

STANDARD REGISTER CO  
Form 10-Q  
August 03, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended July 3, 2005

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-01097

**THE STANDARD REGISTER COMPANY**

(Exact name of Registrant as specified in its charter)

**OHIO**

(State or other jurisdiction of  
Incorporation or organization)

**31-0455440**

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

**600 ALBANY STREET, DAYTON OHIO**

(Address of principal executive offices)

**45408**

(Zip Code)

**(937) 221-1000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 3, 2005
Common stock, \$1.00 par value	24,072,991 shares
Class A stock, \$1.00 par value	4,725,000 shares

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended July 3, 2005**

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**PART I - FINANCIAL INFORMATION**  
**THE STANDARD REGISTER COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Dollars in thousands, except per share amounts)

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3</i> <i>2005</i>	<i>June 27</i> <i>2004</i>	<i>July 3</i> <i>2005</i>	<i>June 27</i> <i>2004</i>
<b>REVENUE</b>				
Products	\$ 191,832	\$ 190,964	\$ 389,884	\$ 380,132
Services	33,626	29,889	67,553	60,997
Total revenue	225,458	220,853	457,437	441,129
<b>COST OF SALES</b>				
Products	127,606	121,185	256,185	238,028
Services	19,454	18,926	38,745	39,390
Total cost of sales	147,060	140,111	294,930	277,418
<b>GROSS MARGIN</b>	78,398	80,742	162,507	163,711
<b>OPERATING EXPENSES</b>				
Research and development	2,378	3,747	5,044	7,352
Selling, general and administrative	62,794	69,085	129,071	144,922
Depreciation and amortization	10,735	10,712	20,908	21,331
Asset impairments	-	789	-	789
Restructuring charges	1,472	2,195	2,000	5,536
Total operating expenses	77,379	86,528	157,023	179,930
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	1,019	(5,786)	5,484	(16,219)
<b>OTHER INCOME (EXPENSE)</b>				

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Interest expense	(631)	(642)	(1,297)	(1,332)
Investment income and other	(15)	79	84	129
Total other expense	(646)	(563)	(1,213)	(1,203)
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	373	(6,349)	4,271	(17,422)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	3,087	(3,218)	4,777	(7,485)
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	\$ (2,714)	\$ (3,131)	\$ (506)	\$ (9,937)
<b>DISCONTINUED OPERATIONS</b>				
Income from discontinued operations, net of taxes	-	510	-	817
Gain on sale of discontinued operations, net of taxes	406	-	552	-
<b>NET INCOME (LOSS)</b>	\$ (2,308)	\$ (2,621)	\$ 46	\$ (9,120)
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b>				
Income (loss) from continuing operations	\$ (0.09)	\$ (0.11)	\$ (0.02)	\$ (0.35)
Income from discontinued operations	-	0.02	-	0.03
Gain on sale of discontinued operations, net of taxes	0.01	-	0.02	-
Net income (loss) per share	\$ (0.08)	\$ (0.09)	\$ -	\$ (0.32)
Dividends Paid Per Share	\$ 0.23	\$ 0.23	\$ 0.46	\$ 0.46
<b>NET INCOME (LOSS)</b>	\$ (2,308)	\$ (2,621)	\$ 46	\$ (9,120)
Deferred cost on forward contract	34	377	61	239
Foreign currency translation adjustment	(85)	(146)	(156)	(146)
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ (2,359)	\$ (2,390)	\$ (49)	\$ (9,027)

See accompanying notes.



**THE STANDARD REGISTER COMPANY****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands)**

<b>A S S E T S</b>	<i>July 3, 2005</i>	<i>January 2, 2005</i>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,228	\$ 44,088
Accounts and notes receivable, less allowance for doubtful accounts of \$4,503 and \$3,903, respectively	121,080	128,396
Inventories	46,468	51,796
Deferred income taxes	16,235	16,577
Prepaid expense	14,976	11,383
Total current assets	206,987	252,240
<b>PLANT AND EQUIPMENT</b>		
Buildings and improvements	68,779	67,767
Machinery and equipment	222,414	221,904
Office equipment	167,255	170,534
Total	458,448	460,205
Less accumulated depreciation	331,187	323,808
Depreciated cost	127,261	136,397
Plant and equipment under construction	7,896	7,775
Land	2,813	2,813
Net assets held for sale	175	175
Total plant and equipment	138,145	147,160
<b>OTHER ASSETS</b>		



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Goodwill	6,557	6,557
Intangible assets, net	11,749	13,189
Deferred tax asset	81,443	86,505
Software development costs, net	9,402	10,507
Restricted cash	1,200	3,237
Other	23,741	23,578
Total other assets	134,092	143,573
Total assets	\$ 479,224	\$ 542,973

See accompanying notes.

**THE STANDARD REGISTER COMPANY**

**CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>July 3, 2005</i>	<i>January 2, 2005</i>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 552	\$ 80,549
Accounts payable	34,423	38,183
Accrued compensation	25,148	27,116
Deferred revenue	4,221	3,832
Accrued restructuring	3,490	4,775
Other current liabilities	22,340	34,569
Total current liabilities	90,174	189,024
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	40,592	867
Pension benefit obligation	86,264	83,273
Retiree health care obligation	45,318	46,826
Deferred compensation	15,118	16,832
Other long-term liabilities	605	746
Total long-term liabilities	187,897	148,544
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.00 par value:		
Authorized 101,000,000 shares		
Issued 2005 -25,996,753; 2004 - 25,693,001	25,997	25,693
Class A stock, \$1.00 par value:		
Authorized 9,450,000 shares		
Issued - 4,725,000	4,725	4,725
Capital in excess of par value	60,004	56,100

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Accumulated other comprehensive losses	(110,792)	(110,697)
Retained earnings	275,112	281,670
Treasury stock at cost:		
1,923,762 shares	(49,351)	(49,351)
Unearned compensation - restricted stock	(4,542)	(2,735)
Total shareholders' equity	201,153	205,405
Total liabilities and shareholders' equity	\$ 479,224	\$ 542,973

See accompanying notes.

**THE STANDARD REGISTER COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	<i>26 Weeks Ended</i> <i>July 3</i> <i>2005</i>	<i>26 Weeks Ended</i> <i>June 27</i> <i>2004</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 46	\$ (9,120)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,908	21,365
Asset impairments	-	789
Restructuring charges	2,000	5,576
Gain on sale of discontinued operations	(552)	-
Pension and postretirement benefit expense	10,401	10,450
Amortization of unearned compensation - restricted stock	1,041	1,348
Loss on sale of assets	537	250
Deferred tax expense (benefit)	5,404	(6,131)
Other	232	265
Changes in operating assets and liabilities:		
Accounts and notes receivable	7,137	(3,793)
Inventories	5,328	(2,396)
Prepaid income taxes	(898)	555
Other assets	(1,019)	(3,170)
Restructuring spending	(3,264)	(5,100)
Accounts payable and accrued expenses	(10,010)	(4,368)
Pension and postretirement obligation	(8,917)	(10,825)
Deferred income	389	237
Other liabilities	(1,857)	181

Net cash provided by (used in) operating activities	26,906	(3,887)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to plant and equipment	(10,085)	(10,080)
Proceeds from sale of plant and equipment	286	1,630
Acquisitions	-	(1,503)
Additions to other investments	-	(121)
Net cash used in investing activities	(9,799)	(10,074)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in borrowings under revolving credit facility	(40,000)	(25,000)
Principal payments on long-term debt	(272)	(12)
Proceeds from issuance of common stock	1,383	784
Debt issuance costs	(769)	-
Dividends paid	(13,170)	(13,124)
Net cash used in financing activities	(52,828)	(37,352)
Effect of exchange rate changes on cash	(139)	(85)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(35,860)</b>	<b>(51,398)</b>
Cash and cash equivalents at beginning of period	44,088	76,959
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 8,228</b>	<b>\$ 25,561</b>

See accompanying notes.

**THE STANDARD REGISTER COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except per share amounts)**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The Company's investments in international joint ventures are included in the accompanying consolidated financial statements using the equity method of accounting. The Company's share of earnings (losses) from these joint ventures is included in Investment income (expense) for periods ending one month prior to the Company's fiscal period-end in order to ensure timely preparation of the consolidated financial statements. The consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended January 2, 2005 included in the Company's Annual Report on Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of trends or of results to be expected for a full year. Certain prior-year amounts have been reclassified to conform to the current-year presentation.

**NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share Based Payment (Revised 2004)," which requires that compensation costs relating to share-based payment transactions be recognized in the financial statements and includes implementation guidance on measuring the fair value of share-based payments. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued, preferred a fair-value-based method of accounting for share-based payment transactions with employees, but permitted the option of continuing to apply the guidance in Opinion No. 25 and disclosing in the footnotes the effect on net income of applying the preferred fair-value-based method.

The United States Securities and Exchange Commission (SEC) announced on April 14, 2005 that it approved a phased-in implementation process for SFAS No. 123(R). Under the new SEC implementation process, the Company's effective date for adopting SFAS No. 123(R) has been extended six months. The Company will adopt SFAS No.

123(R)'s fair value method of accounting for share-based payments to employees in the first quarter of fiscal 2006, as opposed to the third quarter of fiscal 2005, as originally required by SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 requires, unless impracticable, retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt the provisions of SFAS No. 154, as applicable, beginning in fiscal 2006 and does not anticipate that the adoption of this standard will have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

### **NOTE 3 DISCONTINUED OPERATIONS**

In December 2004, the Company sold selected assets and transferred selected liabilities of its equipment service business to Pitney Bowes. The transaction was completed on December 31, 2004 and resulted in a gain of \$12,820, net of income taxes of \$8,550. In second quarter of 2005, the Company finalized the working capital adjustment with Pitney Bowes related to the sale of the service business. The net impact of this adjustment and the adjustment of related reserves resulted in a \$552 increase in the gain on sale, net of income taxes.

The sale of the equipment service business, which had been a component of the Document and Label Solutions segment, met the criteria to be accounted for as a discontinued operation under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and the results of operations have been excluded from continuing operations in the accompanying Consolidated Statements of Income. Revenue of the equipment service business included in discontinued operations was \$5,633 and \$11,411 for the 13- and 26-week periods ended June 27, 2004. No interest expense was allocated to discontinued operations.

#### **NOTE 4 RESTRUCTURING AND IMPAIRMENT CHARGES**

In 2001, the Company completed major restructuring actions and, in the last three fiscal years, has executed additional restructuring actions as part of an on-going effort to realign resources to improve utilization and profitability. These restructuring plans are more fully described in Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005.

Liabilities for costs associated with a restructuring cannot be recorded until the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. Therefore, certain restructuring costs, primarily sublease payments and the associated taxes, utilities and maintenance costs, and remaining relocation costs will be expensed as incurred through 2006. All costs are included in restructuring charges in the accompanying Consolidated Statements of Income.

Pre-tax components of restructuring expense are as follows:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
<b>2004 Restructuring Actions</b>				
Severance and employer related costs	\$ 456	\$ 1,430	\$ 536	\$ 3,722
Contract exit and termination costs	664	(7)	673	128
Associated costs	-	15	-	60
Total 2004	<b>1,120</b>	1,438	<b>1,209</b>	3,910
<b>2003 Restructuring Actions</b>				
Contract exit and termination costs	47	171	151	293
Associated costs	-	-	-	146



Total 2003	<b>47</b>	171	<b>151</b>	439
<b>2001 Restructuring Actions</b>				
Contract exit and termination costs	<b>305</b>	586	<b>640</b>	1,187
Total 2001	<b>305</b>	586	<b>640</b>	1,187
Total restructuring expense	<b>\$ 1,472</b>	\$ 2,195	<b>\$ 2,000</b>	\$ 5,536
<b>2004 Restructuring</b>				

In 2004, the Company initiated several restructuring actions as part of a drive to reduce costs. The Company integrated its sales specialist organization with its regional sales organization to improve coordination, resource deployment, and productivity; adjusted its client services model to improve efficiency; and went to a shared service model in various administrative areas to reduce costs. The Company also outsourced part of its information technology operations, including hardware management, help desk support, and telecommunications. As a result of all these actions, the Company eliminated a significant number of positions, including four executive officer positions.

In addition, the Company reduced the workforce and leased office space at its InSystems headquarters. InSystems had experienced significant declines in their revenues and margins in recent periods, and the Company elected to reduce costs and refocus attention on InSystems' key product lines.

Most of the actions were completed by the end of 2004. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs for one sales office and a portion of the InSystems headquarters, including contractual obligations for taxes, utilities, and maintenance costs; and associated travel and moving costs related to the restructuring actions.

Late in June 2005, InSystems trimmed its staffing by an additional ten persons and elected to vacate and offer an additional portion of its headquarters facility for sublease. In conjunction with these actions, the Company recorded a pretax restructuring charge of approximately \$1.1 million in the second quarter of fiscal 2005. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs for a portion of the InSystems headquarters, including contractual obligations for taxes, utilities, and maintenance costs.

Remaining restructuring expense will be recorded through 2006, primarily for the vacated sales office, as the amount accrued is net of any expected sub-lease income and the Company has been unable to sublease this facility.

Pre-tax components of 2004 restructuring charges are as follows:

	<i>Total Costs Expected to be Incurred</i>		<i>Total Q2 2005 Restructuring Expense</i>		<i>Cumulative- To-Date Restructuring Expense</i>
Severance and employer related costs	\$ 10,722	\$	456	\$	10,648
Contract lease termination costs	1,998		664		1,954
Other exit costs	149		-		149
Total	\$ 12,869	\$	1,120	\$	12,751
<b>BY SEGMENT:</b>					
Document and Label Solutions	\$ 4,948	\$	(23)	\$	4,837
POD Services	710		-		703
InSystems	3,807		1,134		3,807
Other	3,404		9		3,404
Total	\$ 12,869	\$	1,120	\$	12,751

A summary of the 2004 restructuring accrual activity is as follows:

	<i>Charged to Accrual</i>	<i>Incurred in 2004</i>	<i>Reversed in 2004</i>	<i>Balance 2004</i>	<i>Charged to Accrual</i>	<i>Incurred in 2005</i>	<i>Balance 2005</i>
Severance and employer related costs	\$ 10,006	\$ (6,713)	\$ (384)	\$ 2,909	\$ 510	\$ (1,867)	\$ 1,552
Contract termination costs	1,278	(61)	(9)	1,208	652	(412)	1,448
Other	45	(45)	-	-	-	-	-
Total	\$ 11,329	\$ (6,819)	\$ (393)	\$ 4,117	\$ 1,162	\$ (2,279)	\$ 3,000

**2003 Restructuring**

In 2003, the Company initiated several restructuring actions to improve utilization and profitability. The Company consolidated four printing and service operations within the POD Services segment to form a new regional print-on-demand and fulfillment center in Dallas, Texas. Within the Document and Label Solutions segment, a rotary printing plant was closed to trim excess capacity, and several warehouses were consolidated. Within the InSystems segment, the Company determined that certain software development initiatives would not produce an adequate return and elected to stop further investment in those projects. In conjunction with this decision and to further reduce costs, the Company reduced staffing levels within this segment. The Company also relocated its SMARTworks operations and eliminated management and other positions at its corporate headquarters.

All of the actions were completed by the end of 2004. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs, including contractual obligations for taxes, utilities, and maintenance costs; and other associated costs directly related to the restructuring efforts, including travel, security, and the relocation of SMARTworks. At January 2, 2005, approximately \$573 of additional restructuring expense remained that will be recorded through 2006 related to vacated facilities that the Company has been unable to sublease.

Pre-tax components of 2003 restructuring charges are as follows:

	<i>Total Costs Expected to be Incurred</i>	<i>Total Q2 2005 Restructuring Expense</i>	<i>Cumulative To-date Restructuring Expense</i>
Severance and employer related costs	\$ 10,848	\$ -	\$ 10,848
Contract termination costs:			
Lease obligations	3,056	47	2,657
Contractual lease obligations for taxes, utilities, and maintenance costs	129	-	106
Associated costs:			
Travel	332	-	332
Equipment removal and relocation	2,908	-	2,908
Other exit costs	2,056	-	2,056
Total	\$ 19,329	\$ 47	\$ 18,907
<b>BY SEGMENT:</b>			
Document and Label Solutions	\$ 11,072	\$ -	\$ 11,109
POD Services	4,903	47	4,444
InSystems	2,252	-	2,252
Other	1,102	-	1,102
Total	\$ 19,329	\$ 47	\$ 18,907

A summary of the 2003 restructuring accrual activity is as follows:

	<i>Charged to Accrual</i>	<i>Incurred in 2003</i>	<i>Reversed in 2003</i>	<i>Balance 2003</i>	<i>Incurred in 2004</i>	<i>Reversed in 2004</i>	<i>Balance 2004</i>	<i>Incurred in 2005</i>	<i>Balance 2005</i>
Severance and employer related costs	\$ 10,807	\$ (9,415)	\$ (64)	\$ 1,328	\$ (1,248)	\$ (72)	\$ 8	\$ -	\$ 8
Contract termination costs	2,330	(830)	-	1,500	(850)	-	650	(168)	482
Total	\$ 13,137	\$ (10,245)	\$ (64)	\$ 2,828	\$ (2,098)	\$ (72)	\$ 658	\$ (168)	\$ 490

**2001 Restructuring**

Due to the nature of the charges and the duration of the 2001 restructuring program, estimates of the liability for contract exit costs required significant judgment. The Company has been unable to sublease as many of the facilities as expected or to buy out the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. At January 2, 2005, an additional \$1,244 of restructuring expense remained that will be recorded through 2006 related to vacated facilities that the Company has been unable to sublease, of which \$640 was expensed in the first half of 2005.

**Net Assets Held For Sale**

At January 2, 2005, the Company classified a vacant parcel of land in North Carolina with a carrying value of \$175 as held for sale in the accompanying Consolidated Balance Sheet. The Company expects to sell the land in 2005 and record a gain.

**NOTE 5 INVENTORIES**

The components of inventories are as follows:

	<i>July 3, 2005</i>	<i>January 2, 2005</i>
Finished products	\$ 39,494	\$ 41,448
Jobs in process	2,995	5,101
Materials and supplies	3,979	5,247
Total	\$ 46,468	\$ 51,796

**NOTE 6 GOODWILL AND INTANGIBLE ASSETS**

During the second quarter of 2005, the Company performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are calculated using discounted expected future cash flows, using a risk-adjusted discount rate. Based upon the test results, the Company determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

**NOTE 7 LONG-TERM DEBT**

	<i>July 3, 2005</i>	<i>January 2, 2005</i>
Revolving credit facility	\$ 40,000	\$ 80,000
Capital lease obligations	1,144	1,416
Total	41,144	81,416
Less current portion	552	80,549
Long-term portion	\$ 40,592	\$ 867

On May 9, 2005, the Company entered into a \$100 million five-year senior secured revolving credit facility (the New Facility) with seven banks. The New Facility replaces the Company's \$150 million unsecured revolving credit facility

agreement that expired on May 11, 2005.

The New Facility is secured by the Company's accounts receivable and inventories and certain other assets of the Company. The New Facility contains a fixed charge coverage covenant test that becomes applicable if the sum of available unborrowed credit plus certain cash balances falls below \$10 million.

The New Facility provides for the payment of interest on amounts borrowed at an annual rate equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin based on the sum of available unborrowed credit plus certain cash balances. The interest rate, including the spread, was 6.25% at July 3, 2005. The Company is also required to pay a fee on the unused portion of the New Facility. As of July 3, 2005, such fee is payable at an annual rate of 37.5 basis points.

At the time of expiration of the Company's previous revolving credit facility, \$40 million was outstanding. This amount was immediately transferred to the New Facility.

**NOTE 8 EARNINGS PER SHARE**

The number of shares outstanding for calculation of earnings per share (EPS) is as follows:

(Shares in thousands)	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
Weighted average shares outstanding - basic	<b>28,771</b>	28,558	<b>28,657</b>	28,521
Dilutive effect of stock options	-	-	<b>11</b>	-
Weighted average shares outstanding - diluted	<b>28,771</b>	28,558	<b>28,668</b>	28,521

The effects of stock options on diluted EPS are reflected through the application of the treasury stock method. Under this method, proceeds received by the Company, based on assumed exercise, are hypothetically used to repurchase the Company's shares at the average market price for the period. Outstanding options to purchase 2,052,168 shares in the six months ended July 3, 2005 were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price of the shares; therefore, the effect would be anti-dilutive. Due to the net losses incurred in second quarter 2005 and in second quarter and year-to-date 2004, no outstanding options were included in the EPS computation because they would automatically result in anti-dilution.

**NOTE 9 INCOME TAXES**

Ohio corporate tax legislation enacted on June 30, 2005, phases out the Ohio Corporate Franchise Tax and phases in a new gross receipts tax called the Commercial Activity Tax. The Corporate Franchise Tax was generally based on federal taxable income, but the Commercial Activity Tax is based on current year sales in Ohio. As required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, the Company recorded the impact of the change in Ohio tax legislation in the second quarter of 2005.

The effect of the change in tax legislation was to increase income taxes by \$2,861 in the second quarter of 2005 to reduce the deferred tax assets established for net operating loss benefits in Ohio that are not expected to be realized and other deferred tax assets, primarily related to employee benefit plans.



In the second quarter of 2005, the Company also revised its estimated annual effective tax rate to reflect the reduction in its statutory tax rate for the elimination of the Ohio Corporate Franchise Tax.

**NOTE 10 STOCK OPTIONS**

The Company has two stock-based employee compensation plans, which are fully described in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005. The Company accounts for those plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is recognized in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for the Company's stock-based employee compensation plans been determined based on the fair value of such awards at the grant dates consistent with the provisions of SFAS No. 123, the Company's total and per share net income would be reduced as follows:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
Net income (loss) from continuing operations, as reported	\$ (2,714)	\$ (3,131)	\$ (506)	\$ (9,937)
Less total compensation expense determined under the fair-value-based method for all awards, net	(49)	(424)	(82)	(825)
Proforma net income (loss) from continuing operations	\$ (2,763)	\$ (3,555)	\$ (588)	\$ (10,762)
Basic and diluted net income (loss) from continuing operations per share				
As reported	\$ (0.09)	\$ (0.11)	\$ (0.02)	\$ (0.35)
Proforma	\$ (0.10)	\$ (0.12)	\$ (0.02)	\$ (0.38)

**NOTE 11 PENSION PLANS**

The Company has a qualified defined benefit plan and a nonqualified supplementary benefit plan that provides supplemental pension payments in excess of qualified plan payments. In addition, the Company has a noncontributory supplemental nonqualified retirement plan for elected officers and a supplemental retirement agreement with its President and Chief Executive Officer under which he is entitled to receive supplemental retirement benefits upon attainment of certain age and employment requirements. These plans are more fully described in Note 16 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005.

Net periodic benefit cost includes the following components:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>

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Service cost of benefits earned	\$ 1,455	\$ 2,601	\$ 3,878	\$ 5,695
Interest cost on projected benefit obligation	6,684	6,674	13,306	13,390
Expected return on plan assets	(7,720)	(8,581)	(15,341)	(16,900)
Amortization of prior service costs	280	280	560	560
Amortization of net loss from prior periods	4,389	4,257	9,494	8,720
Total	\$ 5,088	\$ 5,231	\$ 11,897	\$ 11,465

The Company does not have a minimum funding requirement in 2005. The Company contributed \$8,000 and \$10,000 to the qualified pension plan in the first six months of 2005 and 2004, respectively.

**NOTE 12 POSTRETIREMENT BENEFITS OTHER THAN PENSION**

In addition to providing pension benefits, the Company provides certain healthcare benefits for eligible retired employees as described in Note 17 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005.

Postretirement benefit cost includes the following components:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	<b>515</b>	617	<b>1,031</b>	1,234
Amortization of prior service cost	<b>(551)</b>	(551)	<b>(1,103)</b>	(1,103)
Amortization of net loss from prior periods	<b>131</b>	333	<b>262</b>	667
Total	\$ <b>95</b>	\$ 399	\$ <b>190</b>	\$ 798

The funding policy is to pay claims as they occur. Payments for postretirement health benefits, net of retiree contributions, were approximately \$933 and \$930 for the 13-week periods ended July 3, 2005 and June 27, 2004, respectively and \$1,612 and \$1,800 for the 26-week periods ended July 3, 2005 and June 27, 2004, respectively.

### NOTE 13 SEGMENT REPORTING

Information about the Company's operations by segment for the 13-week periods ended July 3, 2005 and June 27, 2004 is as follows:

		<i>Document and Label Solutions</i>	<i>POD Services</i>	<i>InSystems</i>	<i>Digital Solutions</i>	<i>Other</i>	<i>Total</i>
Revenue from		\$					
external	<b>2005</b>	<b>154,344</b>	\$ <b>59,397</b>	\$ <b>2,962</b>	\$ <b>40</b>	\$ <b>8,715</b>	\$ <b>225,458</b>
customers	2004	152,700	59,836	2,927	-	5,390	220,853
		\$					
Operating	(a) <b>2005</b>	<b>9,807</b>	\$ <b>373</b>	\$ <b>(2,697)</b>	\$ <b>(1,353)</b>	\$ <b>(939)</b>	\$ <b>5,191</b>
income (loss)	(b) 2004	3,810	163	(3,225)	(1,799)	(1,332)	(2,383)

(a) 2005 operating income (loss) includes the following restructuring charges

\$							
(23)	\$	47	\$	1,134	\$	-	\$ - \$ 1,158

(b) 2004 operating income (loss) includes the following restructuring charges

\$							
443	\$	113	\$	544	\$	-	\$ 260 \$ 1,360

Information about the Company's operations by segment for the 26-week periods ended July 3, 2005 and June 27, 2004 is as follows:

			<i>Document and Label Solutions</i>	<i>POD Services</i>	<i>InSystems</i>	<i>Digital Solutions</i>	<i>Other</i>	<i>Total</i>	
Revenue from external customers						\$			
	<b>2005</b>	\$	<b>313,205</b>	\$	<b>121,050</b>	\$	<b>87</b>	\$ <b>17,529</b>	\$ <b>457,437</b>
	2004		305,287		119,369	6,218	-	10,255	441,129
					\$	\$	\$		
Operating income (loss)	(a) <b>2005</b>	\$	<b>21,274</b>	\$	<b>1,408</b>	<b>(4,068)</b>	<b>(3,013)</b>	<b>(1,248)</b>	\$ <b>14,353</b>
	(b) 2004		5,350		(2,290)	(5,694)	(3,091)	(3,158)	(8,883)
						\$	\$		
Total assets	<b>2005</b>	\$	<b>242,705</b>	\$	<b>67,947</b>	\$	<b>1,856</b>	<b>9,205</b>	\$ <b>347,590</b>
	2004		274,061		70,811	85,486	2,026	8,988	441,372

(a) 2005 operating income (loss) includes the following restructuring charges

\$						\$	\$
101	\$	116	\$	1,134	-	-	\$ 1,351

(b) 2004 operating income (loss) includes the following restructuring charges

\$	\$	\$	\$	\$	\$
2,654	352	544	-	260	3,810

Reconciling information between reportable segments and the Company's consolidated financial statements for the 13- and 26-week periods ended July 3, 2005 and June 27, 2004 is as follows:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
Operating income (loss)	\$ 5,191	\$ (2,383)	\$ 14,353	\$ (8,883)
Corporate restructuring charges	(314)	(1,624)	(649)	(2,515)
LIFO Adjustment	(254)	-	(511)	-
Other unallocated corporate expense	(3,604)	(1,779)	(7,709)	(4,821)
Total other expense	(646)	(563)	(1,213)	(1,203)
Income (loss) from continuing operations before income taxes	\$ 373	\$ (6,349)	\$ 4,271	\$ (17,422)
Total Assets			\$ 347,590	\$ 441,372
Corporate and unallocated			131,634	138,788
Total consolidated assets			\$ 479,224	\$ 580,160

**Item 2 -**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** *(Dollars in Millions, Except Per Share Amounts)*

References to we, us, our, the Company, or Standard Register refer to The Standard Register Company unless the context indicates otherwise.

**FORWARD-LOOKING INFORMATION**

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995.

Because such statements deal with future events, they are subject to various risks and uncertainties and actual results for fiscal year 2005 and beyond could differ materially from the Company's current expectations. Forward-looking statements are identified by words such as anticipates, projects, expects, plans, intends, believes, estimates, and other similar expressions that indicate trends and future events. Factors that could cause the Company's results to differ materially from those expressed in forward-looking statements include, without limitation, variation in demand and acceptance of the Company's products and services; the frequency, magnitude, and timing of paper and other raw material price changes; general business and economic conditions beyond the Company's control; timing of the completion and integration of acquisitions; the consequences of competitive factors in the marketplace; ability to retain large customer contracts; the Company's success in attracting and retaining key personnel; and the effect of alternative technologies on the Company's traditional product offerings. The Company undertakes no obligation to update forward-looking statements as a result of new information since these statements may no longer be accurate or timely. We caution you that the following risks and factors, and those other business risks discussed elsewhere in this report, could cause our actual results to differ materially from those included in forward-looking statements.

*Variation in demand and acceptance of our products and services*

We have a wide array of products and services - from printed products to digital solutions to managed services. Our custom-printed single- and multiple-part business forms represent mature products that are in decline as companies increasingly adopt software and other e-business solutions. These declines could be offset by capturing increased market share in the traditional document label business and generating new revenue through solutions such as print-on-demand, document automation software and print managed services. Demand for our new offerings will vary by customer and industry, depending on their technological advancement and business priorities.

*The effect of alternative technologies on our traditional product offerings*

The market for our traditional products is undergoing significant change. Our success, in part, is dependent on our ability to successfully develop and introduce new digital products and services.

*Frequency, magnitude, and timing of paper and other raw material price changes*

When paper mills raise prices on raw material, we generally increase prices to recover these costs. While we have historically been successful in passing on most increases over several quarters, there is no guarantee that we will be successful in the future.

*General business and economic conditions beyond our control*

Economic conditions impact the demand for our products and services. A weak economy can cause delays in customers' investments in technology, business process improvements and other initiatives as well as cause lower consumption of forms, labels, and customer communications through reduced business activity.

*Timing of the completion and integration of acquisitions*

In order to take advantage of growth opportunities and to enhance the products and services we offer, we have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include: (1) our ability to achieve strategic objectives, cost savings, and other benefits from the acquisition; (2) the risk that the technologies acquired do not prove to be those needed to succeed in those markets; (3) the potential loss of key employees of the acquired business; (4) the risk of entering new markets in which we have limited experience; and (5) the impact from future impairments of goodwill of an acquired business.

*Consequences of competitive factors in the marketplace*

Some of the industries in which we operate are highly competitive and we expect that this level of competition on pricing and product offerings will continue. Factors that could affect our ability to compete successfully include competitive pressures that result in increased price reductions and further consolidation of the forms industry, resulting in larger competitors.



*Ability to retain large customer contracts*

Approximately 35% of our revenue is generated through contractual agreements with a number of healthcare group purchasing organizations. Our ability to retain and grow these relationships generally impacts revenue in this industry segment.

*Success in attracting and retaining key personnel*

Our success depends in large part on our ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. The loss of services of our key personnel or our inability to attract or retain qualified personnel in the future could impair our ability to meet our key objectives.

**OVERVIEW**

*The Company*

We are a leading provider of information solutions for the healthcare, financial services, insurance, pharmaceutical, manufacturing, and transportation industries. Our products and services include the design, production, management, and distribution of printed and electronic documents; label solutions; data-capture systems; document security; fulfillment and other outsourcing services; e-business solutions; and consulting services.

As a strategic partner in migrating companies from paper-based to digital processes, our strategy is to provide a full spectrum of solutions from printed documents to consulting to digital solutions and continue to expand capabilities that help organizations effectively capture, manage, and use information to improve their business results.

Organizations leverage Standard Register's deep industry expertise and innovative solutions to increase efficiency, reduce cost, enhance security, and strengthen customer loyalty. Our operations include four reportable segments: Document and Label Solutions, POD Services, InSystems, and Digital Solutions.

*Industry Challenges*

The overall market for most traditional long-run printed business documents will increasingly be marked by unfavorable economic forces. The industry is currently oversupplied and competing software and Internet technologies will continue to make inroads, eliminating or devaluing the role of many traditional paper forms. These conditions will contribute to lower unit demand and weaker pricing for many products. The pace of change is expected to be gradual, but is difficult to predict.

Advances in digital printing will increasingly intrude on the quality and cost advantages historically claimed by conventional long-run offset printing. For many print applications, this will require the industry to add capital investment and will accelerate the commoditization of custom printed documents. The traditional long-run web print business is evolving toward a digital-print-on demand business and we will invest and participate in this market. It is a natural extension of the long-run, web-print business.

*Business Challenges*

The above industry conditions, combined with some post-2001 restructuring sales productivity issues, resulted in substantial revenue and operating profit decreases in 2002 and 2003. A realignment of our sales force and other sales initiatives, together with an improving economy, contributed to a more stable revenue picture in 2004. Future revenue growth in our traditional product segment will require a gain in market share.

Our strategy of expanding our portfolio of products and services to provide for long-term growth requires that we redirect some investment away from traditional capital spending and toward people, technology, and other capabilities, most of which are expensed. This places additional stress on our near-term profitability, but is aimed at growing digital print-on-demand and other service and technology-based businesses.

By September 2002, the weak stock market and historically low interest rates drove our pension plan from an overfunded to an underfunded position. The amortization of these past asset and liability losses, although non-cash in nature, had a significant impact on 2003 and 2004 financial results. Pensions produced income in 2002 equal to \$0.04 per share, but resulted in annual expense in 2004 equivalent to \$0.49 per share. Pension expense for 2005 is currently estimated at \$0.50 per share.

Paper companies instituted three price increases during 2004, and an additional increase in early 2005, reflecting high operating rates at paper mills and escalating energy costs. Rising inventories, lower operating rates, and modest discounts in some grades are an indication of a somewhat weaker paper market at mid-year 2005. Paper companies are taking capacity off-line in an effort to prop up prices and there continues to be industry talk of a price increase later in 2005. Market fundamentals do not currently seem to support such a move, however. We increased our target selling prices in 2004 and have made progress in an attempt to recover the paper cost increases. With each paper cost increase, we expect margins to worsen initially and to then recover over a period of several quarters as selling price increases are negotiated; however, there is no guarantee that we will be successful.

### ***Our Focus***

Our objective is to improve the sales trend in our core document business by taking market share in targeted accounts and vertical markets where we have a strong reputation and value proposition. We will continue to reduce costs and improve productivity in order to stay cost competitive.

We plan to address the large and growing market to provide for digital print-on-demand output, including color and variable print. Services that provide the customer with added convenience, design capability, and control over the process are expected to be a strong differentiator.

We intend to continue to bring our customers products and services that improve their ability to capture, manage, and move information in their business processes. We also offer a portfolio of Standard Register managed services that help our customers reduce costs and improve their business processes, allowing them to concentrate on their core competencies.

In addition, we will focus on improving the performance of operations that currently do not make a sufficient contribution to profit, and on improving our overall productivity. We previously announced an objective to improve our pretax operating profit before restructuring and impairment charges by five percentage points as a percent of revenue, from the first half of 2004 to the second half of 2005. The first half 2005 results reflect a 3.8 percentage point improvement thus far over the first half of 2004. We expect to see further improvement in the second half of the year, but our current outlook indicates we may fall short of our five- percentage point goal as a result of investments in our Digital Pen and Paper (DPP) and Print-on-Demand (POD) Services initiatives.

DPP is an emerging market that shows promise. Although the initial adoption rate is proving slower than originally expected, we are encouraged by the results of our many customer pilots and the growing list of channel partners. The second half of 2005 calls for continued investment in product and market development, despite the scaled back revenue forecast.

In addition, we have concluded that we must step up the level of investment in our POD Services business in order to ensure that we catch the building market momentum in this important growth segment. This will translate into an up-tick in our capital expenditures and selling, general, and administrative expenses in the second half of the year.

We will continue to strive for the five- percentage point improvement, but that goal must be secondary to our strategic long-term business interests.

We expect to continue to focus on cash flow and maintain our current strong financial condition.

### **CRITICAL ACCOUNTING POLICIES**

In preparing these unaudited financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended January 2, 2005. Preparation of these unaudited financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although we believe our estimates and assumptions are reasonable, they are based on information presently available and actual results may differ significantly from those estimates.

We believe that some of the more critical estimates and related assumptions are in the areas of pension and postretirement healthcare benefits, impairment of long-lived assets, and deferred taxes. For a detailed discussion of these critical accounting estimates, see the Management Discussion and Analysis included in our Annual Report on Form 10-K for the year ended January 2, 2005.

*Goodwill and Intangible Assets* Goodwill and indefinite-lived intangibles are required to be evaluated for impairment on an annual basis, or more frequently if impairment indicators arise.

During the second quarter of 2005, we performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Based upon the test results, we determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

In performing the test for impairment, we made assumptions about future sales and profitability that required significant judgment. In estimating expected future cash flows for the 2005 test, we used internal forecasts that were based upon actual results, assuming flat to slightly increasing revenue, substantial cost and gross margin improvement due to a higher mix of more profitable products and improved operations. At the time of the 2005 impairment test, the carrying value of net assets for PlanetPrint was \$9.5 million. The most critical estimates used in determining the expected future cash flows were the revenue and cost assumptions and the terminal value assumed. If our estimate of expected future cash flows had been 10% lower, or if either of these two assumptions changed by 10%, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

#### *Deferred Taxes*

We record income taxes under the asset and liability method. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets.

At January 2, 2005, we had a net deferred tax asset of \$103.1 million attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans, tax planning strategies, and other expectations about future outcomes. Since the effect of a change in tax rates is recognized in earnings in the period when the changes are enacted, changes in existing tax laws or rates could affect actual tax results, and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time.

The realizability of our deferred tax assets is primarily dependent on the future taxable income of the taxable entity to which the deferred tax asset relates. We evaluate all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

Ohio corporate tax legislation enacted on June 30, 2005, phases out the Ohio Corporate Franchise Tax and phases in a new gross receipts tax called the Commercial Activity Tax. The Corporate Franchise Tax was generally based on federal taxable income, but the Commercial Activity Tax is based on current year sales in Ohio.

This change in tax legislation resulted in a net charge of \$2.9 million in the second quarter of 2005 to reduce the deferred tax assets established for net operating losses in Ohio that are not expected to be realized and other deferred tax assets, primarily related to employee benefit plans.

We have discussed the development and selection of the critical accounting policies and the related disclosure included herein with the Audit Committee of the Board of Directors.

## **RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an understanding of our consolidated results of operations and financial condition, supplemented with a discussion of segment results. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

This discussion presents information that excludes restructuring and impairment expense, pension loss amortization, and the Ohio Tax Law Change. These financial measures are considered non-GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows where amounts are either excluded or included not in accordance with generally accepted accounting principles (GAAP). We believe that this information will enhance an overall understanding of our financial performance due to the non-operational nature of the above items and the significant change from period to period. The presentation of non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States.

Unless otherwise noted, references to 2005 and 2004 refer to the thirteen and twenty-six-week periods ended July 3, 2005 and June 27, 2004.

	<i>Second Quarter</i>		<i>Year-to-Date</i>	
<b>Continuing Operations</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 225.5	\$ 220.9	\$ 457.4	\$ 441.1
% Change	2.1%	-2.7%	3.7%	-3.4%
Gross Margin	78.4	80.7	162.5	163.7
% Revenue	34.8%	36.6%	35.5%	37.1%
SG&A Expense	65.2	72.8	134.1	152.3
Depreciation and Amortization	10.7	10.7	20.9	21.3
Asset Impairments	-	0.8	-	0.8
Restructuring Expense	1.5	2.2	2.0	5.5
Income (Loss) From Continuing Operations	1.0	(5.8)	5.5	(16.2)
Interest Expense	(0.6)	(0.6)	(1.3)	(1.3)
Investment and Other Income	-	0.1	0.1	0.1
Pretax Income (Loss) from Continuing Operations	0.4	(6.3)	4.3	(17.4)
Ohio Tax Law Change	2.9	-	2.9	-
Other Income Tax Expense (Benefit)	0.2	3.2	1.9	7.5
Net Loss from Continuing Operations	\$ (2.7)	\$ (3.1)	\$ (0.5)	\$ (9.9)
<b>Discontinued Operations</b>				
Income from Discontinued Operations, net of taxes	-	0.5	-	0.8
Gain on Sale of Discontinued Operations, net of taxes	0.4	-	0.5	-
<b>Net Loss</b>	\$ (2.3)	\$ (2.6)	\$ -	\$ (9.1)
<b>Effects to Earnings Per Share</b>				
<b>Continuing Operations</b>				
Restructuring and Impairment Expense	\$ (0.02)	\$ (0.06)	\$ (0.04)	\$ (0.14)
Pension Loss Amortization	(0.06)	(0.09)	(0.18)	(0.19)
Ohio Tax Law Change	(0.10)	-	(0.10)	-
Other	0.09	0.04	0.30	(0.02)
Total	\$ (0.09)	\$ (0.11)	\$ (0.02)	\$ (0.35)

**Discontinued Operations**

Income	\$	-	\$	0.02	\$	-	\$	0.03
Gain on Sale		<b>0.01</b>		-		<b>0.02</b>		-
Total	\$	<b>0.01</b>	\$	0.02	\$	<b>0.02</b>	\$	0.03
<b>Net Loss Per Share</b>	\$	<b>(0.08)</b>		(0.09)	\$	-		(0.32)

***Discontinued Operations***

In December 2004, we sold selected assets and transferred selected liabilities of our equipment service business to Pitney Bowes. The transaction was completed on December 31, 2004 and resulted in a gain of \$12.8 million, net of income taxes of \$8.6 million. In the second quarter of 2005, we finalized the working capital adjustment with Pitney Bowes related to the sale of the service business. The net impact of this adjustment and the adjustment of related reserves resulted in a \$0.6 million increase in the gain on sale, net of income taxes.

The sale of the equipment service business, which had been a component of the Document and Label Solutions segment, was accounted for as a discontinued operation; accordingly, the results of its operations have been excluded from continuing operations in the accompanying Consolidated Statements of Operations. Revenue of the equipment service business included in discontinued operations was \$5.6 million and \$11.4 million for the 13- and 26-week periods ended June 27, 2004. No interest expense was allocated to discontinued operations. The following discussion focuses on the results of continuing operations.



## Revenue

We have invested a significant amount of energy in our effort to improve revenue performance. The revenue declines experienced in 2001 and, to a lesser extent, in 2002, were primarily the result of the 2001 restructuring plan to eliminate unprofitable business and reduce assets and cost. The years 2003 and 2004 witnessed eight quarters of relative stability in revenue. The goal for fiscal year 2005 is for modest growth on a 52-week basis (2004 fiscal year contained 53 weeks).

On a consolidated basis, revenue for the first half of 2005 increased \$16.3 million, or 3.7% compared with 2004. We continue to make progress in negotiating higher document selling prices in order to recover the paper cost increases incurred during 2004 and early 2005. Higher discounting in both new and existing business was more than offset by price increases implemented in response to paper cost increases. In combination, higher pricing accounted for nearly half of the revenue increase in the first half of 2005. The balance of the revenue increase was attributed to increased unit volume, primarily as a result of our commercial print initiative. Revenue in the second quarter of 2005 increased \$4.6 million, or 2.1%, compared with 2004, primarily from increased unit volume in commercial print. Price increases were mostly offset by higher discounting of business in response to competitive pressure.

The table below presents revenue from continuing operations by reportable segment:

	<i>Second Quarter</i>				<i>Year-to-Date</i>			
	<i>2005</i>		<i>2004</i>		<i>2005</i>		<i>2004</i>	
	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
	<i>Change</i>		<i>Change</i>	<i>Change</i>		<i>Change</i>		<i>Change</i>
Document and Label Solutions	\$ 154.4	1.1%	\$ 152.8	-3.5%	\$ 313.2	2.6%	\$ 305.3	-3.8%
POD Services	59.4	-0.7%	59.8	0.5%	121.0	1.4%	119.4	0.0%
InSystems	3.0	1.2%	2.9	-31.0%	5.6	-10.5%	6.2	-39.0%
Digital Solutions	-	-	-	-	0.1	-	-	-
Other	8.7	61.7%	5.4	11.0%	17.5	70.9%	10.2	8.2%
<b>Total</b>	<b>\$ 225.5</b>	<b>2.1%</b>	<b>\$ 220.9</b>	<b>-2.7%</b>	<b>\$ 457.4</b>	<b>3.7%</b>	<b>\$ 441.1</b>	<b>-3.4%</b>

The markets for certain of our core Document and Label Solutions (DLS) products and services are generally oversupplied with flat-to-declining demand for many traditional products and faced with aggressive price competition.

However, the industry is still typically able to pass through paper cost increases, although it ordinarily takes several quarters. In both the second quarter and first half of 2005, the majority of the revenue increase for DLS was attributable to price. Unit growth in distribution services and labels was offset by declines in document systems and traditional print products.

POD Services revenue is generated through the sale of a variety of short-run, quick turnaround printed products and related services. Print may be digital or offset. POD Services revenue for the first half of 2005 generally reflected the on-going industry trend away from offset and toward digital. Document outsourcing, imprinting, and fulfillment services all showed revenue increases which were offset by unit volume declines in offset printing and at our Stanfast printing centers in the second quarter of 2005. As was the case in the DLS segment, higher prices accounted for a significant share of the overall year-to-date revenue increase.

InSystems reversed its recent downward revenue trend by generating growth in software license fee revenue in the second quarter of 2005, which offset declines in revenue from professional services. License fee sales were largely generated from new accounts. InSystems revenue declined in the first half of 2005 compared with the first half of 2004, a result of lower sales from professional services that can be traced to prior quarters reduced license fee revenue. The installed maintenance revenue base remained stable in the first half of the year, with maintenance revenue growing 12% over 2004.

Digital Solutions is a start-up software and services venture based on the application of our newly emerging digital pen and paper technology. We continue to test the application at several potential customer sites. Investment is focused on continued product development, customer trials, and efforts aimed at market acceptance. Our ExpeData(R) Digital Writing Solution is available for hosting by partners globally, enabling select international companies to print uniquely patterned digital paper locally and host the Application Service Provider (ASP) technology in their respective countries. Print Media Group (PMG), Australia is the first international company to host the ExpeData Digital Writing Solution. In addition to hosting the ASP in Australia, PMG has committed to purchase the ExpeData Print Solution.

### ***Gross Margin***

Gross margin for the second quarter of 2005 decreased \$2.3 million compared to second quarter 2004; gross margin for the first half of 2005 decreased \$1.2 million versus 2004. As a percentage of revenue, gross margin was 34.8% and 35.5% for the second quarter and first half of 2005 compared with 36.6% and 37.1% in the comparable periods of 2004. The first quarter of 2004 included a one-time supplier rebate of \$2.8 million, equivalent to 1.3% of revenue in the second quarter and 0.6% year-to-date.

As discussed above, approximately half of the revenue increase was attributable to price, which is offset by higher paper costs and produces no increase in gross margin. Manufacturing costs continue to be substantially lower than the prior year, primarily as a result of lower staffing and other cost reduction actions taken in recent periods. However much of the unit growth in the first half of 2005 was in lower margin products such as our commercial print initiative. We continue to be successful in gaining new business; however, market competitiveness is having a negative impact on our gross margin.

### ***SG&A Expense***

Selling, general, and administrative and research and development (SG&A) expense decreased \$7.6 million and \$18.2 million in the second quarter and year-to-date periods of 2005 as compared to the prior year. These reductions are primarily the result of lower staffing from restructuring actions taken last year. An updated actuarial analysis, based on final 2004 census data, indicates lower pension expense for 2005 than originally estimated - \$23.8 million vs. \$27.2 million. A \$0.9 million favorable adjustment was made in the second quarter of 2005 to adjust year-to-date expense. Approximately \$19.0 million of the \$23.8 million in annual 2005 expense relates to the amortization of past pension losses.

### ***Income Taxes***

The State of Ohio enacted new tax legislation in June 2005 that had a significant unfavorable effect on income taxes. As required by Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, we recorded the impact of the change in Ohio tax legislation in the second quarter of 2005. This resulted in a net charge of \$2.9 million, or \$0.10 per share, reflected in income taxes for the second quarter. In the second quarter of 2005, we also revised our estimated annual effective tax rate to reflect the reduction in our statutory tax rate for the elimination of the Ohio Corporate Franchise Tax.

The effect of this tax rate change on net income in future periods is not expected to be material.

### ***Income (Loss) from Continuing Operations***

The table below isolates the effects of restructuring charges and pension loss amortization on the comparable quarterly results:

	<i>Effect on Second Quarter Income</i>			<i>Effect on Year-to-Date Income</i>		
	<i>2005</i>	<i>2004</i>	<i>Change</i>	<i>2005</i>	<i>2004</i>	<i>Change</i>
<b>Continuing Operations</b>						
Restructuring Expense	\$ (1.5)	\$ (2.2)	\$ 0.7	\$ (2.0)	\$ (5.5)	\$ 3.5
Pension Loss Amortization	(4.4)	(4.3)	(0.1)	(9.5)	(8.7)	(0.8)
Asset Impairments	-	(0.8)	0.8	-	(0.8)	0.8
All Other Operations	6.3	1.0	5.3	15.8	(2.4)	18.2
Pretax Income (Loss) from Continuing Operations	0.4	(6.3)	6.7	4.3	(17.4)	21.7
Ohio Tax Law Change	2.9	-	2.9	2.9	-	2.9
Other Income Tax Expense (Benefit)	0.2	(3.2)	3.4	1.9	(7.5)	9.4
Net Loss from Continuing Operations	(2.7)	(3.1)	0.4	(0.5)	(9.9)	9.4
<b>Discontinued Operations</b>						
Income from Discontinued Operations, net of taxes	-	0.5	(0.5)	-	0.8	(0.8)
Gain on Sale of Discontinued Operations, net of taxes	0.4	-	0.4	0.5	-	0.5
<b>Total Discontinued Operations</b>	<b>0.4</b>	<b>0.5</b>	<b>(0.1)</b>	<b>0.5</b>	<b>0.8</b>	<b>(0.3)</b>
<b>Net Loss</b>	<b>\$ (2.3)</b>	<b>\$ (2.6)</b>	<b>\$ 0.3</b>	<b>\$ -</b>	<b>\$ (9.1)</b>	<b>\$ 9.1</b>

Restructuring expense was \$1.5 million and \$2.0 million in the second quarter and first half of 2005, primarily from recent restructuring actions at InSystems and residual lease facility costs related to actions undertaken in previous years. Pension loss amortization was \$4.4 million and \$9.5 million for the second quarter and first half of 2005, originating in large part from weak stock market returns in earlier years. All other operations in the first half of 2005 contributed \$15.8 million of pretax income, compared to a deficit of \$2.4 million in the prior year. Lower operating costs and expenses, plus the improved revenue, primarily drove the \$18.2 million improvement.

The table below presents income (loss) from continuing operations for each reportable segment. The amounts exclude LIFO inventory adjustments, certain components of pension expense, and corporate restructuring expense.

	<i>Second Quarter</i>				<i>Year-to-Date</i>			
	<i>2005</i>		<i>2004</i>		<i>2005</i>		<i>2004</i>	
	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
	<i>Revenue</i>		<i>Revenue</i>	<i>Revenue</i>	<i>Revenue</i>	<i>Revenue</i>	<i>Revenue</i>	<i>Revenue</i>
Document and Label Solutions	\$ 9.8	6.4%	\$ 3.8	2.5%	\$ 21.3	6.8%	\$ 5.4	1.8%
POD Services	0.4	0.6%	0.2	0.3%	1.4	1.2%	(2.3)	-1.9%
InSystems	(2.7)	-91.1%	(3.2)	-110.2%	(4.1)	-102.3%	(5.7)	-91.6%
Digital Solutions	(1.4)	-	(1.8)	-	(3.0)	-	(3.1)	-
Other	(0.9)	-10.8%	(1.3)	-24.7%	(1.2)	-7.2%	(3.2)	-30.8%
Total	\$ 5.2	2.3%	\$ (2.3)	1.1%	\$ 14.4	3.1%	\$ (8.9)	2.1%

Second quarter operating income for DLS includes \$0.4 million of restructuring expense in 2004. Year-to-date operating income includes \$0.1 million of restructuring expense in 2005 and \$2.7 million in 2004.

Second quarter operating income for POD Services includes \$0.1 million of restructuring expense in 2004. Year-to-date operating income includes \$0.1 million of restructuring expense in 2005 and \$0.4 million of restructuring and impairment expense in 2004.

Second quarter and year-to-date operating loss for InSystems include \$1.1 million of restructuring expense in 2005 and \$0.5 million of asset impairment charges in 2004.

DLS and POD Services operating profits in 2005 improved as a result of the progress made in recovering the higher paper costs, plus the growth of their respective service-based offerings. However, the primary driver of the increased operating margin was improved productivity and lower costs.

Insystems operated at a \$4.1 million loss for the first half of 2005, an improvement from the prior year's results. The restructuring actions taken last year were aimed at operating in the near term, at or above break-even before non-cash depreciation, intangible amortization, and restructuring.

The loss for Digital Solutions represents operating expenses incurred to develop and market their products; there was minimal revenue in 2005.

### ***Restructuring and Impairment***

In 2001, we completed major restructuring actions and, in the last three fiscal years, have executed additional restructuring actions as part of an on-going effort to realign resources to improve utilization and profitability. These restructuring plans are more fully described in Note 4 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended January 2, 2005.

Liabilities for costs associated with a restructuring cannot be recorded until the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. Therefore, certain restructuring costs, primarily sublease payments and the associated taxes, utilities and maintenance costs, and remaining relocation costs will be expensed as incurred through 2006. All costs are included in restructuring charges in the accompanying Consolidated Statements of Income.

Pre-tax components of restructuring expense are as follows:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>July 3, 2005</i>	<i>June 27, 2004</i>	<i>July 3, 2005</i>	<i>June 27, 2004</i>
<b>2004 Restructuring Actions</b>				
Severance and employer related costs	\$ 0.4	\$ 1.4	\$ 0.5	\$ 3.8
Contract exit and termination costs	0.7	-	0.7	0.1
Associated costs	-	-	-	-
Total 2004	1.1	1.4	1.2	3.9
<b>2003 Restructuring Actions</b>				
Contract exit and termination costs	0.1	0.2	0.2	0.3
Associated costs	-	-	-	0.1
Total 2003	0.1	0.2	0.2	0.4
<b>2001 Restructuring Actions</b>				
Contract exit and termination costs	0.3	0.6	0.6	1.3
Total 2001	0.3	0.6	0.6	1.3
Total restructuring expense	\$ 1.5	\$ 2.2	\$ 2.0	\$ 5.6

#### ***2004 Restructuring***

In 2004, we initiated several restructuring actions as part of a drive to reduce costs. We integrated our sales specialist organization with our regional sales organization to improve coordination, resource deployment, and productivity; adjusted our client services model to improve efficiency; and went to a shared service model in various administrative areas to reduce costs. We also outsourced part of our information technology operations, including hardware management, help desk support, and telecommunications. As a result of all these actions, we eliminated a significant number of positions, including four executive officer positions.

In addition, we reduced the workforce and leased office space at our InSystems headquarters. InSystems had experienced significant declines in their revenues and margins in recent periods, and we elected to reduce costs and refocus attention on InSystems key product lines.

Most of the actions were completed by the end of 2004. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs for one sales office and a portion of the InSystems headquarters, including contractual obligations for taxes, utilities, and maintenance costs; and associated travel and moving costs related to the restructuring actions. Remaining restructuring expense will be recorded through 2006, primarily for the vacated sales office, as the amount accrued is net of any expected sub-lease income and we have been unable to sublease this facility.

Late in June 2005, InSystems trimmed its staffing by an additional ten persons and elected to vacate and offer an additional portion of its headquarters facility for sublease. In conjunction with these actions, the Company recorded a pretax restructuring charge of approximately \$1.1 million in the second quarter of fiscal 2005. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs for a portion of the InSystems headquarters, including contractual obligations for taxes, utilities, and maintenance costs.



Pre-tax components of 2004 restructuring charges are as follows:

	<i>Total Costs Expected to be Incurred</i>		<i>Total Q2 2005 Restructuring Expense</i>		<i>Cumulative- To-Date Restructuring Expense</i>
Severance and employer related costs	\$ 10.7	\$	0.4	\$	10.6
Contract lease termination costs	2.0		0.7		2.0
Other exit costs	0.1		-		0.1
	\$ 12.8	\$	1.1	\$	12.7
<b>BY SEGMENT:</b>					
Document and Label Solutions	\$ 4.9	\$	-	\$	4.8
POD Services	0.7		-		0.7
InSystems	3.8		1.1		3.8
Other	3.4		-		3.4
Total	\$ 12.8	\$	1.1	\$	12.7

A summary of the 2004 restructuring accrual activity is as follows:

	<i>Charged to Accrual</i>	<i>Incurred in 2004</i>	<i>Reversed in 2004</i>	<i>Balance 2004</i>	<i>Charged to Accrual</i>	<i>Incurred in 2005</i>	<i>Balance 2005</i>
Severance and employer related costs	\$ 10.0	\$ (6.7)	\$ (0.4)	\$ 2.9	\$ 0.5	\$ (1.9)	\$ 1.5
	1.3	(0.1)	-	1.2	0.7	(0.4)	1.5

Contract termination  
costs

Other	-	-	-	-	-	-	-	-
Total	\$ 11.3	\$ (6.8)	\$ (0.4)	\$ 4.1	\$ 1.2	\$ (2.3)	\$ 3.0	

### ***2003 Restructuring***

In 2003, we initiated several restructuring actions to improve utilization and profitability. We consolidated four printing and service operations within the POD Services segment to form a new regional print-on-demand and fulfillment center in Dallas, Texas. Within the Document and Label Solutions segment, a rotary printing plant was closed to trim excess capacity, and several warehouses were consolidated. Within the InSystems segment, we determined that certain software development initiatives would not produce an adequate return and elected to stop further investment in those projects. In conjunction with this decision and to further reduce costs, we reduced staffing levels within this segment. We also relocated our SMARTworks operations and eliminated management and other positions at our corporate headquarters.

All of the actions were completed by the end of 2004. Costs incurred included severance and employer related costs, including outplacement and healthcare allowances; lease termination costs, including contractual obligations for taxes, utilities, and maintenance costs; and other associated costs directly related to the restructuring efforts, including travel, security, and the relocation of SMARTworks. At January 2, 2005, approximately \$0.6 million of additional restructuring expense remained that will be recorded through 2006 related to vacated facilities that we have been unable to sublease.

Pre-tax components of 2003 restructuring charges are as follows:

	<i>Total Costs Expected to be Incurred</i>	<i>Total Q2 2005 Restructuring Expense</i>	<i>Cumulative To-date Restructuring Expense</i>
Severance and employer related costs	\$ 10.8	\$ -	\$ 10.8
Contract termination costs:			
Lease obligations	3.1	0.1	2.7
Contractual lease obligations for taxes, utilities, and maintenance costs	0.1	-	0.1
Associated costs:			
Travel	0.3	-	0.3
Equipment removal and relocation	2.9	-	2.9
Other exit costs	2.1	-	2.1
	\$ 19.3	\$ 0.1	\$ 18.9
<b>BY SEGMENT:</b>			
Document and Label Solutions	\$ 11.1	\$ -	\$ 11.1
POD Services	4.9	0.1	4.5
InSystems	2.2	-	2.2
Other	1.1	-	1.1
Total	\$ 19.3	\$ 0.1	\$ 18.9

A summary of the 2003 restructuring accrual activity is as follows:

<i>Charged to Accrual</i>	<i>Incurred in 2003</i>	<i>Reversed in 2003</i>	<i>Balance 2003</i>	<i>Incurred in 2004</i>	<i>Reversed in 2004</i>	<i>Balance 2004</i>	<i>Incurred in 2005</i>	<i>Balance 2005</i>
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Severance and employer related costs	\$	10.8	\$	(9.4)	\$	(0.1)	\$	1.3	\$	(1.2)	\$	(0.1)	\$	-	\$	-	\$	-
Contract termination costs		2.3		(0.8)		-		1.5		(0.9)		-		0.6		(0.1)		0.5
Total	\$	13.1	\$	(10.2)	\$	(0.1)	\$	2.8	\$	(2.1)	\$	(0.1)	\$	0.6	\$	(0.1)	\$	0.5

### ***2001 Restructuring***

Due to the nature of the charges and the duration of the 2001 restructuring program, estimates of the liability for contract exit costs required significant judgment. We have been unable to sublease as many of the facilities as expected or to buy out the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. At January 2, 2005, an additional \$1.2 million of additional restructuring expense remained that will be recorded through 2006 related to vacated facilities that we have been unable to sublease, of which \$0.6 million was expensed in the first half of 2005.

### ***Net Assets Held For Sale***

At January 2, 2005, we classified a vacant parcel of land in North Carolina with a carrying value of \$0.2 million as held for sale in the accompanying Consolidated Balance Sheet. We expect to sell the land in 2005 and record a gain.

**ENVIRONMENTAL MATTERS**

We have been named as one of a number of potentially responsible parties at several waste disposal sites, none of which has ever been Company owned. Our policy is to accrue for investigation and remediation at sites where costs are probable and estimable. At this writing, there are no identified environmental liabilities that are expected to have a material adverse effect on our operating results, financial condition, or cash flows.

**LIQUIDITY AND CAPITAL RESOURCES**

Our discussion will provide information on cash flow, capital structure, and our significant contractual obligations.

This discussion also presents financial measures that are considered non-GAAP. Generally a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows where amounts are either excluded or included not in accordance with generally accepted accounting principles. We believe that this information will enhance an overall understanding of our cash flows. The presentation of non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States.

The major elements of the Statements of Cash Flows are summarized below:

	<b>Year-to-Date</b>		
<b>CASH INFLOW (OUTFLOW)</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
Net cash provided by (used in) operating activities	\$ 26.9	\$ (3.9)	\$ 30.8
Capital expenditures	(10.1)	(10.1)	-
Proceeds from sale of plant and equipment	0.3	1.6	(1.3)
Acquisitions	-	(1.5)	1.5
Additions to other investments	-	(0.1)	0.1
Net cash used in investing activities	(9.8)	(10.1)	0.3
Net debt payments	(40.3)	(25.0)	(15.3)
Dividends paid	(13.2)	(13.1)	(0.1)
Debt issuance costs	(0.8)	-	(0.8)
Proceeds from issuance of common stock	1.4	0.8	0.6
Net cash used in financing activities	(52.9)	(37.3)	(15.6)
Exchange rate differences	(0.1)	(0.1)	-

Net cash flow	\$ (35.9)	\$ (51.4)	\$ 15.5
Memo:			
Net cash flow before debt payments	4.4	(26.4)	30.8
Contribution to defined pension plan	(8.0)	(10.0)	2.0
Restructuring spending	(3.3)	(5.1)	1.8

Net cash flow was very strong in the second quarter of 2005 on the strength of improved operations and working capital turnover. Net debt, total debt less cash, decreased by \$9.9 million in the quarter after satisfying funding requirements for capital expenditures, restructuring, dividends, pension funding, and all other operations.

Cash flow over the past twelve months has been sufficient to reduce net debt by a total of \$41.5 million.

### *Operating Activities*

Net cash flow from operations was a positive \$26.9 million in 2005 versus a negative \$3.9 million in 2004. The most significant factor in the \$30.8 million swing was the \$9.2 million improvement in net income. Accounts receivable and inventory decreased by \$12.6 million over the first six months of 2005, compared with a \$6.2 million increase in the previous year.

We contributed \$8.0 million to the defined benefit pension plan in the first half of 2005 compared to \$10.0 million in the comparable period of 2004. We do not currently have a mandatory pension-funding requirement, but expect to make additional voluntary contributions of \$2.0 million for a total of \$10.0 million in 2005.

***Investing Activities***

Capital expenditures totaled \$10.1 million thus far in 2005, which is equivalent to capital spending in the prior year. We continue to expect our capital spending for the year to be \$22-\$27 million, with an emphasis on investments in our POD Services offering.

***Financing Activities***

During the first half of 2005 we repaid \$40.0 million on our revolving credit facility that expired on May 11, 2005. This credit facility was replaced with a new \$100 million five-year senior secured revolving credit facility that is discussed below under Capital Structure.

Dividend payments to shareholders in 2005 were \$13.2 million, in line with 2004. We have paid a \$.23 quarterly dividend in each quarter of the last five years.

***Capital Structure***

	<b><i>July 3, 2005</i></b>	<b><i>Jan 2, 2005</i></b>	<b><i>Change</i></b>
Total Debt	\$ 41.1	\$ 81.4	\$ (40.3)
Less Cash and Short-term Investments	8.2	44.1	(35.9)
Net Debt	32.9	37.3	(4.4)
Equity	201.2	205.4	(4.2)
Total	\$ 234.1	\$ 242.7	\$ (8.6)
<i>Net Debt:Total Capital</i>	<b><i>14%</i></b>	<b><i>15%</i></b>	

The net debt to capital ratio decreased slightly to 14% as a result of the reduction in debt. The ratio continues to indicate a strong balance sheet.

On May 9, 2005, we entered into a \$100 million five-year senior secured revolving credit facility (the New Facility) with seven banks. The New Facility replaces our \$150 million unsecured revolving credit facility agreement that expired on May 11, 2005.

The New Facility is secured by our accounts receivable and inventories and certain other assets as described in the loan and security agreement filed as an exhibit to this Form 10-Q. The New Facility contains a fixed charge coverage covenant test that becomes applicable if the sum of available unborrowed credit plus certain cash balances falls below \$10 million.

The New Facility provides for the payment of interest on amounts borrowed at an annual rate equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin based on the sum of available unborrowed credit plus certain cash balances. The interest rate, including the spread was 6.25% at July 3, 2005. The Company is also required to pay a fee on the unused portion of the New Facility. As of July 3, 2005, such fee is payable at an annual rate of 37.5 basis points.

At the time of expiration of our previous revolving credit facility, \$40 million was outstanding. This amount was immediately transferred to the New Facility.

### ***Contractual Obligations***

There have been no material changes outside the normal course of business in our contractual obligations since year-end 2004.

Our near-term cash requirements are primarily related to funding our operations and capital expenditures. The remaining cash requirements of our restructuring programs are approximately \$4.5 million through 2006, primarily for severance and lease obligations. The remaining cash requirements for lease obligations do not include expected sublease rental income. If we were able to sublease the facilities, our cash requirements under the restructuring plans would decrease. We do not have mandatory pension funding requirements in 2005, although we made voluntary contributions to our defined benefit pension plan in the first half of 2005 of \$8.0 million. We currently plan to contribute a total of approximately \$10 million to this plan in 2005.

We believe that the combination of internally generated funds, available cash reserves, and our existing credit facility are sufficient to fund our operations, including capital expenditures, dividends, remaining restructuring costs, and investments in growth initiatives over the next year. In our judgment, our strong balance sheet could support additional debt financing, should it become necessary.



***Recently Issued Accounting Pronouncements***

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share Based Payment (Revised 2004)," which requires that compensation costs relating to share-based payment transactions be recognized in the financial statements and includes implementation guidance on measuring the fair value of share-based payments. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued, preferred a fair-value-based method of accounting for share-based payment transactions with employees, but permitted the option of continuing to apply the guidance in Opinion No. 25 and disclosing in the footnotes the effect on net income of applying the preferred fair-value-based method.

The United States Securities and Exchange Commission (SEC) announced on April 14, 2005 that it approved a phased-in implementation process for SFAS No. 123(R). Under the new SEC implementation process, the Company's effective date for adopting SFAS No. 123(R) has been extended six months. We will adopt SFAS No. 123(R)'s fair value method of accounting for share-based payments to employees in the first quarter of fiscal 2006, as opposed to the third quarter of fiscal 2005, as originally required by SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 requires, unless impracticable, retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will adopt the provisions of SFAS No. 154, as applicable, beginning in fiscal 2006 and do not anticipate that the adoption of this standard will have a material effect on our consolidated results of operations, financial position, or cash flows.

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended July 3, 2005**

**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Company is exposed to interest rate risk on its borrowing under a revolving credit facility and the Company's short-term investments, as outlined in the 2004 Form 10-K. The Company is also exposed to market risk from changes in the cost of paper, the principal raw material used in the production of business forms. There have been no material changes in the Company's exposure to these items since the Company's disclosure in Item 7A, Part II of Form 10-K for the year ended January 2, 2005.

**ITEM 4 - CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures over financial reporting that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective.

*Changes in Internal Control*

During the second quarter of fiscal 2005, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to material weaknesses in such controls.



**PART II OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

There have been no material legal proceedings within the reporting period that the Company has been involved with beyond those conducted in a normal course of business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Company's Annual Meeting of Shareholders was held April 28, 2005. As a result of voting of the Shareholders, the following were elected to the Company's Board of Directors to hold office for the ensuing year:

<u>NOMINEE</u>	<u>IN FAVOR</u>	<u>AGAINST</u>	<u>WITHHELD</u>
Roy W. Begley, J	45,903,355	299,554	1,180,422
F. David Clarke, III	45,867,882	335,027	1,180,422
Paul H. Granzow	45,902,748	300,161	1,180,422
Sherrill W. Hudson	45,534,041	668,868	1,180,422
Dennis L. Rediker	43,446,047	2,756,862	1,180,422
Ann Scavullo	45,860,224	342,685	1,180,422
John J. Schiff, Jr.	44,507,710	1,695,199	1,180,422
John Q. Sherman, II	45,915,151	287,758	1,180,422

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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Exhibit #	Description	
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	Not applicable
3	Articles of incorporation and bylaws	Not applicable
4.4	The Credit Agreement between Standard Register and the following banking institutions: Banc of America Securities LLC, KeyBank National Association, Bank of America, N.A., JPMorgan Chase Bank, N.A., National City Business Credit, Inc., U.S. Bank, N.A., The Bank of New York, and Fifth Third Bank	
		Included
10	Material contracts	Not applicable
11	Statement re: computation of per share earnings	Not applicable
15	Letter re: unaudited interim financial information	Not applicable
18	Letter re: change in accounting principles	Not applicable
19	Report furnished to security holders	Not applicable
22	Published reports regarding matters submitted to vote of security holders	
		Not applicable
23.1	Consent of Independent Registered Public Accounting Firm	Included
24	Power of attorney	Not applicable
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
		Included
31.2	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
		Included
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
		Included
99.1	Report of Independent Registered Public Accounting Firm	Included

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended July 3, 2005**

**SIGNATURE**

Pursuant to the requirement 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.

August 3, 2005

**THE STANDARD REGISTER COMPANY**

**(REGISTRANT)**

/S/ CRAIG J. BROWN

By: Craig J. Brown, Sr. Vice President, Treasurer and Chief Financial Officer

(On behalf of the Registrant and as Chief Accounting Officer)

