
| 10.5* | NEBS 1997 Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan dated July 25, 1997 (including amendment and restatement of the NEBS 1990 Key Employee Stock Option and Stock Appreciation Rights Plan and the NEBS 1994 Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan), amended through October 23, 1998. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 1998.) |
| 10.6* | Stock Option Agreement dated February 2, 1996 between the Company and Robert J. Murray. (Incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.) |
| 10.7* | Stock Option Agreement dated as of July 27, 1990 between the Company and Richard H. Rhoads; filed herewith. |
| 10.8* | NEBS Deferred Compensation Plan for Outside Directors. (Incorporated by reference to Exhibit (10)(d) to the Company's Annual Report on Form 10-K for the fiscal year ended June 25, 1982.) |

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| 10.9.1* | New England Business Service, Inc. Deferred Compensation Plan dated June 25, 1994. (Incorporated by reference to Exhibit (10)(g) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995.) |
| 10.9.2* | First Restated Trust Agreement for the New England Business Service, Inc. Deferred Compensation Plan. (Restated effective April 1, 1998.) (Incorporated by reference to Exhibit 10.11.2 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.) |
| 10.10* | Supplemental Retirement Plan for Executive Employees of New England Business Service, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 1998.) |
| 10.11* | New England Business Service, Inc. Stock Compensation Plan dated July 25, 1994, amended through October 23, 1998. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 1998.) |
| 10.12* | Form of Restricted Stock Award Agreement issuable under the Company's Stock Compensation Plan in connection with the Executive Bonus Plans for 1999 and 2000; filed herewith. |
| 10.13* | Executive Bonus Plan for 2000; filed herewith. |
| 10.14* | Change in Control agreement dated November 27, 1996 between the Company and Robert J. Murray. (Incorporated by reference to Exhibit (10)(o) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |
| 10.15* | Change in Control agreement dated November 27, 1996 between the Company and John F. Fairbanks. (Incorporated by reference to Exhibit (10)(p) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |
| 10.16* | Change in Control agreement dated November 27, 1996 between the Company and George P. Allman. (Incorporated by reference to Exhibit (10)(q) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |
| 10.17* | Change in Control agreement dated November 27, 1996 between the Company and Robert D. Warren. (Incorporated by reference to Exhibit (10)(r) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |
| 10.18* | Change in Control agreement dated November 27, 1996 between the Company and Edward M. Bolesky. (Incorporated by reference to Exhibit (10)(t) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |
| 10.19* | Change in Control agreement dated November 27, 1996 between the Company and Steven G. Schlerf. (Incorporated by reference to Exhibit (10)(u) to the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 1997.) |

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| Exhibit Number | Description |
| --- | --- |
| 10.20* | Change in Control agreement dated April 2, 1997 between the Company and Richard T. Riley. (Incorporated by reference to Exhibit (10.23) to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1998.) |
| 10.21* | Change in Control agreement dated November 18, 1998 between the Company and Daniel M. Junius. (Incorporated by reference to Exhibit (10)(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 26, 1998.) |
| 10.22* | Change in Control agreement dated April 2, 1997 between the Company and Joel S. Hughes. (Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 1999.) |
| 10.23* | Form of amendment dated July 23, 1999 to the Change in Control Agreements included as Exhibits 10.14 through 10.22 hereto; filed herewith. |
| 10.24** | Agreement dated as of September 19, 1995 between New England Business Service, Inc. and Appleton Papers, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 27, 1997.) |
| 21 | List of Subsidiaries. |
| 23 | Independent Auditors Consent--Deloitte & Touche LLP. |
| 24 | Power of Attorney (included in the signature page of this Annual Report on Form 10-K). |
| 27 | Article 5 Financial Data Schedule. |

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* Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

** Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

Exhibit 3.2

AMENDED AND RESTATED
(Through July 23, 1999)

# BY-LAWS

# OF

# NEW ENGLAND BUSINESS SERVICE, INC.

## ARTICLE ONE

## Stockholders

Section 1. Annual Meetings. The annual meeting of the stockholders shall be held at 10:00 a.m. on the fourth Friday of October in each year (or if that be a legal holiday in the place where the meeting is to be held, on the next succeeding full business day), or at such other date and time as shall be designated from time to time by the Directors and stated in the notice of the meeting. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the Certificate of Incorporation or by these By-laws, may be specified by the Directors or the Chairman of the Board or the President. If no annual meeting is held in accordance with the foregoing provisions, the Directors shall cause the meeting to be held as soon thereafter as convenient.

Section 2. Special Meetings. Special meetings of the stockholder may be called by the Chairman of the Board, the President or the Directors. No call of a special meeting of the stockholders shall be required if such notice of the meeting shall have been waived in writing (including a telegram) by every stockholder entitled to notice thereof, or by his attorney thereunto authorized.

Section 3. Place of Meetings. All meetings of stockholders shall be held at the principal office of the corporation unless a different place (within the United States) is fixed by the Directors or the Chairman of the Board or the President and stated in the notice of the meeting.

Section 4. Notices. Except as otherwise provided by law, notice of all meetings of stockholders shall be given as follows, to wit: A written notice, stating the place, day and hour thereof, shall be given by the Secretary (or person or persons calling the meeting), not less than 10 nor more than sixty days before the meeting, to each stockholder entitled to vote thereat and to each stockholder who, by law, the Certificate of Incorporation, or these By-laws, is entitled to such notice, by leaving such notice with him or at his residence or usual place of business, or by mailing it postage prepaid, and addressed to such stockholder at his address as it appears upon the books of the corporation. Notices of all meetings of stockholders shall state the purposes for which the meetings are called. No notice need be given to any stockholder if a written waiver of

notice, executed before or after the meeting by the stockholder or his attorney thereunto authorized, is filed with the records of the meeting.

Section 5. Notice of Stockholder Nominations and Business; Annual Meeting of Stockholders. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting pursuant to Section 4 of this ARTICLE ONE, (b) by or at the direction of the Board of Directors, or (c) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this By-law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-law.

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of the first paragraph of this By-law, the stockholder must have given timely notice thereof in writing to the Secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event will the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (b) as to any other business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

Anything contained in the second sentence of the second paragraph of this

By-law to the contrary notwithstanding, in the event that the number of persons to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the corporation at least 100 days prior to the first anniversary of the preceding year's



annual meeting, a stockholder's notice required by this By-law will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

Section 6. Notice of Stockholder Nominations and Business; Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting pursuant to Section 4 of this ARTICLE ONE. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the Board of Directors, or (b) by any stockholder of the corporation who is a stockholder of record at the time of giving notice provided by this By-law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this By-law. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more persons to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by the second paragraph of Section 5 of ARTICLE ONE shall be delivered to the Secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

Section 7. Notice of Stockholder Nominations and Business; General. Only such persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in these By-laws. Except as otherwise provided by law, the Certificate of Incorporation or these By-laws, the presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in these By-laws and, if any proposed nomination or business is not in compliance with these By-laws, to declare that such defective nomination or proposal shall be disregarded.

For purposes of these By-laws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.



Anything contained in the foregoing provisions of these By-laws to the contrary notwithstanding, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in these By-laws. Nothing in these By-laws shall be deemed to affect the rights (a) of stockholders to request the inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act, or (b) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

Section 8. Quorum. At any meeting of stockholders a quorum for the transaction of business shall consist of one or more individuals appearing in person and/or as proxies and owning and/or representing a majority of the shares of the corporation then outstanding and entitled to vote, provided that in the absence of a quorum, the stockholders may, by majority vote, adjourn the meeting from time to time until a quorum shall be present.

Section 9. Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote, and a proportionate vote for any fractional share entitled to vote, held by him of record according to the records of the corporation, unless otherwise provided by the Certificate of Incorporation or by resolution or resolutions of the Board of Directors establishing rights of Preferred Stock as provided for in the Certificate of Incorporation. Stockholders may vote either in person or by written proxy dated not more than three years before the meeting named therein, unless the proxy provides for a longer period. Proxies shall be filed with the Secretary before being voted at any meeting or any adjournment thereof. Every proxy must be signed by the stockholder or by his attorney-in-fact. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise.

Section 10. Action at Meeting. When a quorum is present, the action of the stockholders on any matter properly brought before such meeting shall be decided by the holders of a majority of the stock present or represented and entitled to vote and voting on such matter, except where a different vote is required by law, the Certificate of Incorporation or these By-laws. Any election by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election. No ballot shall be required for such election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

Section 11. Special Action. Any action to be taken by the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action by a writing filed with the records of the meetings of stockholders. Such consent shall be treated for all purposes as a vote at a meeting.

Section 12. Record Date. The Directors may fix in advance a time which shall be not more than sixty days prior to (a) the date of any meeting of stockholders and not less than ten days prior to such meeting, (b) the date for the payment of any dividend or the making of any distribution to stockholders, or (c) the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date



for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof, the right to receive such dividend or distribution, or the right to give consent or dissent. The Board of Directors may fix a new record date, or confirm an existing record date, for the purpose of determining the stockholders entitled to vote at any adjourned or postponed meeting. In each such case only stockholders of record on such record date shall have such right, notwithstanding any transfer of stock on the books of the corporation after the record date.

Section 13. Stockholder List. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this Section or the books of the corporation, or to vote at any meeting of stockholders.

## ARTICLE TWO

## Directors

Section 1. Powers. The Board of Directors, subject to any action at any time taken by such stockholders as then have the right to vote, shall have the entire charge, control and management of the corporation, its property and business and may exercise all or any of its power.

Section 2. Election. A Board of Directors of such number, not less than 3, nor more than 9, as shall be fixed by the stockholders, shall be elected by the stockholders at the annual meeting.

Section 3. Vacancies. Any vacancy at any time existing in the Board may be filled by the Board at any meeting. The stockholders having voting power may, at a special meeting called at least in part for the purpose, choose a successor to a Director whose office is vacant, and the person so chosen shall displace any successor chosen by the Directors.

Section 4. Enlargement of the Board. The number of the Board of Directors may be increased and one or more additional Directors elected at any special meeting of the stockholders, called at least in part for the purpose, or by the Directors by vote of a majority of the Directors then in office.



Section 5. Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-laws, Directors shall hold office until the next annual meeting of stockholders and thereafter until their successors are chosen and qualified. Any Director may resign by delivering his written resignation to the corporation at its principal office or to the Chairman of the Board, the President or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Section 6. Removal. A Director may be removed from office with or without cause by vote of a majority of the stockholders entitled to vote in the election of Directors.

Section 7. Annual Meetings. Immediately after each annual meeting of stockholders and at the place thereof, if a quorum of the Directors elected at such meeting is present, there shall be a meeting of the Directors without notice; but if such a quorum of the Directors elected thereat is not present at such meeting, or if present does not proceed immediately thereafter to hold a meeting of the Directors, the annual meeting of the Directors shall be called in the manner hereinafter provided with respect to the call of special meetings of Directors.

Section 8. Regular Meetings. Regular meetings of the Directors may be held at such times and places as shall from time to time be fixed by resolution of the Board and no notice need be given of regular meetings held at times and places so fixed, provided however, that any resolution relating to the holding of regular meetings shall remain in force only until the next annual meeting of stockholders, and that if at any meeting of Directors at which a resolution is adopted fixing the times or place or places for any regular meetings any Director is absent, no meeting shall be held pursuant to such resolution until either each such absent Director has in writing or by telegram approved the resolution or seven days have elapsed after a copy of the resolution certified by the Secretary has been mailed postage prepaid, addressed to each such absent Director at his last known home or business address.

Section 9. Special Meetings. Special meetings of the Directors may be called by the Chairman of the Board, the President, the Treasurer or any two Directors and shall be held at the place designated in the call thereof.

Section 10. Notices. Notices of any special meeting of the Directors shall be given by the Secretary to each Director, by mailing to him, postage prepaid, and addressed to him at his address as registered on the books of the corporation, or if not so registered at his last known home or business address, a written notice of such meeting at least four days before the meeting or by delivering such notice to him at least forty-eight hours before the meeting or by sending to him at least forty-eight hours before the meeting, by prepaid telegram addressed to him at such address, notice of such meeting. If the Secretary refuses or neglects for more than twenty-four hours after receipt of the call to give notice of such special meeting, or if the office of the Secretary is vacant or the Secretary is incapacitated, such notice may be given by the officer or one of the Directors



calling the meeting. Notice need not be given to any Director if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. A notice or waiver of notice of a Directors' meeting need not specify the purpose of the meeting.

Section 11. Quorum. At any meeting of the Directors a majority of the number of Directors required to constitute a full Board, as fixed in or determined pursuant to these By-laws as then in effect, shall constitute a quorum for the transaction of business; provided always that any number of Directors (whether one or more and whether or not constituting a quorum) present at any meeting or at any adjourned meeting may make any reasonable adjournment thereof.

Section 12. Action at Meeting. At any meeting of the Directors at which a quorum is present, the action of the Directors on any matter brought before the meeting shall be decided by the vote of a majority of those present and voting, unless a different vote is required by law, the Certificate of Incorporation, or these By-laws.

Section 13. Special Action. Any action by the Directors may be taken without a meeting if a written consent thereto is signed by all the Directors and filed with the records of the Directors' meetings. Such consent shall be treated as a vote of the Directors for all purposes.

Section 14. Committees. The Directors may, by vote of a majority of the number of Directors required to constitute a full Board as fixed in or determined pursuant to these By-laws as then in effect, elect from their number an executive or other committees and may by like vote delegate thereto some or all of their powers except those which by law, the Certificate of Incorporation or these By-laws they are prohibited from delegating. Except as the Directors may otherwise determine, any such committee may make rules for the conduct of its business, but unless otherwise provided by the Directors or in such rules, its business shall be conducted as nearly as may be in the same manner as is provided by these By-laws for the Directors.

ARTICLE THREE

Officers

Section 1. Enumeration. The officers of the corporation shall be a President, a Treasurer, a Secretary, and such Vice Presidents, Assistant Treasurers, Assistant Secretaries, and other officers as may from time to time be determined by the Directors.

Section 2. Election. The President, Treasurer and Secretary shall be elected annually by the Directors at their first meeting following the annual meeting of stockholders. Other officers may be chosen by the Directors at such meeting or at any other meeting.



Section 3. Qualification. The President may, but need not be, a Director. No officer need be a stockholder. Any two or more offices may be held by the same person, provided that the President and the Secretary shall not be the same person. Any officer may be required by the Directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the Directors may determine.

Section 4. Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-laws, the President, Treasurer and Secretary shall hold office until the first meeting of the Directors following the annual meeting of stockholders, and thereafter until his successor is chosen and qualified. Other officers shall hold office until the first meeting of the Directors following the annual meeting of stockholders unless a shorter term is specified in the vote choosing or appointing them. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the Chairman of the Board, the President or the Secretary, and such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Section 5. Removal. The Directors may remove any officer with or without cause by a vote of a majority of the entire number of Directors then in office, provided, that an officer may be removed for cause only after reasonable notice and opportunity to be heard by the Board of Directors prior to action thereon.

Section 6. Chairman of the Board. If the Directors shall appoint a

Chairman of the Board, he shall preside at all meetings of the Board and of the stockholders at which he shall be present. In the absence or disability of the President, the powers and duties of the President shall be exercised and performed by the Chairman of the Board. He shall, subject to the Board of Directors, be responsible for the long-range planning of the corporation. He shall perform such duties and have such powers additional to the foregoing as the Board shall from time to time designate.

Section 7. President. In the absence or disability of the Chairman of the Board, the President shall, when present, preside at all meetings of the stockholders and of the Directors. Except as otherwise expressly provided by these By-laws or by action of the Board, it shall be the duty of the President, and he shall have the power, to see that all orders and resolutions of the Directors are carried into effect. The President, as soon as reasonably possible after the close of each fiscal year, shall submit to the Directors a report of the operations of the corporation for such year and a statement of its affairs and shall from time to time report to the Directors all matters within his knowledge which the interests of the corporation may require to be brought to its notice. The President shall perform such duties and have such powers additional to the foregoing as the Directors shall designate.

Section 8. Vice Presidents. Each Vice President shall have such powers and perform such duties as the Directors shall from time to time designate.



Section 9. Treasurer. The Treasurer shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositaries as shall be designated by the Directors or in the absence of such designation in such depositaries as he shall from time to time deem proper. He shall disburse the funds of the corporation as shall be ordered by the Directors, taking proper vouchers for such disbursements. He shall promptly render to the President and to the Directors such statements of his transactions and accounts as the President and Directors respectively may from time to time require. The Treasurer shall perform such duties and have such powers additional to the foregoing as the Directors may designate.

Section 10. Assistant Treasurer. In the absence or disability of the Treasurer, his powers and duties shall be performed by the Assistant Treasurer, if only one, or if more than one, by the one designated for the purpose by the Directors. Each Assistant Treasurer shall have such other powers and perform such other duties as the Directors shall from time to time designate.

Section 11. Secretary and Assistant Secretary. The Secretary or an Assistant Secretary, if one be elected, shall record all proceedings of the stockholders in a book to be kept therefor and, if there be no Secretary or Assistant Secretary of the Board of Directors, shall also record all proceedings of the Directors in a book to be kept therefor. If there be more than one Assistant Secretary, then the one designated to so record such proceedings by the Directors shall do so, otherwise a Temporary Secretary designated by the person presiding at a meeting, shall perform the duties of the Secretary. Unless the Directors shall appoint a transfer agent and/or registrar or other officer or officers for the purpose, the Secretary shall be charged with the duties of keeping or causing to be kept, accurate records of all stock outstanding, stock certificates issued and stock transfers; and, subject to such other duties or different rules as shall be adopted from time to time by the Directors, such records may be kept solely in the stock certificate books. The Secretary and each Assistant Secretary shall have such other powers and perform such other duties additional to the foregoing as the Directors may from time to time designate.

## ARTICLE FOUR

## Provisions Relating to Capital Stock

Section 1. Certificates of Stock. The shares of the corporation shall be represented by a certificate or shall be uncertificated. Certificates shall be signed by, or in the name of the corporation by, the Chairman or Vice-Chairman of the Board of Directors, or the President or a Vice President and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation.

Upon the face or back of each stock certificate issued to represent any partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, shall be set forth the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated.



If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) or a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be cancelled and issuance of new equivalent uncertificated shares or certificate shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the corporation.

Section 3. Equitable Interests Not Recognized. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person except as may be otherwise expressly provided by law.

Section 4. Lost or Destroyed Certificates. The Directors of the corporation may, subject to any contrary provision of law, determine the conditions upon which a new



certificate of stock may be issued in place of any certificate alleged to have been lost, stolen, destroyed, or mutilated.

ARTICLE FIVE

Stock in Other Corporations

Except as the Directors may otherwise designate, the Chairman of the Board, President or Treasurer may waive notice of, and appoint any person or persons to act as proxy or attorney-in-fact for this corporation (with or without power of substitution) at any meeting of stockholders or shareholders of any other corporation or organization the securities of which may be held by the corporation.

ARTICLE SIX

### Inspection of Records

Books, accounts, documents and records of the corporation shall be open to inspection by any Director at all times during the usual hours of business. The original, or attested copies, of the Certificate of Incorporation, By-laws and records of all meeting of the incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in Massachusetts at the principal office of the corporation, or at an office of its transfer agent or of the Secretary. Said copies and records need not be all kept in the same office. They shall be available at all reasonable times to the inspection of any stockholder for any proper purpose but not to secure a list of stockholders for the purpose of selling said list or copies thereof or of using the same for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the corporation.

## ARTICLE SEVEN

### Checks, Notes, Drafts and Other Instruments

Checks, notes, drafts and other instruments for the payment of money drawn or endorsed in the name of the corporation may be signed by any officer or officers or person or person authorized by the Directors to sign the same. No officer or person shall sign any such instrument as aforesaid unless authorized by the Directors to do so.

## ARTICLE EIGHT

### Seal

The seal of the corporation shall be circular in form, bearing its name, the word "Delaware," and the year of its incorporation. The Treasurer shall have custody of the seal and may affix it (as may any other officer authorized by the Directors) to any instrument requiring the corporate seal.



## ARTICLE NINE

### Fiscal Year

The fiscal year of the Corporation shall be the year ending with the last Saturday of June in each year.

## ARTICLE TEN

### Amendments

These By-laws may at any time be amended by vote of the stockholders, provided that notice of the substance of the proposed amendment is stated in the notice of the meeting. If authorized by the Certificate of Incorporation, the Directors may also make, amend, or repeal these By-laws in whole or in part, except with respect to any provisions thereof which by law, the Certificate of Incorporation, or these By-laws requires action by the stockholders. Not later than the time of giving notice of the meeting of stockholders next following the making, amending or repealing by the Directors of any By-law, notice thereof stating the substance of such change shall be given to all stockholders entitled to vote on amending the By-laws. Any By-law adopted by the Directors may be amended or repealed by the stockholders.

ARTICLE ELEVEN

Indemnification

Section 1. Right to Indemnification. Each person who was or is made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that such person is or was a Director or officer of the corporation or that, being or having been such a Director or officer of the Corporation, such person is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to any employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as such a Director or officer or in any other capacity while serving as such a Director or officer, shall be indemnified and held harmless by the corporation to the full extent permitted by the Delaware General Corporation Law (the "DGCL"), as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than permitted prior thereto), or by other applicable law as then in effect, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a Director or officer and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided,



however, that except as provided in Section 2 of this ARTICLE ELEVEN with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by any such indemnitee only if such proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending (or otherwise appearing in) any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that an advancement of expenses shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section or otherwise.

Section 2. Right of Indemnitee to Bring Suit. If a claim under Section 1 of this ARTICLE ELEVEN is not paid in full by the corporation within 60 days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this ARTICLE ELEVEN upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking has been tendered to the corporation), and thereafter the corporation shall have the burden of proof that the indemnitee is not so entitled. Neither the failure of the corporation (including the Board of Directors, independent legal counsel or the stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the corporation (including the Board of Directors, independent legal counsel or the stockholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

Section 3. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred by this ARTICLE ELEVEN shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, agreement, vote of stockholders or disinterested Directors, provisions of the Certificate of Incorporation or By-laws of the corporation or otherwise. Notwithstanding any amendment to or repeal of this ARTICLE ELEVEN, any indemnitee shall be entitled to indemnification in accordance with the provisions hereof with respect to any acts or omissions of such indemnitee occurring prior to such amendment or repeal.

Section 4. Insurance. The corporation may maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense,



liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

ARTICLE TWELVE

Principal and Registered Offices

Section 1. Principal Office. The corporation's principal office shall be 500 Main Street, Groton, Massachusetts or such other place as the Board of Directors may designate.

Section 2. Registered Office. The corporation's registered office shall be 229 South State Street, City of Dover, County of Kent, Delaware, or such other place as the Board of Directors may designate.

EXHIBIT 10.7

NEW ENGLAND BUSINESS SERVICE, INC.

STOCK OPTION AGREEMENT

NEW ENGLAND BUSINESS SERVICE, INC., a Delaware corporation (the "Company") hereby grants to Richard H. Rhoads of Farmers Row, Groton, Massachusetts (the "Grantee") an option (the "Option") to purchase 20,000 shares of the Company's Common Stock par value $1.00 per share (the "Stock") at the uniform price of $14.75 per share at any time during the period commencing July 27, 1991 and ending July 27, 2000.

The Grantee hereby accepts the Option granted herein subject to the terms and conditions set forth below:

1. This Option may be exercised by the Grantee (or his personal representative if exercised pursuant to Paragraph 3 below) by giving notice in writing of such exercise to the Vice President-Finance of the Company during the period that it is exercisable. The price for the number of shares for which the Option is exercised shall be due and payable at the time of such exercise. It shall be payable in United States dollars and may be paid in cash, by certified check, by bank cashier's check, by the surrendering of shares of the Stock (which shall be valued at their fair market value on the date of surrender) or by any other means approved by the Board of Directors. The fair market value of any shares so tendered shall be deemed to be the last sales price per share of the Stock as reported on the NASDAQ National Market prior to the date on which the notice of option exercise is received by the Vice President-Finance.

2. This option may be exercised in whole at any time, or in part from time to time, during its term providing that it may not be exercised for less than 500 shares unless the issue of a lesser number is enough to exhaust the option.

3. If the Option remains exercisable upon the death of the Grantee, it may be exercised by his personal representatives as to not more than the number of shares as to which it was exercisable immediately prior to such death, during and only during the period beginning



with the date of death and ending with the earlier of the first anniversary of such date of death or the expiration date of the Option.

4. This Option shall not be assignable or transferable except by will or by the laws of descent or distribution to the extent provided in Paragraph 3 above. During the lifetime of the Grantee this Option shall be exercisable only by him or his guardian or legal representative.

5. The Grantee shall have no rights as a stockholder with respect to the shares of Stock subject to this Option until he shall have been issued a stock certificate for such shares.

6. If the Company shall combine or split the Stock or shall declare thereon any dividend payable in shares of Stock, or shall reclassify or take any other action of a similar nature affecting the Stock, then the number and class of shares of stock which may thereafter be purchased pursuant to this Option and the option price per share shall be adjusted to such extent as may he determined by the Board of Directors of the Company to be necessary to maintain, unimpaired, the rights of the Grantee, and any such determination shall be conclusive and binding upon the Grantee. After any such adjustment the term "Stock" shall be deemed to mean the Stock as so adjusted.

7. In the case of any one or more reclassifications, changes or exchanges of outstanding shares of the Stock (other than as provided in Paragraph 6 above) or consolidations of the Company with, or mergers of the Company into, other corporations, or other reclassifications or reorganizations (other-than consolidations with a subsidiary in which the Company is the continuing corporation and which do not result in any reclassifications, changes or exchanges of outstanding shares of the Stock), or in case of any one or more sales or conveyances to any other corporation of the property of the Company as an entirety, or substantially as an entirety (any and all of which are hereinafter in this paragraph called "Reorganizations") the Grantee shall have the right, upon any subsequent exercise hereof, to acquire the same kind and amount of securities and property which he would then hold if he had exercised this Option immediately before the first of such Reorganizations and continued to hold



all securities and property which came to him as a result of that and subsequent Reorganizations, less all securities and property surrendered by and cancelled pursuant to any of the same (the rights provided by Paragraph 6 and this Paragraph 7 being continuing and cumulative) except that (notwithstanding the provisions of Paragraph 7) the Board of Directors of the Company shall have the right, upon not less than thirty (30) days notice to the Grantee, to terminate the period in which this option may be exercised at the time of such Reorganization. A liquidation shall be deemed a Reorganization for the foregoing purposes.

8. The Grantee understands that the shares of Stock issued upon the exercise of this Option will not have been registered under the Securities Act of 1933 and may not be sold, assigned or transferred in the absence of an effective registration statement under said Act, an opinion of counsel satisfactory to the Company that such registration is not, in the circumstances, required or evidence satisfactory to the Company that the shares have been sold in compliance with Rule 144 formulated under said Act. The Grantee agrees the certificate (s) representing shares of the Stock issued upon the exercise of

this option may bear an appropriate legend to the foregoing effect.

The Grantee represents to the Company that he intends to acquire any shares of the Stock which may be issued to him upon the exercise of this Option for investment, for his own account, and without a view to the resale or other distribution of such shares in, or in connection with, a distribution of the Stock.



WITNESS the execution hereto under seal this 15 day of October, 1990, as of July 27, 1990.

NEW ENGLAND BUSINESS SERVICE, INC.

By: /s/ Russell V. Corsini, Jr.
-----------------------------
Its Vice President-Finance

ACCEPTED October 16, 1990

/s/ Richard H. Rhoads
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Richard H. Rhoads

EXHIBIT 10.12

Revised

New England Business Service, Inc.
RESTRICTED STOCK AWARD AGREEMENT
(NEW ENGLAND BUSINESS SERVICE, INC.
STOCK COMPENSATION PLAN)

NEW ENGLAND BUSINESS SERVICE, INC.
RESTRICTED STOCK AWARD AGREEMENT
(New England Business Service, Inc. Stock Compensation Plan)

TABLE OF CONTENTS

New England Business Service, Inc.
RESTRICTED STOCK AWARD AGREEMENT
(NEW ENGLAND BUSINESS SERVICE, INC.
STOCK COMPENSATION PLAN)

Preamble

This restricted stock award agreement (the "Agreement") is made and entered into as of ______________, ___ (the "Date of Grant") by New England Business Service, Inc. (the "Issuer") and ______________________________ (the "Executive"), a key employee of the Issuer or a Subsidiary of the Issuer (hereunder individually and collectively referred to as the "Company").

1. Shares Subject to the Restricted Stock Award.

Pursuant to the provisions of the New England Business Service, Inc. Stock Compensation Plan (the "Plan"), as in effect on the Date of Grant, the Issuer hereby grants to the Executive a restricted stock award ("Restricted Stock Award") of ____________ shares of its Common Stock (the "Awarded Shares"). The Awarded Shares are being issued to the Executive in lieu of twenty-five percent (25%) of the gross bonus awarded to the Executive for the fiscal year ended June ___, ____ (the "Bonus") pursuant to the Executive Bonus Plan of the Company adopted by the Board for such fiscal year and are valued for purposes of this Agreement at $_______ per share, the Fair Market Value of a share of Common Stock on the Date of Grant, in accordance with and subject to all the terms and conditions of the Plan and subject to the terms and conditions hereinafter set forth. The Plan and any amendments are hereby incorporated by reference and made a part hereof.

2. Terms and Conditions of the Restricted Stock Award.

The issuance of Awarded Shares pursuant to the Restricted Stock Award shall be subject to the following terms and conditions.

2.1 Withholding Taxes. Notwithstanding anything to the contrary in Section 2.3(b), the Issuer's obligation to deliver vested Awarded Shares pursuant to this Restricted Stock Award shall be subject to the Executive's satisfaction of all applicable federal, state and local income and employment tax withholding obligations. Without limiting the generality of the foregoing, the Company shall have the right to deduct from payments of any kind otherwise due to the Executive any federal, state or local taxes of any kind required by law to be withheld with respect to any Awarded Shares issued

______________________

1 Capitalized terms not otherwise defined herein are defined in Section 8 below.



pursuant to this Restricted Stock Award. The Executive may satisfy such withholding obligations by having the Company withhold vested and unrestricted Awarded Shares, or by delivering to the Company already owned unrestricted shares of Common Stock, having a Fair Market Value as of the date of delivery of such unrestricted shares equal to the amount required to be withheld.

2.2 Vesting, Forfeiture or Early Vesting of Unvested Awarded Shares.

(a) Unless vested earlier or forfeited as provided in (b) or (c) below, the Awarded Shares shall become vested in the Executive on the third anniversary of the Date of Grant, and shall thereon be released from escrow and delivered to the Executive, subject to the satisfaction of the condition set forth in Section 2.1 above.

(b) The Awarded Shares shall remain unvested and subject to the restrictions of this Section 2.2 and Section 2.3 until the third anniversary of the Date of Grant (the "Vesting Period"). If the Executive's Service terminates during the Vesting Period, the following shall occur:

(i) if the Executive ceases to perform Service by reason of death, Disability or Retirement, all Awarded Shares shall thereupon immediately vest in the Executive (or in the case of death, in the person or persons to whom the Awarded Shares pass by will or by the laws of descent and distribution) or his permitted transferee(s) pursuant to Section 2.3(a) and shall no longer be subject to the restrictions of this Section 2.2 and Section 2.3 hereof;

(ii) if the Executive voluntarily terminates Service or his Service is involuntarily terminated for "cause", as determined in good faith by the Board or Committee (which determination shall be binding on both the Company and the Executive and/or his permitted transferee(s) pursuant to Section 2.3(a)), the Awarded Shares shall thereupon be forfeited in their entirety to the Issuer without any further action by the Issuer or the Executive and for no consideration;

(iii) if the Executive's Service is involuntarily terminated without cause, the Awarded Shares shall thereupon be forfeited in their entirety to the Issuer without any further action by the Issuer or the Executive and for no consideration; provided, however, that the Committee may, in its sole discretion, waive the forfeiture of all or any portion of the Awarded Shares and such shares shall thereupon immediately vest in the Executive and no longer be subject to the restrictions of this Section 2.2 and Section 2.3 hereof.

(c) Notwithstanding any of the foregoing, if a Change in Control of the Company occurs during the Vesting Period and prior to any forfeiture of all or any portion of the Awarded Shares pursuant to this Section 2.2, all such unvested Awarded Shares that were not forfeited by termination of the Executive's Service prior to the occurrence of the Change of Control shall thereupon immediately vest in the Executive and the restrictions of this Section 2.2 and Section 2.3 shall terminate.



2.3 Restrictions on Transfer and Escrow of Unvested Awarded Shares; Delivery of Vested Shares; Stockholder Rights. The Executive hereby agrees to the following conditions:

(a) Awarded Shares which are not yet vested may not be sold, hypothecated or otherwise disposed of by the Executive or anyone claiming through him; provided, however, that Awarded Shares may be transferred by the Executive, either directly or in trust, to one or more members of Executive's Family, or to a family partnership or other entity for the exclusive benefit of one or more members of Executive's Family if and only to the extent that (i) the Executive notifies the Committee in writing of his desire to transfer Awarded Shares and the Committee does not within thirty (30) days of such notification advise the Executive in writing that such transfer will not be allowed and (ii) such Family member or trust or family partnership for the benefit thereof executes an agreement, in form satisfactory to the Committee, to be subject to all of the terms and conditions of this Agreement including, without limitation, the restrictions to which the Awarded Shares were subject prior to such transfer.

(b) Awarded Shares which are not yet vested shall be held in escrow by the Issuer. Upon the vesting of any Awarded Shares pursuant to Section 2.2 and the satisfaction of all obligations imposed by Section 2.1, the Issuer shall promptly cause a certificate to be issued for the Awarded Shares (or portion thereof which has vested) and shall deliver such certificate to the Executive or his permitted transferee(s) pursuant to Section 2.3(a).

(c) Subject to the terms hereof, the Executive shall have all the rights of a stockholder with respect to the Awarded Shares while they are held in escrow, and prior to their forfeiture pursuant to Section 2.2, including without limitation, the right to vote the Awarded Shares, except as provided in (d) below.

(d) Any dividends declared and paid with respect to the Awarded Shares while they are held in escrow, and prior to their forfeiture pursuant to Section 2.2, shall not be paid to the Executive but shall instead be automatically reinvested in shares of Common Stock at the Fair Market Value of a share of Common Stock on the date of such dividend payment, and such additional shares of Common Stock shall be deemed additional Awarded Shares (granted, for purposes of Section 2.2 only, on the Date of Grant) and shall be subject to the forfeiture and other provisions of Section 2.2 and this section 2.3.

2.4 Investment Representation. The Executive shall hold the Awarded Shares for investment and not with a view to or for resale in connection with, any public distribution of such Shares, and, if requested, shall deliver to the Issuer an appropriate certification to that effect. This restriction shall terminate upon the registration of such Shares under federal securities laws or if, in the opinion of counsel for the Issuer, such Shares may be resold without registration.



2.5 Provision of Information. The Issuer will furnish upon request of the Executive copies of the certificate of incorporation of the Issuer, as amended, and by-laws of the Issuer, as amended, and such publicly available financial and other information concerning the Issuer and its business and prospects as may be reasonably requested by the Executive in connection with the issuance or purchase of Awarded Shares pursuant to this Agreement.

2.6 Compliance with the Plan. The Executive shall comply with all terms and conditions of the Plan (a copy of which is attached hereto) and of this Agreement. All decisions under, and interpretations of the provisions of the Plan and of this Agreement by the Board or by the Committee shall be final, binding and conclusive upon the Company and its successors and assigns and upon the Executive and anyone claiming through the Executive.

3. Right to Terminate.

Nothing contained in the Plan or in this Agreement shall restrict the right of the Company to terminate the employment of the Executive at any time and for any reason, with or without notice, or shall otherwise affect the terms and conditions of the Executive's employment except as specifically provided in the Plan or in this Agreement.

4. Adjustment in Shares.

Appropriate adjustment shall be made by the Board or by the Committee in the number and kind of the Awarded Shares issued pursuant to this Restricted Stock Award to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Issuer after the Date of Grant. In the event of a change of the Common Stock resulting from a merger or similar reorganization, or sale of all or substantially all of the assets of Issuer to a corporation that does not result in a Change of Control, the number and kind of the Awarded Shares issued pursuant to this Agreement shall be appropriately adjusted in such a manner as the Board or the Committee shall deem equitable to prevent dilution or enlargement of the rights granted hereunder.

5. Restriction on Transfer of Stock.

The Awarded Shares shall be subject to any restrictions then in effect pursuant to the certificate of incorporation or by-laws of the Issuer and to any other restrictions or provisions attached hereto and made a part hereof or set forth in any other contract or agreement binding on the Executive.



6. Notice Concerning Tax Matters.

The Company makes no representation about the tax treatment to the Executive with respect to the receipt of the Restricted Stock Award or the acquisition, holding or disposition of the Awarded Shares. THE EXECUTIVE IS URGED TO CONSULT A PROFESSIONAL TAX ADVISER OF HIS OR HER OWN CHOOSING FOR ADVICE AS TO THE TAX CONSEQUENCES (INCLUDING THE APPLICATION OF SECTION 83 OF THE CODE) OF RECEIVING A RESTRICTED STOCK AWARD OR OF HOLDING OR SELLING AWARDED SHARES ISSUED PURSUANT TO THE AGREEMENT.

7. Governing Law; Etc.

This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Massachusetts. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of the Executive and the successors and assigns of the Issuer, but shall not be assigned by the Executive at any time, except as otherwise permitted by Section 2.3(a) hereof, without the prior written permission of the Issuer.

8. Definitions.

8.1 "Agreement" has the meaning defined in the Preamble above.

8.2 "Awarded Shares" has the meaning defined in Section 1 above.

8.3 "Board" means the Board of Directors of the Issuer.

8.4 "Bonus" has the meaning set forth in Section 1 above.

8.5 "Change in Control" has the meaning set forth in Section 9 below.

8.6 "Code" means the Internal Revenue Code of 1986, as heretofore and hereafter amended, and the regulations promulgated thereunder.

8.7 "Committee" means the Organization and Compensation Committee of the Board of Directors of the Issuer.

8.8 "Common Stock" means the common stock, $1.00 par value, of the Issuer.

8.9 "Company" has the meaning defined in the preamble above.

8.10 "Date of Grant" has the meaning defined in the Preamble above.

8.11 "Disability" has the meaning defined in Code Section 22(e)(3).



8.12 "Executive" has the meaning defined in the Preamble above.

8.13 "Fair Market Value" means the last sales price per share of Common Stock as reported on the New York Stock Exchange prior to the Date of Grant (or other date on which such valuation is made) or if no price has been so reported within one week prior to the Date of Grant (or other date on which such valuation is made), fair market value shall be determined by a principal market for the Common Stock designated by the Committee (or if no such market maker is designated, by the Board in its good faith business judgment).

8.14 "Family" means the Participant's (i) spouse and lineal descendants of such spouse; (ii) lineal descendants and the spouses of such lineal descendants: (iii) lineal ancestors and the spouses of such lineal ancestors; and (iv) siblings and the spouses and children of such siblings.

8.15 "Issuer" has the meaning defined in the Preamble above.

8.16 "Plan" has the meaning defined in Section 1 above.

8.17 "Restricted Stock Award" has the meaning defined in Section 1 above.

8.18 "Retirement" means the actual cessation of the Executive's Services on or after the date that he attains age 60.

8.19 "Service" means the performance of work for the Company as an employee.

8.20 "Subsidiary" has the meaning defined in Code Section 424(f).

8.21 "Vesting Period" has the meaning defined in Section 2.2 above.

9. Change in Control.

For the purpose of this Agreement a "Change in Control" shall have the same meaning as defined in Section 11 of the NEBS 1997 Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan.

10. Amendments.
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Any amendment to this Agreement, or waiver of any terms hereof, may be made only pursuant to a writing executed by the Issuer and the Executive.



IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first appearing above.

EXECUTIVE

_______________________________
Signature

Address of Executive:
_______________________________
_______________________________

NEW ENGLAND BUSINESS SERVICE, INC.

By:_____________________________
Name
Title

Exhibit 10.13

# FY2000 NEBS EXECUTIVE BONUS PLAN
(EFFECTIVE AS OF JUNE 28, 1999)

This Executive Bonus Plan (the "Plan") was adopted by the Board of Directors of New England Business Service, Inc. (the "Company") on July 23, 1999 upon the recommendation of its Organization and Compensation Committee for the purpose of providing incentive compensation for the senior executives and managers of the Company and its subsidiaries. This Plan shall be governed by the following definitions and calculations.

I. Participants. The participants in the Plan for the 2000 fiscal year of the Company (the "Year") and their respective target bonus percentages shall be as follows:

A. Officers of the Company.

| | |
|---|---|
| Chairman, President & Chief Executive Officer | 70% |
| Senior Vice President and President, Diversified Operations | 60% |
| Senior Vice President and President, NEBS Direct Marketing | 60% |
| Senior Vice President and President, Chiswick Trading | 60% |
| Senior Vice President and President, RapidForms | 60% |
| Senior Vice President, Information Systems | 60% |
| Senior Vice President, Chief Financial Officer | 60% |
| Senior Vice President, Human Resources | 60% |
| Senior Vice President, Manufacturing and Technical Operations | 60% |
| Senior Vice President, Business Management and Development | 60% |
| Senior Vice President, Corporate Channel Marketing | 60% |
| Vice President and President, McBee Systems | 60% |
| Vice President, Investor Relations | 50% |
| Vice President, Controller | 50% |

General Counsel and Secretary 50%



B. CEOs of Subsidiaries.

| | |
|---|---|
| Managing Director, NEBS Business Stationery | 40% |
| President and Chief Executive, NEBS Business Forms, Ltd. | 40% |

II. Target Bonus. The target bonus payable to a participant with respect to the Year shall be an amount arrived at by multiplying his base salary at the end of the Year by his target bonus percentage.

III. Actual Bonus. The actual bonus of each participant shall be calculated based on actual results vs. targeted objectives. No bonus shall be paid if the Company's consolidated net income for the Year is less than 90% of the targeted net income objective.

A. Chairman, President & Chief Executive Officer.

The actual bonus of this participant shall be the sum of the following:

(a) Each 1% by which consolidated net sales are more than 95% up to 105% of the targeted consolidated net sales for the Year equals 5.6% of his base salary, plus each 1% by which consolidated net sales are more than 10.5% of the targeted consolidated net sales for the Year equals 2.8% of his base salary; and

(b) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 5.6% of his base salary, plus each 1% which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 2.8% of his base salary; and

(c) Up to 14% of his base salary based on his attainment of certain personal objectives established by the Organization and Compensation Committee, as determined by the latter.

B. Senior Vice President, Business Management & Development; Senior Vice President, Chief Financial Officer; Senior Vice President, Human Resources; Senior Vice President, Information Systems; Senior Vice President, Manufacturing and Technical Operations; Senior Vice President, Corporate Channel Marketing.

The actual bonus of these participants shall be the sum of the following:

(a) Each 1% by which consolidated net sales are more than 95% up to 105% of the targeted consolidated net sales for the Year equals 4.8% of his base salary, plus each 1% by which consolidated net sales are more than 105% of the targeted consolidated net sales for the Year equals 2.4% of his base salary; and

(b) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 4.8% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 2.4% of his base salary; and

(c) Up to 12% of his base salary based on the degree of his attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

C. Senior Vice President and President, Chiswick Trading.

The actual bonus of this Participant shall be the sum of the following:

(a) Each 1% by which channel net sales are more than 95% up to 105% of the targeted channel net sales for the Year equals 4.8% of his base salary, plus each 1% by which channel net sales are more than 105% of the targeted channel net sales for the Year equals 2.4% of his base salary; and

(b) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 3.0% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 1.5% of his base salary; and

(c) Each 1% by which channel profit from operations is more than 95% up to 105% of the targeted channel profit from operation for the Year equals 1.8% of his base salary. Payment for the attainment of channel profit from operations will be capped at 200% of target payment (105%) achievement); and

(d) Up to 12% of his base salary based on his attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

D. Senior Vice President and President, Diversified Operations.

The actual bonus of this participant shall be the sum of the following:

(a) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 3.0% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the year equals 1.5% of his base salary; and

(b) Each 1% by which consolidated net sales are more than 95% up to 105% of the targeted consolidated net sales for the Year equals 1.8% of his base salary, plus each 1% by which consolidated net sales are more than 105% of the targeted consolidated net sales for the Year equals 0.9% of his base salary; and

(c) Each 1% by which channel net sales are more than 95% up to 105% of the targeted channel net sales for the Year equals 2.4% of his base salary, plus each 1% by which channel net sales are more than 105% of the targeted channel net sales for the Year equals 1.2% of his base salary; and

(d) Each 1% by which channel profit from operations is more than 95% up to 105% of the targeted channel profit from operations for the Year equals 2.4% of his base salary. Payment for the attainment of channel profit from operations will be capped at 200% of target payment (105%); and

(e) Up to 12% of his base salary based on the degree of his attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

E. Senior Vice President and President, NEBS Direct Marketing; Senior Vice President and President, RapidForms.

The actual bonus of these participants shall be the sum of the following:

(a) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 3.0% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 1.5% of his base salary; and



(b) Each 1% by which channel net sales are more than 95% up to 105% of the targeted channel net sales for the Year equals 3.0%

of his base salary, plus each 1% by which channel net sales are more than 105% of the targeted channel net sales for the Year equals 1.5% of his base salary; and

(c) Each 1% by which combined net sales of the NEBS Direct Marketing and RapidForms channels are more than 95% up to 105% of the targeted combined net sales of the NEBS Direct Marketing and RapidForms channels for the Year equals 1.8% of his base salary, plus each 1% by which combined net sales of the NEBS Direct Marketing and RapidForms channels are more than 105% of the targeted combined net sales of NEBS the Direct Marketing and RapidForms channels for the Year equals 0.9% of his base salary; and

(d) Each 1% by which channel profit form operations is more than 95% up to 105% of the targeted channel profit from operations for the Year equals 1.8% of his base salary. Payment for the attainment of channel profit from operations will be capped at 200% of target payment (105%) achievement; and

(e) Up to 12% of his base salary based on the degree of his attainment of certain personal objectives established by the Chairman, President and Chief Executive Officer, as determined by the latter.

F. Vice President and President, McBee Systems.

The actual bonus of this participant shall be the sum of the following:

(a) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 3.0% of his base salary, plus each 1% by which consolidated net sales are more than 105% of the targeted consolidated net sales for the Year equals 1.5% of his base salary; and

(b) Each 1% by which McBee Systems profit from operations are more than 95% up to 105% of the targeted McBee Systems profit from operations for the Year equals 3.6% of his base salary, plus each 1% by which McBee Systems profit from operations are more than 105% of the targeted McBee Systems profit from operations for the Year equals 1.8% of his base salary; and



(c) Each 1% by which McBee Systems net sales are more than 95% up to 105% of the targeted McBee Systems net sales for the Year equals 3.0% of this base salary, plus each 1% by which McBee Systems net sales is more than 105% of the targeted McBee Systems net sales for the Year equals 1.5% of his base salary; and

(d) Up to 12.0% of his base salary based on the degree of attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

G. Vice President, Investor Relations; Vice President, Controller; General Counsel and Secretary.

The actual bonus of these participants shall be the sum of the following:

(a) Each 1% by which consolidated net sales are more than 95% up to 105% of the targeted consolidated net sales for the Year equals 4.0% of his base salary, plus each 1% by which consolidated net sales are more than 105% of the targeted consolidated net sales for the Year equals 2.0% of his base salary; and

(b) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 4.0% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 2.0% of his base salary; and

(c) Up to 10% of his base salary based on the degree of his attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

H. Chief Executive Officers of Subsidiaries.

The actual bonus of these participants shall be the sum of the following:

(a) Each 1% by which consolidated net income is more than 95% up to 105% of the targeted consolidated net income for the Year equals 2.0% of his base salary, plus each 1% by which consolidated net income is more than 105% of the targeted consolidated net income for the Year equals 1.0% of his base salary; and



(b) Each 1% by which subsidiary net sales are more than 95% up to 105% of the targeted subsidiary net sales for the Year equals 3.2% of his base salary, plus each 1% by which subsidiary net sales are more than 105% of the targeted subsidiary net sales for the Year equals 1.6% of his base salary; and

(c) Each 1% by which subsidiary profit from operations is more than 95% up to 105% of the targeted subsidiary profit from operations for the Year equals 1.2% of his base salary. Payment for the attainment of channel profit from operations will be capped at 200% of target payment (105% achievement); and

(d) Up to 8% of his base salary based on the degree of his attainment of certain personal objectives established by the Chairman, President & Chief Executive Officer, as determined by the latter.

a) Bonus Payments

A. For participants with 60% or 70% bonus targets; 75% of the gross payment will be in the form of cash; 25% of the gross payment will be in the form of NEBS Stock with a share price which is established at the close of trading on the New York Stock Exchange on the third business day following the issuance of the press release disclosing the Company's financial results for the fourth fiscal quarter of the Year. Cash payment will be made within 60 days after the close of the Year. Stock awarded under the plan will be in the form of Restricted Stock with terms and conditions detailed in the form of a Restricted Stock Agreement attached hereto.

B. For participants with 40% or 50% bonus targets: 75% of the net payment will be in the form of cash; 25% of the net payment will be in the form of NEBS Stock with a share price which is established at the close of trading on the New York Stock Exchange on the third business day following the issuance of the press release disclosing the Company's financial results for the fourth fiscal quarter of the Year. All bonus payments will be made within 60 days after the close of the Year.

C. At their option and with the authorization of the Chief Executive Officer, participants, other than the Chief Executive Officer and the four next most highly compensated executive officers, may receive their bonus entirely in cash if the payment earned is less than 25% of annualized base salary.



V. Certain Definitions and Other Provisions.

A. All references to "net" sales shall refer to consolidated net sales of the Company or net sales of a distribution channel or a business unit, as the case may be, as reported or used in calculating the Company's audited consolidated earnings.

B. For purposes of calculating the actual bonuses, consolidated net income for the Year shall mean such consolidated income, after taxes and after provision for executive bonuses under this plan, determined in accordance with all of the accounting policies employed in the preparation of the Company's audited financial statements for the Year.

C. Actual or targeted consolidated net income; actual or targeted consolidated sales; actual or targeted profit from operations of any business unit or distribution channel; or actual or targeted net sales of any business unit or distribution channel man, at the discretion of the Organization and Compensation Committee, be adjusted to eliminate the effect of (a) either the acquisition or the divestiture by the Company of any subsidiary or division during the Year, and/or (b) the imposition during the Year by Massachusetts or any other state or states of sales taxes on services, materials or supplies purchased by the Company or any subsidiary of the Company the effect of which is not allowed for in the Company's annual budget for the 2000 fiscal year or (c) any abatement of taxes or material increase or decrease in Federal or State corporate tax rates. It is the intention of the Organization and Compensation Committee that any such discretionary adjustment shall be made by it, and shall be announced to the affected participants, promptly after the occurrence of the motivating event, but failure to act promptly shall not deprive the Committee of its power to make such an adjustment at a later date.

D. Should a participant die, retire, or become totally disabled during the Year, he or his estate shall be entitled to receive a bonus prorated in accordance with the percentage of his annual salary earned from the beginning of the Year up to the date of death, retirement or disability. Should a participant's employment by the Company or a subsidiary business unit be terminated for any other reason, payment of any bonus hereunder for the Year in which such termination occurs is at the sole discretion of the Organization and Compensation Committee.

E. If a participant assumes a new position during the Year, the Organization and Compensation Committee may make an appropriate adjustment in his target bonus and/or the means of calculating his actual bonus, effective from and after that event.



F. If a Change of Control event (as defined in Section 11 of the Company's 1997 Key Employee and Eligible Director Stock Option and Stock Appreciation Rights Plan) occurs, the Company will within sixty (60) days following such event pay each participant a prorated bonus through the date thereof as hereinafter provided, whereupon this Plan will terminate. The portion of the bonus based on factors other than personal objectives shall be calculated based on a comparison of (i) actual results of the Company through the end of the calendar quarter next preceding the Change in Control event to (ii) the targeted quarterly performance criteria set forth on the schedules attached hereto. The portion of the bonus based on personal objectives will be calculated through the end of the calendar quarter next preceding the Change of Control event to the extent equitable and reasonably practicable in the judgment of the Organization and Compensation Committee. Qualitative measurements for which such calculation is not equitable or reasonably practicable will be disregarded and the percentage of the bonus otherwise allocated thereto under the terms hereof will be reallocated in even percentages to the sales and earnings components of the bonus calculation. After determining the full year bonus based on the extent to which the aforesaid quarterly targets have been achieved, the amount of the full year bonus will be prorated by multiplying the same by a fraction the numerator of which is the number of days between the beginning of the fiscal year and the date of the Change of Control event and the denominator of which would be 365. The determination of the amount of any bonus payable under this paragraph to the Chairman, President & Chief Executive Officer shall be made by the Organization and Compensation Committee and for all other participants the determination of the amount of any bonus payable shall be made by the Chairman, President & Chief Executive Officer and in each instance the determination shall be final and binding on the Company and all participants.

G. In the event of any material, unusual and non-recurring charge to income purchase or sale of any material business unit by the Company, or other material event affecting the ability of the participants to achieve the performance targets established under this Plan, the Organization and Compensation Committee shall review such performance targets and make such adjustments with respect thereto as it deems reasonable and equitable in light of the purposes of this Plan. Any and all adjustments made by the Organization and Compensation Committee under this paragraph shall be final and binding on the Company and all participants.



H. The Organization and Compensation Committee may in its discretion terminate the Plan as of the end of any fiscal quarter. If the Plan is so terminated, the Company shall pay out bonuses to the participants in such amounts as are appropriate and equitable in light of the Company's and participants' performance through the end of such quarter and the targets established hereunder. The determination of the amount of any bonuses payable under this paragraph shall be made by the Organization and Compensation Committee in line with the objectives set for each participant, and its determination shall be final and binding on the Company and all participants.

I. The personal objectives referred to herein and the application of certain provisions hereof are described in the FY00 Scorecard prepared by the Senior Vice President, Human Resources.

J. This Plan shall be effective commencing June 28, 1999.

Exhibit 10.23

July 24, 1999

Name of Officer

Re: Change in Control Agreement

Dear __________:

Reference is made to the Change in Control Agreement dated November 27, 1996 (the "Agreement") between New England Business Service, Inc. (the "Company") and you. Capitalized terms used in this letter and not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

The Board of Directors of the Company has determined that it is desirable to amend certain provisions of the Agreement in order to induce you to remain in the employ of the Company.

Now, therefore, in consideration of the foregoing, the Company and you agree as follows:

1. Section 5(iii)(B) of the Agreement is hereby deleted in its entirety and the following substituted therefor:

> "(B) you shall receive an amount equal to 1.5 times the sum of (X) your annualized base salary at the rate in effect just prior to the time a Notice of Termination is given (or, if higher, as in effect immediately prior to the change in control), plus (y) the average of the actual bonuses earned during each of the 3 most recent fiscal years (or fewer than 3, if applicable) ending on or before the change in control; provided that any bonus earned for a partial fiscal year included in the foregoing calculation shall be recalculated to equal the amount that you would have earned for the entire fiscal year."

2. Except as amended by this letter, the terms and conditions of the Agreement remain in full force and effect, without revocations or change.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will constitute our agreement on the subject.

Sincerely
NEW ENGLAND BUSINESS SERVICE, INC.

By:

--------------------------
Daniel M. Junius
for NEBS, Inc. Board of Directors

Agreed and Accepted:

--------------------------
Name of Officer

EXHIBIT 21

LIST OF SUBSIDIARIES

| Name of Subsidiary | Jurisdiction of Incorporation |
| --- | --- |
| NEBS Business Forms Limited | (Canada) |
| Shirlite, Ltd. | (United Kingdom) |
| Standard Forms, Ltd. | (United Kingdom) |
| McBee Systems, Inc. | (Colorado) |
| Rapidforms, Inc. | (New Jersey) |
| Russell & Miller, Inc. | (Delaware) |

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Stockholders of New England Business Service, Inc:

We consent to the incorporation by reference in Registration Statement Nos. 2-72662, 33-38925, 33-56227, 333-32719, 333-44825 and 333-44819 of New England Business Service, Inc. on Form S-8 and Registration Statement Nos. 333-26499 and 333-57657 of New England Business Service, Inc. on Form S-3 of our report dated July 26, 1999, appearing in this Annual Report on Form 10-K of New England Business Service, Inc. for the year ended June 26, 1999.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
September 10, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET OF NEW ENGLAND BUSINESS SERVICE, INC. AND ITS SUBSIDIARIES AS OF JUNE 26 1999 AND THE RELATED STATEMENTS OF CONSOLIDATED INCOME AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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