

STANDARD REGISTER CO  
Form 10-Q  
August 02, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended July 4, 2010

**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**

**31-0455440**

Edgar Filing: STANDARD REGISTER CO - Form 10-Q

(State or other jurisdiction of  
Incorporation or organization)

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

**600 ALBANY STREET, DAYTON OHIO**  
(Address of principal executive offices)

**45417**  
(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 checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (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 4, 2010 |
|---------------------------------|--------------------------------|
| Common stock, \$1.00 par value  | 24,200,371<br>shares           |
| Class A stock, \$1.00 par value | 4,725,000 shares               |



**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended July 4, 2010**

**INDEX**

|  | <u>Page</u> |
|--|-------------|
| Part I Financial Information   |             |
| Item 1. Consolidated Financial Statements  |             |
| a) Consolidated Statements of Income and Comprehensive<br>Income<br>for the 13 and 26-Week Periods Ended July 4, 2010 and<br>June 28, 2009 | 3           |
| b) Consolidated Balance Sheets<br>as of July 4, 2010 and January 3, 2010   | 4           |
| c) Consolidated Statements of Cash Flows<br>for the 26-Week Periods Ended July 4, 2010 and June<br>28, 2009                                | 6           |
| d) Notes to Consolidated Financial Statements  | 7           |
| Item 2. Management's Discussion and Analysis of Financial Condition<br>and Results of Operations   | 15          |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk  | 26          |
| Item 4. Controls and Procedures  | 27          |
| Part II Other Information  |             |

|   |    |
|---|----|
| Item 1. Legal Proceedings   | 27 |
| Item 1A. Risk Factors   | 28 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 28 |
| Item 3. Defaults upon Senior Securities                             | 28 |
| Item 4. Reserved  | 28 |
| Item 5. Other Information   | 28 |
| Item 6. Exhibits  | 28 |
| Signatures  | 29 |

---

**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 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| <b>REVENUE</b>                                   | \$ 164,682              | \$ 171,015               | \$ 332,105              | \$ 345,635               |
| <b>COST OF SALES</b>                             | 112,964                 | 116,833                  | 226,778                 | 237,218                  |
| <b>GROSS MARGIN</b>                              | 51,718                  | 54,182                   | 105,327                 | 108,417                  |
| <b>OPERATING EXPENSES</b>                        |                         |                          |                         |                          |
| Selling, general, and administrative             | 50,508                  | 48,346                   | 104,653                 | 100,133                  |
| Pension curtailments and settlements             | -                       | -                        | -                       | 19,747                   |
| Environmental remediation                        | -                       | (76)                     | -                       | (76)                     |
| Asset impairments                                | -                       | 850                      | -                       | 850                      |
| Restructuring charges                            | 1,026                   | (394)                    | 1,458                   | 207                      |
| Total operating expenses                         | 51,534                  | 48,726                   | 106,111                 | 120,861                  |
| <b>INCOME (LOSS) FROM OPERATIONS</b>             | 184                     | 5,456                    | (784)                   | (12,444)                 |
| <b>OTHER INCOME (EXPENSE)</b>                    |                         |                          |                         |                          |
| Interest expense                                 | (601)                   | (333)                    | (991)                   | (636)                    |
| Other income                                     | 190                     | 209                      | 192                     | 257                      |
| Total other expense                              | (411)                   | (124)                    | (799)                   | (379)                    |
| <b>(LOSS) INCOME BEFORE INCOME TAXES</b>         | (227)                   | 5,332                    | (1,583)                 | (12,823)                 |
| <b>INCOME TAX (BENEFIT) EXPENSE</b>              | (117)                   | 2,158                    | (660)                   | (5,021)                  |
| <b>NET (LOSS) INCOME</b>                         | \$ (110)                | \$ 3,174                 | \$ (923)                | \$ (7,802)               |
| <b>BASIC AND DILUTED INCOME (LOSS) PER SHARE</b> |                         |                          |                         |                          |
| Dividends per share declared for the period      | \$ 0.05                 | \$ 0.05                  | 0.10                    | \$ 0.28                  |
| <b>NET (LOSS) INCOME</b>                         | \$ (110)                | \$ 3,174                 | (923)                   | \$ (7,802)               |

Edgar Filing: STANDARD REGISTER CO - Form 10-Q

|   |                 |                 |                 |                  |
|---|-----------------|-----------------|-----------------|------------------|
| Net actuarial loss reclassification, net of (\$ 1,901), (\$1,457), (\$3,803), and (\$8,111) deferred income tax benefit | 2,887           | 2,213           | 5,775           | 12,314           |
| Net prior service credit reclassification, net of \$398 and \$795 deferred income tax expense                           | (603)           | (604)           | (1,207)         | (1,208)          |
| Net actuarial gains, net of (\$9,823) deferred income tax expense   | -               | -               | -               | 14,915           |
| Cumulative translation adjustment   | (44)            | 101             | (31)            | 75               |
| <b>COMPREHENSIVE INCOME</b>   | <b>\$ 2,130</b> | <b>\$ 4,884</b> | <b>\$ 3,614</b> | <b>\$ 18,294</b> |

See accompanying notes.

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

| <b>A S S E T S</b>   | <i>July 4,<br/>2010</i> | <i>January 3,<br/>2010</i> |
|--|-------------------------|----------------------------|
| <b>CURRENT ASSETS</b>  |                         |                            |
| Cash and cash equivalents  | \$ 1,118                | \$ 2,404                   |
| Accounts and notes receivable, less allowance for doubtful accounts of \$2,139 and \$2,614 | 105,744                 | 108,524                    |
| Inventories  | 29,803                  | 33,625                     |
| Deferred income taxes  | 14,425                  | 14,425                     |
| Prepaid expense  | 11,980                  | 10,079                     |
| Total current assets   | 163,070                 | 169,057                    |
| <b>PLANT AND EQUIPMENT</b>   |                         |                            |
| Land   | 2,008                   | 2,008                      |
| Buildings and improvements   | 64,874                  | 64,628                     |
| Machinery and equipment  | 188,614                 | 191,512                    |
| Office equipment   | 167,659                 | 167,622                    |
| Construction in progress   | 4,180                   | 1,594                      |
| Total  | 427,335                 | 427,364                    |
| Less accumulated depreciation  | 345,711                 | 342,036                    |
| Plant and equipment, net   | 81,624                  | 85,328                     |
| Net assets held for sale   | 412                     | 412                        |
| Total plant and equipment, net   | 82,036                  | 85,740                     |
| <b>OTHER ASSETS</b>  |                         |                            |
| Goodwill   | 6,557                   | 6,557                      |



Edgar Filing: STANDARD REGISTER CO - Form 10-Q

|                        |            |            |
|------------------------|------------|------------|
| Intangible assets, net | 2,348      | -          |
| Deferred tax asset     | 102,681    | 104,691    |
| Other                  | 13,188     | 13,676     |
| Total other assets     | 124,774    | 124,924    |
| Total assets           | \$ 369,880 | \$ 379,721 |

See accompanying notes.

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

| <b>LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b>        | <b><i>July 4,<br/>2010</i></b> | <b><i>January 3,<br/>2010</i></b> |
|--|--------------------------------|-----------------------------------|
| <b>CURRENT LIABILITIES</b>                             |                                |                                   |
| Current portion of long-term debt                      | \$ 1,421                       | \$ 35,868                         |
| Accounts payable                                       | 24,095                         | 32,349                            |
| Accrued compensation                                   | 13,598                         | 12,091                            |
| Accrued restructuring and other exit costs             | 3,373                          | 5,365                             |
| Deferred revenue                                       | 3,575                          | 3,213                             |
| Other current liabilities                              | 21,933                         | 24,331                            |
| Total current liabilities                              | 67,995                         | 113,217                           |
| <b>LONG-TERM LIABILITIES</b>                           |                                |                                   |
| Long-term debt   | 49,222                         | -                                 |
| Pension benefit obligation                             | 186,295                        | 202,146                           |
| Retiree healthcare obligation                          | 7,195                          | 7,425                             |
| Deferred compensation                                  | 6,782                          | 7,699                             |
| Environmental liabilities                              | 4,639                          | 4,808                             |
| Other long-term liabilities                            | 2,536                          | 2,272                             |
| Total long-term liabilities                            | 256,669                        | 224,350                           |
| <b>COMMITMENTS AND CONTINGENCIES -<br/>see Note 14</b> |                                |                                   |
| <b>SHAREHOLDERS' EQUITY</b>                            |                                |                                   |
| Common stock, \$1.00 par value:                        |                                |                                   |
| Authorized 101,000,000 shares                          |                                |                                   |
| Issued 26,197,323 and 26,129,883 shares                | 26,197                         | 26,130                            |
| Class A stock, \$1.00 par value:                       |                                |                                   |

Edgar Filing: STANDARD REGISTER CO - Form 10-Q

|  |            |            |
|--|------------|------------|
| Authorized 9,450,000 shares                |            |            |
| Issued - 4,725,000                         | 4,725      | 4,725      |
| Capital in excess of par value             | 62,304     | 62,888     |
| Accumulated other comprehensive losses     | (142,231)  | (146,768)  |
| Retained earnings                          | 144,388    | 145,312    |
| Treasury stock at cost:                    |            |            |
| 1,996,952 and 1,990,731 shares             | (50,167)   | (50,133)   |
| Total shareholders' equity                 | 45,216     | 42,154     |
| <br>                                       |            |            |
| Total liabilities and shareholders' equity | \$ 369,880 | \$ 379,721 |

See accompanying notes.

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

|   | <i>26 Weeks Ended</i><br><i>July 4,</i><br><i>2010</i> | <i>26 Weeks Ended</i><br><i>June 28,</i><br><i>2009</i> |
|---|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |   |
| Net loss  | \$ (923)   | \$ (7,802)  |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |  |   |
| Depreciation and amortization   | 12,279   | 12,420  |
| Restructuring charges   | 1,458  | 207   |
| Asset impairments   | -  | 850   |
| Pension and postretirement benefit expense  | 7,042  | 26,464  |
| Share-based compensation  | 856  | 874   |
| Deferred tax benefit  | (660)  | (5,021)   |
| Other   | 395  | (591)   |
| Changes in operating assets and liabilities:  |  |   |
| Accounts and notes receivable   | 2,833  | 11,771  |
| Inventories   | 3,930  | 3,780   |
| Restructuring spending  | (3,450)  | (2,864)   |
| Accounts payable and accrued expenses   | (6,689)  | (5,010)   |
| Pension and postretirement benefit obligations  | (15,546)   | (19,139)  |
| Deferred compensation payments  | (766)  | (1,529)   |
| Other assets and liabilities  | (1,224)  | (916)   |
| Net cash (used in) provided by operating activities                                       | (465)  | 13,494  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |   |
| Additions to plant and equipment  | (4,346)  | (5,036)   |
| Acquisition   | (2,460)  | -   |
| Proceeds from sale of plant and equipment   | 65   | -   |

|  |                 |               |
|--|-----------------|---------------|
| Net cash used in investing activities                                      | (6,741)         | (5,036)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |                 |               |
| Net change in borrowings under revolving credit facility                   | 9,570           | (378)         |
| Principal payments on long-term debt                                       | (777)           | (159)         |
| Proceeds from issuance of common stock                                     | 95              | 143           |
| Dividends paid   | (2,909)         | (8,142)       |
| Purchase of treasury stock   | (34)            | (38)          |
| Net cash provided by (used in) financing activities                        | 5,945           | (8,574)       |
| Effect of exchange rate changes on cash                                    | (25)            | 74            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                           | <b>(1,286)</b>  | <b>(42)</b>   |
| Cash and cash equivalents at beginning of period                           | 2,404           | 282           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                          | <b>\$ 1,118</b> | <b>\$ 240</b> |
| <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b> |                 |               |
| Capital lease recorded for equipment                                       | \$ 4,311        | \$ -          |
| Loan payable recorded for professional services                            | 1,598           | -             |

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 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 included in our Annual Report on Form 10-K for the year ended January 3, 2010 (Annual Report).

In our opinion, 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 ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS**

In 2010, we adopted Accounting Standards Update 2010-06 which requires new disclosures and clarifies existing disclosures related to fair value measurements. Certain provisions for disclosures of level 3 fair value measurements will be effective in our fiscal 2011. We do not expect the adoption of this update to have a material effect on our consolidated results of operations, financial position, or cash flows.

**NOTE 3 ACQUISITIONS**

On June 3, 2010, we purchased the assets of Fusion Graphics, Inc. for approximately \$2,500 in cash. The assets acquired primarily consist of intellectual property related to the Grafilm® In-Mold Labeling System that will be utilized by our Industrial segment for our in-mold label product line. The purchase price was allocated based on the estimated fair value of the assets acquired; \$2,262 was assigned to several patents, \$100 was assigned to a non-compete agreement, and the balance was assigned to working capital accounts. The patents are being amortized on a straight-line basis over 15 years and the non-compete agreement is being amortized on a straight-line basis over the term of the agreement which is 5 years.

**NOTE 4 GOODWILL AND INTANGIBLE ASSETS**

In the second quarter of 2010, we performed the annual impairment test for goodwill which did not result in any impairment. In conjunction with performing the goodwill impairment test, we re-evaluated our identified reporting units and revised our goodwill allocation.

The following table summarizes the revised allocation of goodwill during 2010:

|                             | <i>Healthcare</i> | <i>Financial<br/>Services</i> | <i>Emerging</i> | <i>Industrial</i> | <i>Unallocated</i> | <i>Total</i> |
|-----------------------------|-------------------|-------------------------------|-----------------|-------------------|--------------------|--------------|
| Goodwill at January 3, 2010 | \$ -              | \$ -                          | \$ -            | \$ -              | \$ 6,557           | \$ 6,557     |
| Reallocation of goodwill    | 2,385             | 1,743                         | 1,296           | 1,133             | (6,557)            | 6,557        |
| Goodwill at July 4, 2010    | \$ 2,385          | \$ 1,743                      | \$ 1,296        | \$ 1,133          | \$ -               | \$ 6,557     |

**NOTE 5 RESTRUCTURING CHARGES**

The 2009 and 2008 restructuring and other exit activities are described in Note 4 to the Consolidated Financial Statements included in our Annual Report. All related costs are included in restructuring and other exit costs in the accompanying Consolidated Statements of Income. Components include the following:

|  | <i>13 Weeks Ended</i>   |                          | <i>26 Weeks Ended</i>   |                          |
|--|-------------------------|--------------------------|-------------------------|--------------------------|
|  | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| <b>2009 Actions</b>                      |                         |                          |                         |                          |
| Involuntary termination costs            | \$ 17                   | \$ -                     | \$ 26                   | \$ -                     |
| Contract termination costs               | 482                     | -                        | 639                     | -                        |
| Other associated costs                   | 532                     | -                        | 763                     | -                        |
| Total 2009                               | 1,031                   | -                        | 1,428                   | -                        |
| <b>2008 Actions</b>                      |                         |                          |                         |                          |
| Involuntary termination costs            | -                       | (453)                    | -                       | (445)                    |
| Contract termination costs               | (5)                     | 35                       | 24                      | 371                      |
| Associated costs                         | -                       | 24                       | 6                       | 281                      |
| Total 2008                               | (5)                     | (394)                    | 30                      | 207                      |
| Total restructuring and other exit costs | \$ 1,026                | \$ (394)                 | \$ 1,458                | \$ 207                   |

**2009**

Restructuring and other exit costs of \$1,428 for the first half of 2010 primarily relate to contract termination costs accrued for two closed sales offices, two print centers, and one distribution center and costs for the relocation of equipment that are required to be expensed as incurred. Components of 2009 restructuring and other exit costs consist of the following:

|                               | <i>Total<br/>Expected<br/>Costs</i> | <i>Total<br/>Q2 2010<br/>Expense</i> | <i>Cumulative-<br/>To-Date<br/>Expense</i> |
|-------------------------------|-------------------------------------|--------------------------------------|--|
| Involuntary termination costs | \$ 3,900                            | \$ 17                                | \$ 3,641                                   |
| Contract termination costs    | 3,900                               | 482                                  | 1,000                                      |



Edgar Filing: STANDARD REGISTER CO - Form 10-Q

|                             |                  |    |       |    |        |
|-----------------------------|------------------|----|-------|----|--------|
| Other associated exit costs | <b>9,000</b>     |    | 532   |    | 7,986  |
| Total                       | <b>\$ 16,800</b> | \$ | 1,031 | \$ | 12,627 |

A summary of the 2009 restructuring accrual activity is as follows:

|                               | <i>Balance<br/>2009</i> | <i>Charged to<br/>Accrual</i> | <i>Incurred<br/>in 2010</i> | <i>Balance<br/>2010</i> |
|-------------------------------|-------------------------|-------------------------------|-----------------------------|-------------------------|
| Involuntary termination costs | \$ 3,412                | \$ -                          | \$ (925)                    | \$ 2,487                |
| Contract termination costs    | 361                     | 636                           | (171)                       | 826                     |
| Other associated costs        | 1,300                   | -                             | (1,300)                     | -                       |
| Total                         | \$ 5,073                | \$ 636                        | \$ (2,396)                  | \$ 3,313                |

**2008**

Restructuring and other exit costs of \$30 and \$207 for the first half of 2010 and 2009 primarily relate to costs that are required to be expensed as incurred. Components of 2008 restructuring and other exit costs consist of the following:

|                               | <i>Total<br/>Expected<br/>Costs</i> | <i>Total<br/>Q2 2010<br/>Expense</i> | <i>Cumulative-<br/>To-Date<br/>Expense</i> |
|-------------------------------|-------------------------------------|--------------------------------------|--|
| Involuntary termination costs | \$ 3,779                            | \$ -                                 | \$ 3,779                                   |
| Contract termination costs    | 1,138                               | (5)                                  | 1,096                                      |
| Other associated exit costs   | 1,059                               | -                                    | 1,059                                      |
| Total                         | \$ 5,976                            | \$ (5)                               | \$ 5,934                                   |

A summary of the 2008 restructuring accrual activity is as follows:

|                               | <i>Balance<br/>2009</i> | <i>Incurred<br/>in 2010</i> | <i>Balance<br/>2010</i> |
|-------------------------------|-------------------------|-----------------------------|-------------------------|
| Involuntary termination costs | \$ 160                  | \$ (147)                    | \$ 13                   |
| Contract termination costs    | 132                     | (85)                        | 47                      |
| Total                         | \$ 292                  | \$ (232)                    | \$ 60                   |

## NOTE 6 INVENTORIES

Inventories consist of the following:

|                        | <i>July 4,<br/>2010</i> | <i>January 3,<br/>2010</i> |
|------------------------|-------------------------|----------------------------|
| Finished Products      | \$ 27,567               | \$ 31,059                  |
| Jobs In Process        | 400                     | 388                        |
| Materials and Supplies | 1,836                   | 2,178                      |
| Total                  | \$ 29,803               | \$ 33,625                  |

## NOTE 7 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

|   | <i>July 4,<br/>2010</i> | <i>January 3,<br/>2010</i> |
|---|-------------------------|----------------------------|
| Non-income taxes  | \$ 4,959                | \$ 5,670                   |
| Current portion of pension and postretirement obligations | 3,408                   | 3,408                      |
| Customer deposits   | 3,149                   | 3,726                      |
| Dividends payable   | 31                      | 1,471                      |
| Other current liabilities                                 | 10,386                  | 10,056                     |
| Total   | \$ 21,933               | \$ 24,331                  |

**NOTE 8 LONG-TERM DEBT**

Long-term debt consists of the following:

|                           | <i>July 4,<br/>2010</i> | <i>January 3,<br/>2010</i> |
|---------------------------|-------------------------|----------------------------|
| Revolving credit facility | \$ 45,279               | \$ 35,709                  |
| Capital lease obligation  | 4,116                   | -                          |
| Loan payable              | 1,248                   | 159                        |
| Total                     | 50,643                  | 35,868                     |
| Less current portion      | 1,421                   | 35,868                     |
| Long-term portion         | \$ 49,222               | \$ -                       |

On March 31, 2010, the Company entered into a \$100,000 four-year senior secured revolving credit facility (Credit Facility) with five banks. The Credit Facility replaced the Company's \$100,000 senior secured revolving credit facility that would have matured in May 2010.

The Credit Facility is secured by accounts receivable, inventories, fixed assets, and certain other assets. The Credit Facility contains a fixed charge coverage covenant test that becomes applicable if the sum of available unborrowed credit plus certain cash balances falls below 15% of aggregate commitments or \$11,250, whichever is greater.

The Credit Facility provides for the payment of interest on amounts borrowed under both London Interbank Offered Rate (LIBOR) contracts and base rate loans. Payment of interest on LIBOR contracts is at an annual rate equal to the LIBOR rate plus 3.00% to 3.50% based on our level of liquidity. Payment of interest on base rate loans is based on the prime rate plus 2.00% to 2.50% based upon our level of liquidity. We are also required to pay a fee on the unused portion of the Credit Facility payable at an annual rate of 50.0 basis points if the unused portion is equal to or less than 50% of the aggregate commitment or 75.0 basis points if the unused portion is greater than 50% of the aggregate commitment.

In February 2010, the Company entered into a five-year capital lease for printing equipment. The Company's capitalized lease obligation provides for aggregate payments, including interest, of approximately \$5,022. Payments under the lease, including interest, are as follows: 2010-\$775; 2011-\$1,004; 2012-\$1,004; 2013-\$1,004; 2014-\$1,004; and 2015-\$231. Amortization expense for the capital lease is included with depreciation expense on the Company's consolidated statement of income.

We also have an unsecured loan payable, including interest at 6.5%, of \$1,248 due in monthly installments of \$58, through April 2012.

## NOTE 9 EARNINGS PER SHARE

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

|   | <i>13 Weeks Ended</i>         |                                | <i>26 Weeks Ended</i>         |                                |
|---|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
|   | <i>July 4,</i><br><i>2010</i> | <i>June 28,</i><br><i>2009</i> | <i>July 4,</i><br><i>2010</i> | <i>June 28,</i><br><i>2009</i> |
| (Shares in thousands)                         |                               |                                |                               |                                |
| Weighted average shares outstanding - basic   | <b>28,912</b>                 | 28,833                         | <b>28,893</b>                 | 28,816                         |
| Effect of potentially dilutive securities     | -                             | 1                              | -                             | -                              |
| Weighted average shares outstanding - diluted | <b>28,912</b>                 | 28,834                         | <b>28,893</b>                 | 28,816                         |

The effects of stock options and nonvested shares on diluted EPS are reflected through the application of the treasury stock method. Due to the loss from continuing operations for the 13-week period ending July 4, 2010 and the 26-week periods ending July 4, 2010 and June 28, 2009, no outstanding options or nonvested shares were included in the diluted EPS computation because they would automatically result in anti-dilution. No outstanding options were included in the computation of diluted EPS for the 13-week period ended June 28, 2009 because the exercise price of the options were greater than the average market price at the end of the period; therefore, the effect would be anti-dilutive.

#### **NOTE 10 SHARE BASED COMPENSATION**

Total share-based compensation expense by type of award is as follows:

|   | <i>13 Weeks Ended</i>   |                          | <i>26 Weeks Ended</i>   |                          |
|---|-------------------------|--------------------------|-------------------------|--------------------------|
|   | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| Nonvested stock awards, service based     | \$ 135                  | \$ 103                   | \$ 227                  | \$ 233                   |
| Nonvested stock awards, performance based | 88                      | 10                       | 118                     | 10                       |
| Stock options                             | 254                     | 305                      | 512                     | 640                      |
| Total share-based compensation expense    | 477                     | 418                      | 857                     | 883                      |
| Income tax benefit                        | 189                     | 166                      | 340                     | 351                      |
| Net expense                               | \$ 288                  | \$ 252                   | \$ 517                  | \$ 532                   |

***Stock Options***

The weighted-average fair value of stock options granted in 2010 was estimated at \$2.76 per share, using the Black-Scholes option-pricing model. Expense is being amortized on a straight-line basis over a 4-year vesting period. The weighted-average of significant assumptions used to estimate the fair value of options granted is as follows:

|                         |                |
|-------------------------|----------------|
| Risk-free interest rate | <b>1.9%</b>    |
| Dividend yield          | <b>3.7%</b>    |
| Expected term           | <b>4 years</b> |
| Expected volatility     | <b>75.7%</b>   |

A summary of our stock option activity and related information for 2010 is as follows:

|                                | <i>Number<br/>of Shares</i> | <i>Weighted-Average<br/>Exercise Price</i> |
|--------------------------------|-----------------------------|--|
| Outstanding at January 3, 2010 | 2,286,141                   | \$ 11.06                                   |
| Granted                        | 743,580                     | 5.97                                       |
| Exercised                      | -                           | -  |
| Forfeited/Canceled             | (75,188)                    | 13.18                                      |
| Outstanding at July 4, 2010    | 2,954,533                   | \$ 9.73                                    |
| Exercisable at July 4, 2010    | 1,214,303                   | \$ 14.09                                   |

***Performance-Based Stock Awards***

During the first quarter of 2010, the Company awarded 240,550 shares of performance-based restricted stock.

Twenty-five percent of the shares will vest upon the achievement of specific performance goals by the Company for 2010. The remaining shares will vest as follows: 25% two years from the date of grant and 50% three years from the date of grant. These shares have voting rights and accrue dividends during the performance period which will be paid if the shares vest.

The performance goals allow partial vesting if a minimum level of performance is attained. If the minimum level of performance is not attained by the end of 2010, these stock awards will be forfeited and canceled, and all expense recognized to that date will be reversed. The amount of shares that ultimately vest could range from 50% to 150% of the initial shares granted. Additional shares will be granted upon performance above the target level.

The fair value of the performance-based stock awards granted was based on the closing market price of our common stock on the date of award and is being amortized to expense on a straight line basis over the anticipated vesting period. Compensation expense is being recognized for the total amount of performance-based shares expected to vest and is subject to adjustment based on the actual level of achievement of the performance goal.

During the first quarter, we also cancelled 190,183 shares of performance-based stock awarded in 2008 due to the performance goal not being attained.

A summary of our performance-based stock award activity and related information for 2010 is as follows:

|                              | <i><b>Number<br/>of<br/>Shares</b></i> | <i><b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b></i> |
|------------------------------|--|---|
| Nonvested at January 3, 2010 | <b>190,183</b>                         | <b>\$ 9.48</b>  |
| Granted                      | <b>240,550</b>                         | <b>5.82</b>   |
| Vested                       | -                                      | -   |
| Forfeited/Canceled           | <b>(190,183)</b>                       | <b>9.48</b>   |
| Nonvested at July 4, 2010    | <b>240,550</b>                         | <b>\$ 5.82</b>  |

**Service-Based Stock Awards**

The fair value of the service-based stock awards granted in 2010 was based on the closing market price of our common stock on the date of award and is being amortized to expense on a straight-line basis over a vesting period of 4 years. A summary of our service-based stock award activity and related information for 2010 is as follows:

|                              | <i>Number<br/>of Shares</i> | <i>Weighted-Average<br/>Fair Value</i> |
|------------------------------|-----------------------------|--|
| Nonvested at January 3, 2010 | <b>140,906</b>              | \$ <b>7.85</b>                         |
| Granted                      | <b>104,825</b>              | <b>4.34</b>                            |
| Vested                       | <b>(47,069)</b>             | <b>9.25</b>                            |
| Forfeited/Canceled           | <b>(75)</b>                 | <b>13.07</b>                           |
| Nonvested at July 4, 2010    | <b>198,587</b>              | \$ <b>5.66</b>                         |

**NOTE 11 PENSION PLANS**

Net periodic benefit cost includes the following components:

|   | <i>13 Weeks Ended</i>   |                          | <i>26 Weeks Ended</i>   |                          |
|---|-------------------------|--------------------------|-------------------------|--------------------------|
|   | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| Service cost of benefits earned                         | \$ -                    | \$ 31                    | \$ -                    | \$ 63                    |
| Interest cost on projected benefit obligation           | <b>6,099</b>            | 6,522                    | <b>12,199</b>           | 13,000                   |
| Expected return on plan assets                          | <b>(6,463)</b>          | (6,266)                  | <b>(12,926)</b>         | (13,037)                 |
| Amortization of prior service costs                     | <b>148</b>              | 148                      | <b>296</b>              | 296                      |
| Amortization of net actuarial losses from prior periods | <b>4,668</b>            | 3,546                    | <b>9,336</b>            | 8,203                    |
| Settlement loss   | -                       | -                        | -                       | 19,747                   |
| Total   | \$ <b>4,452</b>         | \$ 3,981                 | \$ <b>8,905</b>         | \$ 28,272                |

**NOTE 12 POSTRETIREMENT BENEFIT PLANS**

Net postretirement benefit cost includes the following components:

|                                    | <i>13 Weeks Ended</i>   |                          | <i>26 Weeks Ended</i>   |                          |
|------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
|                                    | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| Interest cost                      | \$ <b>96</b>            | \$ 121                   | \$ <b>192</b>           | \$ 242                   |
| Amortization of prior service cost | <b>(1,150)</b>          | (1,150)                  | <b>(2,299)</b>          | (2,299)                  |



Edgar Filing: STANDARD REGISTER CO - Form 10-Q

|   |                 |          |                   |            |
|---|-----------------|----------|-------------------|------------|
| Amortization of net actuarial losses from prior periods | <b>123</b>      | 124      | <b>244</b>        | 247        |
| Total   | <b>\$ (931)</b> | \$ (905) | <b>\$ (1,863)</b> | \$ (1,810) |

The funding policy is to pay claims as they occur. As of July 4, 2010, we paid \$422 to cover claims under our postretirement medical plan and currently expect to pay an additional \$500 to cover benefit claims during the remainder of 2010.

**NOTE 13 SEGMENT REPORTING**

Segment information for 2009 has been revised from previously reported information to reflect the current presentation. Information about our operations by segment for the 13-week periods ended July 4, 2010 and June 28, 2009 is as follows:

|                                 |             | <i>Healthcare</i> | <i>Financial Services</i> | <i>Emerging</i>  | <i>Industrial</i> | <i>Total</i>      |
|---------------------------------|-------------|-------------------|---------------------------|------------------|-------------------|-------------------|
| Revenue from external customers | <b>2010</b> | \$ <b>59,003</b>  | \$ <b>43,406</b>          | \$ <b>43,085</b> | \$ <b>19,188</b>  | \$ <b>164,682</b> |
|                                 | 2009        | 66,165            | 47,291                    | 41,374           | 16,185            | 171,015           |
| Operating income (loss)         | <b>2010</b> | \$ <b>4,062</b>   | \$ <b>2,370</b>           | \$ <b>(602)</b>  | \$ <b>(454)</b>   | \$ <b>5,376</b>   |
|                                 | 2009        | 7,078             | 2,025                     | (547)            | 314               | 8,870             |

Information about our operations by segment for the 26-week periods ended July 4, 2010 and June 28, 2009 is as follows:

|                                 |             | <i>Healthcare</i> | <i>Financial Services</i> | <i>Emerging</i>   | <i>Industrial</i> | <i>Total</i>      |
|---------------------------------|-------------|-------------------|---------------------------|-------------------|-------------------|-------------------|
| Revenue from external customers | <b>2010</b> | \$ <b>123,264</b> | \$ <b>88,120</b>          | \$ <b>83,307</b>  | \$ <b>37,414</b>  | \$ <b>332,105</b> |
|                                 | 2009        | 134,580           | 97,414                    | 83,637            | 30,004            | 345,635           |
| Operating income (loss)         | <b>2010</b> | \$ <b>8,024</b>   | \$ <b>3,467</b>           | \$ <b>(2,920)</b> | \$ <b>(1,149)</b> | \$ <b>7,422</b>   |
|                                 | 2009        | 12,567            | 4,727                     | (894)             | (573)             | 15,827            |

Reconciling information between reportable segments and our consolidated financial statements is as follows:

|   | <i>13 Weeks Ended</i> |                      | <i>26 Weeks Ended</i> |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | <i>July 4, 2010</i>   | <i>June 28, 2009</i> | <i>July 4, 2010</i>   | <i>June 28, 2009</i> |
| Segment operating income                    | \$ <b>5,376</b>       | \$ 8,870             | \$ <b>7,422</b>       | \$ 15,827            |
| Restructuring and asset impairment          | <b>(1,026)</b>        | (456)                | <b>(1,458)</b>        | (1,057)              |
| Amortization of prior period pension losses | <b>(4,668)</b>        | (3,546)              | <b>(9,336)</b>        | (8,203)              |
| Pension curtailment and settlement          | -                     | -                    | -                     | (19,747)             |
| Other unallocated pension                   | <b>364</b>            | (256)                | <b>727</b>            | 37                   |
| Other unallocated                           | <b>(76)</b>           | 19                   | <b>(11)</b>           | 12                   |

|   |                 |          |                   |             |
|---|-----------------|----------|-------------------|-------------|
| LIFO                                    | <b>214</b>      | 825      | <b>1,872</b>      | 687         |
| Total other expense, primarily interest | <b>(411)</b>    | (124)    | <b>(799)</b>      | (379)       |
| (Loss) income before income taxes       | \$ <b>(227)</b> | \$ 5,332 | \$ <b>(1,583)</b> | \$ (12,823) |

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

The Company has participated with other Potentially Responsible Parties ( PRPs ) in the investigation, study, and remediation of the Pasco Sanitary Landfill Superfund Site (the Pasco Site ) in eastern Washington State since 1998. The Company is a member of a PRP Group known as the Industrial Waste Area Generators Group II (the IWAG Group ). In 2000, the IWAG Group and several other PRP groups entered into agreed orders with the Department of Ecology for implementation of interim remedial actions and expansion of groundwater monitoring. The Department has been requiring the PRP groups to implement additional interim actions and delay implementation of a final remedy. At this time, an agreement has not yet been reached on the final remediation approach. We have accrued our best estimate of our obligation and have an undiscounted liability of \$2,351 that we currently believe is adequate to cover our portion of the total future potential costs of remediation. Depending on the results of future environmental testing and the final remedy agreed upon, it is possible that our estimate could change in the future.

From 1995 through 2003, the Company participated with other PRPs in the investigation, study, and remediation of the Valleycrest Landfill Site (the Valleycrest Site) in western Ohio. The Company is a member of a PRP Group known as the Valleycrest Landfill Site Group (the VLSG). In 2003, General Motors Corporation (GM) stepped into the Company's position under the Site Participation Agreement and in return for \$270, agreed to indemnify the Company against certain future liability in connection with the Valleycrest Landfill Site. Therefore, we did not previously record a liability for potential remediation costs. In 2009, we were notified that in connection with GM's bankruptcy filing, GM does not plan to continue contributions to the site, including its contractual obligation to indemnify the Company for future liability. We believe that it is probable the Company will be held liable for participating in remediation actions. A remedial investigation and feasibility study has been conducted by the VLSG which indicates a range of viable remedial approaches. At this very early stage, a final remediation approach has not been selected, and we have accrued the estimate of our obligation based on the most cost efficient approach. We have an undiscounted long-term liability of \$1,936 that we currently believe is adequate to cover our portion of the total future potential costs of remediation, which are expected to be incurred over a period of 30 years. Our estimate does not include any amount that we may ultimately have to pay should GM not be required to fund their allocated portion of the environmental remediation costs. Depending on the final remedy agreed upon, the participation of GM and other PRPs not currently in the VLSG, and the final agreed upon allocation, it is possible our estimate could change in the future.

In addition, we have undiscounted reserves totaling \$352 for environmental remediation at one previously owned facility. Our remediation costs for this facility is partially covered by our insurance provider, and we have recorded a receivable of \$109 for the portion of these costs we expect to recover.

We review the potential future tax benefits of all deferred tax assets on an ongoing basis. Our review includes consideration of historical and projected future operating results, reversals of existing deferred tax liabilities, tax planning strategies, and the eligible carryforward period of each deferred tax asset to determine whether a valuation allowance is appropriate. Although realization is not assured, management believes it is more likely than not that all of the remaining deferred tax assets will be realized. The amount of the deferred tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income are reduced.

#### **NOTE 15 FAIR VALUE MEASUREMENTS**

We have financial assets and liabilities that are not recorded at fair value but which require disclosure of their fair value. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these instruments and is not material. We believe the carrying value of outstanding amounts under our secured revolving credit facility and capital lease obligation approximate fair value based on currently available market rates.

#### **NOTE 16 SUBSEQUENT EVENTS**

The Company has evaluated for disclosure all subsequent events through the date the financial statements were issued and filed with the United States Securities and Exchange Commission.

**Item 2 -**

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

**FORWARD-LOOKING INFORMATION**

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. All statements regarding our expected future financial condition, revenues or revenue growth, projected costs or cost savings, cash flows and future cash obligations, dividends, capital expenditures, business strategy, competitive positions, growth opportunities for existing products or products under development, and objectives of management are forward-looking statements that involve certain risks and uncertainties. In addition, forward-looking statements include statements in which we use words such as anticipates, projects, expects, plans, intends, believes, estimates, targets, and other similar expressions that indicate future events. These forward-looking statements are based on current expectations and estimates; we cannot assure you that such expectations will prove to be correct. 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.

Because such statements deal with future events, actual results for fiscal year 2010 and beyond could differ materially from our current expectations depending on a variety of factors including, but not limited to, the risk factors discussed in Item 1A to Part I of the Company's Annual Report on Form 10-K for the year ended January 3, 2010 (Annual Report). You should read this Management's Discussion and Analysis in conjunction with those risk factors and the financial statements and related notes included in this Quarterly Report on Form 10-Q (Quarterly Report) and included in our Annual Report. This Management's Discussion and Analysis includes the following sections:

•

*Critical Accounting Policies and Estimates* An update on the discussion provided in our Annual Report of the accounting policies that require our most critical judgments and estimates.

•

*Executive Summary* An overall discussion of changes in our business and key financial results for the second quarter and first half of 2010.

•

*Results of Operations* An analysis of our consolidated results of operations and segment results for the second quarter and first half of 2010 and 2009.

•

*Liquidity and Capital Resources* An analysis of cash flows and discussion of our financial condition.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In preparing the accompanying 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. 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 benefits, fair value measurements, deferred taxes, inventories, environmental liabilities, revenue recognition, and share-based and incentive compensation. For a detailed discussion of these critical accounting estimates, see the Management's Discussion and Analysis included in our Annual Report. With the exception of the share-based and incentive compensation discussion that follows, there were no significant changes in these critical accounting policies and estimates in the first half of 2010.

We have discussed the development and selection of the critical accounting policies and the related disclosures included in this Quarterly Report with the Audit Committee of our Board of Directors.

### ***Share-Based and Incentive Compensation***

During the first quarter of 2010, the Company awarded 240,550 shares of performance-based restricted stock.

Twenty-five percent of the shares will vest upon the achievement of specific performance goals by the Company for 2010. The remaining shares will vest as follows: 25% two years from the date of grant and 50% three years from the date of grant.

The performance goals allow partial vesting if a minimum level of performance is attained. If the minimum level of performance is not attained by the end of 2010, these stock awards will be forfeited and canceled, and all expense recognized to that date will be reversed. The amount of shares that ultimately vest could range from 50% to 150% of the initial shares granted. Additional shares will be granted upon performance above the target level.

The Company also has an approved management incentive plan for 2010 that will allow payment of cash awards based upon the achievement of three separate performance goals by the Company by the end of 2010. Awards will be determined based upon the level of achievement of each of the performance goals, with no awards for performance under a minimum level. Awards are also subject to a maximum payout once a certain level of performance is achieved.

The amount of compensation expense recognized under these arrangements is dependent on the total amount of performance-based shares we expect to vest and the expected achievement level of performance goals. This requires us to evaluate the probability of achieving the annual performance goals and assess the level of goal achievement each quarter. We are currently accruing expense based upon achieving performance sufficient to earn 100% of the performance-based shares. Total expense over the three-year vest period for these awards would be approximately \$1.4 million at this performance level, of which \$0.1 million has been accrued. For the incentive plan, we are currently accruing expense based upon achieving performance sufficient to earn awards in the amount of \$3.2 million for 2010, of which \$1.6 million has been accrued. The actual amount of compensation expense recorded in future periods is subject to adjustment based on changes in our expectations and the actual level of achievement of the performance goals.

### ***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We are required to use valuation techniques that are consistent with the market approach, income approach, and/or cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources, or unobservable, meaning those that reflect our own estimate about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The use of unobservable inputs is often necessary and can require significant management judgment and estimation.

**Goodwill** - During the second quarter of 2010, we performed the annual impairment test for goodwill. The test was performed at the reporting unit level using the two-step approach required by generally accepted accounting principles.

The first step of the test required us to compare the fair value of the reporting units to the carrying value of the assets assigned to those reporting units, including goodwill. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. If the carrying amount of a reporting unit exceeds the estimated fair



value, step two is completed to determine the amount of the impairment loss. The second step of the test compares the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

To determine fair value, we followed an income approach utilizing a discounted future cash flow methodology. The determination of the fair value of the reporting units required us to make significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, and future economic and market conditions. In addition, we made certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Though we believe our assumptions are reasonable, actual financial results could be different due to unanticipated events and circumstances that may occur. The following describes the key assumptions used in our fair value calculations:

- *Revenue and cost assumptions:* Using historical trending and internal forecasting techniques, we projected revenue for the remainder of 2010 through 2013. Factory cost/revenue forecasts were from our three-year strategy analysis which was performed based on both historical information and the Company's current strategic plan. A terminal value was then applied to the projected cash flow stream based on the three-year cash flow.

We calculated three outcomes: a most likely, a best case, and a worst case based on future cash flow projections. All outcomes were weighted to arrive at an overall projected cash flow.

- *Discount rate determination:* We used the industry weighted-average cost of capital that reflects the weighted average return on debt and equity of our peer group from a market participant perspective.

The results of our test indicated that the fair values of our reporting units were greater than their carrying value; therefore, goodwill was not impaired.

In addition to calculating a range of possible outcomes, we also performed a sensitivity analysis designed to understand the relative impact of the major assumptions used in our calculations. If our estimate of expected future cash flows had been 5% lower, or there was a 1% variation in either the terminal value or the discount rate, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

### ***Recently Issued Accounting Pronouncements***

Recently issued accounting standards and their estimated effect on our consolidated financial statements are described in Note 2, Recently Issued Accounting Pronouncements, to the Consolidated Financial Statements.

## **EXECUTIVE SUMMARY**

During the first half of 2010, each of our market segments continued progressing with their go-to-market strategies.

We achieved positive results, as we acquired new customers and expanded business with existing customers.

Implementation is currently underway for much of this new business. Economic conditions showed improvement across our markets, which corresponded to increased order levels. However, customers continued to focus on cost containment, and intense pressures on pricing continued. Additionally, cost reduction initiatives implemented by our customers and changes in regulatory requirements increased the rate of decline in some of our traditional print products as technology was utilized to reduce or eliminate the need for printed products.

We executed on plans developed as part our MyC3 process. Numerous cost-saving and revenue-growth ideas were completed, many ahead of schedule, which positively impacted year-to-date earnings. Examples benefitting our Financial and Healthcare segments specifically are the optimization of our manufacturing footprint and the transformation of our product portfolio by implementing new workflow and print technology in our Print On Demand centers. Additionally, we continued investing in system and infrastructure enhancements, including our web-based SMARTworks® platform, to allow us to work easier with our customers, reduce costs, and create operating efficiencies.

The following summarizes key financial results for the first half of 2010:

•

On March 31, 2010, we entered into a \$100 million, four-year senior secured revolving credit facility that replaced our existing facility that was due to expire in May 2010. The agreement allowed us to increase our borrowing capacity and is expected to provide us sufficient liquidity to run our current operations and make strategic investments for our future.

•

In June 2010, we purchased the assets of Fusion Graphics, Inc. The assets consist primarily of patented in-mold label products and intellectual property, including the Grafilm In-Mold Labeling System. The acquisition is expected to allow us to serve a much broader group of customers worldwide and continue to develop new products within our Industrial business unit.

•

For the second quarter, our net loss was almost break-even, which combined with our first quarter loss resulted in a year-to-date loss of \$0.9 million, or \$0.03 per share compared to a year-to-date net loss of \$7.8 million, or \$0.27 per share in 2009. We had no pension settlement charges in 2010, compared to \$19.7 million in the first half of 2009. On a per share basis, the pension settlements represented a loss of \$0.41 per share.

•

Cash flow on a net debt basis was a negative \$10.9 million compared to a positive \$0.3 million in the first half of 2009. The decrease was primarily attributable to the acquisition of Fusion Graphics, Inc. and increased working capital requirements due to the timing of our quarter end.

**RESULTS OF OPERATIONS**

The discussion that follows provides information which we believe is relevant to an understanding of our consolidated results of operations and financial condition, supplemented by a discussion of segment results where appropriate.

This discussion focuses on year-to-date results, with discussion of material items specific to the quarter as needed.

|   | <i>13 Weeks Ended</i> |                 |                     | <i>26 Weeks Ended</i> |                 |                     |
|---|-----------------------|-----------------|---------------------|-----------------------|-----------------|---------------------|
|   | <i>July 4,</i>        | <i>June 28,</i> | <i>%<br/>Change</i> | <i>July 4,</i>        | <i>June 28,</i> | <i>%<br/>Change</i> |
|   | <i>2010</i>           | <i>2009</i>     |                     | <i>2010</i>           | <i>2009</i>     |                     |
| <b>Revenue</b>                              | \$ 164.7              | \$ 171.0        | -3.7%               | \$ 332.1              | \$ 345.6        | -3.9%               |
| <b>Cost of sales</b>                        | 113.0                 | 116.8           | -3.3%               | 226.8                 | 237.2           | -4.4%               |
| <b>Gross margin</b>                         | 51.7                  | 54.2            | -4.6%               | 105.3                 | 108.4           | -2.9%               |
| <i>Gross margin % of sales</i>              | 31.4%                 | 31.7%           |                     | 31.7%                 | 31.4%           |                     |
| <b>SG&amp;A expense</b>                     | 50.5                  | 48.3            | 4.6%                | 104.6                 | 100.1           | 4.5%                |
| <b>Pension curtailments and settlements</b> | -                     | -               |                     | -                     | 19.7            |                     |
| <b>Environmental remediation</b>            | -                     | (0.1)           |                     | -                     | (0.1)           |                     |
| <b>Restructuring and asset impairment</b>   | 1.0                   | 0.5             |                     | 1.5                   | 1.1             |                     |
| <b>Other expense, net</b>                   | 0.4                   | 0.1             |                     | 0.8                   | 0.4             |                     |
| <b>(Loss) income before taxes</b>           | (0.2)                 | 5.4             |                     | (1.6)                 | (12.8)          |                     |
| <b>Income tax (benefit) expense</b>         | (0.1)                 | 2.2             |                     | (0.7)                 | (5.0)           |                     |
| <i>% rate</i>                               | 51.4%                 | 40.5%           |                     | 41.7%                 | 39.2%           |                     |
| <b>(Loss) income</b>                        | \$ (0.1)              | \$ 3.2          |                     | \$ (0.9)              | \$ (7.8)        |                     |

**Revenue**

Revenue for the first half of 2010 was down \$13.5 million or approximately 4% compared with 2009. The table below details the estimated changes in revenue due to units and price for the second quarter and year-to-date.

Changes in product mix did not result in material changes in revenue.

|              | <i>% of Revenue Change</i> |                     |
|--------------|----------------------------|---------------------|
|              | <i>Quarter</i>             | <i>Year-to-Date</i> |
| <b>Units</b> | -1%                        | -1%                 |
| <b>Price</b> | -3%                        | -3%                 |
|              | -4%                        | -4%                 |

The acquisition of new customers, expansion of new business with existing customers, and an upward trend in order levels due to improved economic conditions resulted in higher overall unit sales. However, due to the significant erosion in volume that occurred during 2009, units remained at slightly lower levels overall for the first half of 2010 as compared with 2009. During the second quarter, we experienced larger declines in our traditional print products, and expansion in some of our growth-targeted areas such as training solutions, healthcare labels, and secure prescription products were lower than expected. Other growth-targeted areas such as marketing solutions, software sales, and industrial labels increased double digits.

Declines in pricing continued to be driven by intense price competition and customer efforts to minimize costs. We expect customers to remain focused on costs as the economy continues to recover. While pricing on the supply side stabilized in 2009, we began to see increases in paper prices during the second quarter and are expecting additional increases later in the year. We generally have contractual arrangements that allow us to pass through these costs; however, price competition and a slow economy may delay or hinder our ability to recover these costs.

**Cost of Sales/Gross Margin**

Cost of sales decreased \$10.4 million or approximately 4% in the first half of 2010 as compared with 2009.

|              | <i>% Cost of Sales Change</i> |                     |
|--------------|-------------------------------|---------------------|
|              | <i>Quarter</i>                | <i>Year-to-Date</i> |
| <b>Units</b> | -                             | -1%                 |
| <b>Price</b> | -3%                           | -4%                 |
| <b>Mix</b>   | -                             | 1%                  |
|              | -3%                           | -4%                 |

As shown in the table, the decline in cost of sales was driven primarily by price. We reduced production costs through our 2008 restructuring actions, workforce reductions, and cost reduction initiatives taken during 2009. The major categories of cost reductions included compensation, rebates, supply chain, maintenance, and warehousing costs.

Year-to-date cost of sales was also reduced approximately \$1.9 million or 1% by a favorable LIFO adjustment, which resulted from continuing initiatives to reduce inventory levels. As a result, despite the decline in revenue, the gross margin percentages remained consistent with 2009.

Due to recent paper price increases, material costs are expected to increase in future quarters. However, we also expect to continue to realize additional production cost savings as we implement other MyC3 cost reduction ideas.

**Selling, General and Administrative Expenses**

As shown in the following table, total SG&A expense increased by \$4.5 million in the first half of 2010 as compared with 2009. Selling and sales support declined \$1.3 million. Our cost reduction initiatives reduced compensation-related expenses by \$1.7 million. Product management costs on key priority solutions, new deal support costs in client satisfaction, and business development costs were higher by approximately \$1.4 million as we continued implementing our go-to-market strategy. However, these increases were partially offset by cost reductions of approximately \$1.0 million, primarily in communication service costs and facility costs. Reductions in communication service costs were enabled in large part by the increased infrastructure investments reported in general and administrative expenses. Other cost reductions resulted from our restructuring and MyC3 cost reduction initiatives.

General and administrative expenses increased \$5.2 million. Increases in planned technology spending on system infrastructure projects accounted for approximately \$3.7 million of the increase, of which approximately \$2.4 million was focused on advancing our client-facing technology through SMARTworks®. Deferred compensation costs were also higher by approximately \$0.9 million as compared to 2009, due to one-time death benefits received in 2009 that were not received in 2010 and lower investment earnings. Additionally, incentive compensation increased approximately \$1.6 million. These increases were offset partially by sales tax refunds of approximately \$1 million.

| <i>13 Weeks Ended</i> |                 | <i>26 Weeks Ended</i> |                 |
|-----------------------|-----------------|-----------------------|-----------------|
| <i>July 4,</i>        | <i>June 28,</i> | <i>July 4,</i>        | <i>June 28,</i> |
| <i>2010</i>           | <i>2009</i>     | <i>2010</i>           | <i>2009</i>     |

|  |                |         |                 |          |
|--|----------------|---------|-----------------|----------|
| Selling and sales support                                | <b>25.7</b>    | 26.1    | <b>51.7</b>     | 53.0     |
| Research and development                                 | <b>1.3</b>     | 1.2     | <b>2.4</b>      | 2.4      |
| General and administrative expenses                      | <b>17.7</b>    | 15.8    | <b>38.8</b>     | 33.6     |
| Depreciation   | <b>2.4</b>     | 2.2     | <b>4.7</b>      | 4.4      |
| Amortization of pension net actuarial losses             | <b>4.6</b>     | 3.5     | <b>9.3</b>      | 8.2      |
| Other pension and postretirement expenses                | <b>(1.2)</b>   | (0.5)   | <b>(2.3)</b>    | (1.5)    |
| <b>Total selling, general and administrative expense</b> | <b>\$ 50.5</b> | \$ 48.3 | <b>\$ 104.6</b> | \$ 100.1 |

### *Restructuring and Other Exit Costs*

The Company has undertaken cost reduction initiatives and restructuring actions as part of ongoing efforts to improve efficiencies, reduce cost, and maintain a strong financial condition. The 2009 and 2008 restructuring and other exit activities are described in Note 4 to the Consolidated Financial Statements included in our Annual Report. All related costs are included in restructuring and other exit costs in the accompanying Consolidated Statements of Income.

**2009**

In 2009, we initiated a restructuring plan as a result of the MyC3 initiative. During the first half of 2010, we continued implementing this plan, as well as other cost reduction and revenue growth initiatives generated from the MyC3 process. Implementation of the restructuring plan and other initiatives will continue through 2011, and we are currently on track to realize all of the projected net savings of \$30 to \$40 million annually, once completed.

Restructuring and other exit costs of \$1.5 for the first half of 2010 primarily relate to contract termination costs accrued for two closed sales offices, two print centers, and one distribution center, as well as costs for the relocation of equipment that are required to be expensed as incurred.

Components of 2009 restructuring and other exit costs consist of the following:

|                               | <i>Total<br/>Expected<br/>Costs</i> | <i>Total<br/>Q2 2010<br/>Expense</i> | <i>Cumulative-<br/>To-Date<br/>Expense</i> |
|-------------------------------|-------------------------------------|--------------------------------------|--|
| Involuntary termination costs | \$ 3.9                              | \$ -                                 | \$ 3.6                                     |
| Contract termination costs    | 3.9                                 | 0.5                                  | 1.0  |
| Other associated exit costs   | 9.0                                 | 0.5                                  | 8.0  |
| Total                         | \$ 16.8                             | \$ 1.0                               | \$ 12.6                                    |

A summary of the 2009 restructuring accrual activity is as follows:

|                               | <i>Balance<br/>2009</i> | <i>Charged to<br/>Accrual</i> | <i>Incurred<br/>in 2010</i> | <i>Balance<br/>2010</i> |
|-------------------------------|-------------------------|-------------------------------|-----------------------------|-------------------------|
| Involuntary termination costs | \$ 3.4                  | \$ -                          | \$ (0.9)                    | \$ 2.5                  |
| Contract termination costs    | 0.4                     | 0.6                           | (0.2)                       | 0.8                     |
| Other associated costs        | 1.3                     | -                             | (1.3)                       | -                       |
| Total                         | \$ 5.1                  | \$ 0.6                        | \$ (2.4)                    | \$ 3.3                  |

**Taxes**

The effective tax rates for the second quarter and year-to-date 2010 were more favorable compared with 2009, primarily as a result of usage of net operating loss carryforwards related to our Mexico operations. We previously recorded a full reserve for these carryforwards; therefore, the usage of the loss carryforward did not result in income tax expense for the period. As a result of improved operating performance and forecasted taxable income related to our Mexican operations for 2010, the remaining reserve for the net operating losses was also reversed.

**Segment Operating Results**



We operate the following three business units: Healthcare, Commercial, and Industrial. Each of these business units represents an operating segment except for Commercial, which is comprised of two operating segments: Financial Services and Emerging. As a result, we have four operating segments which represent our reportable segments.

The following table presents Revenue, Gross Margin, and Operating Income (Loss) for each of our reportable segments for the 13-week and 26-week periods ended July 4, 2010 and June 28, 2009. Segment information for 2009 has been revised from previously reported information to reflect the current presentation.

|                                | <i>13 Weeks Ended</i>   |                          |              | <i>26 Weeks Ended</i>   |                          |              |          |       |
|--------------------------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|----------|-------|
|                                | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>% Chg</i> | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> | <i>% Chg</i> |          |       |
| <b>Revenue</b>                 |                         |                          |              |                         |                          |              |          |       |
| Healthcare                     | \$ 59.0                 | \$ 66.2                  | -10.9%       | \$ 123.3                | \$ 134.6                 | -8.4%        |          |       |
| Financial Services             | 43.4                    | 47.3                     | -8.2%        | 88.1                    | 97.4                     | -9.5%        |          |       |
| Emerging                       | 43.1                    | 41.3                     | 4.4%         | 83.3                    | 83.6                     | -0.4%        |          |       |
| Industrial                     | 19.2                    | 16.2                     | 18.5%        | 37.4                    | 30.0                     | 24.7%        |          |       |
| Consolidated Revenue           | \$ 164.7                | \$ 171.0                 | -3.7%        | \$ 332.1                | \$ 345.6                 | -3.9%        |          |       |
|                                | <i>% Rev</i>            |                          | <i>% Rev</i> | <i>% Rev</i>            |                          | <i>% Rev</i> |          |       |
| <b>Gross Margin</b>            |                         |                          |              |                         |                          |              |          |       |
| Healthcare                     | \$ 21.5                 | 36.4%                    | \$ 24.2      | 36.6%                   | \$ 45.0                  | 36.5%        | \$ 48.2  | 35.8% |
| Financial Services             | 13.5                    | 31.1%                    | 13.6         | 28.8%                   | 26.8                     | 30.4%        | 28.4     | 29.2% |
| Emerging                       | 11.3                    | 26.2%                    | 11.1         | 26.9%                   | 21.3                     | 25.6%        | 22.9     | 27.4% |
| Industrial                     | 5.2                     | 27.1%                    | 4.5          | 27.8%                   | 10.3                     | 27.5%        | 8.2      | 27.3% |
| Total Segments (1)             | \$ 51.5                 | 31.3%                    | \$ 53.4      | 31.7%                   | \$ 103.4                 | 31.7%        | \$ 107.7 | 31.4% |
| <b>Operating Income (Loss)</b> |                         |                          |              |                         |                          |              |          |       |
| Healthcare                     | \$ 4.0                  | 6.8%                     | \$ 7.1       | 10.7%                   | \$ 8.0                   | 6.5%         | \$ 12.6  | 9.4%  |
| Financial Services             | 2.3                     | 5.3%                     | 2.0          | 4.2%                    | 3.4                      | 3.9%         | 4.7      | 4.8%  |
| Emerging                       | (0.6)                   | -1.4%                    | (0.5)        | -1.2%                   | (2.9)                    | -3.5%        | (0.9)    | -1.1% |
| Industrial                     | (0.4)                   | -2.4%                    | 0.2          | 1.9%                    | (1.1)                    | -3.1%        | (0.6)    | -1.9% |
| Total Segments (1)             | \$ 5.3                  | 3.6%                     | \$ 8.8       | 5.5%                    | \$ 7.4                   | 3.0%         | \$ 15.8  | 4.8%  |

(1) Segment gross margin excludes LIFO adjustments that are included in consolidated gross margin in the Consolidated Statements of Income and Comprehensive Income. A reconciliation of operating income per segment to consolidated income from operations is provided in Note 13-Segment Reporting of the Notes to Financial Statements.

### *Healthcare*

Revenue in our Healthcare segment declined approximately 8% or \$11.3 million in the first half of 2010 compared with 2009. The following table details the estimated changes in revenue due to units and price for both the second quarter and the first half of 2010. Changes in product mix did not materially contribute to the change in revenue.

|              | <i>% of Revenue Change</i> |                     |
|--------------|----------------------------|---------------------|
|              | <i>Quarter</i>             | <i>Year-to-Date</i> |
| <b>Units</b> | -9%                        | -6%                 |
| <b>Price</b> | -2%                        | -2%                 |
|              | -11%                       | -8%                 |

Unit declines in the second quarter were higher as a result of increased declines in our administrative and clinical forms due to adoption of digital technologies, changes in some customer order cycles, and lower than expected rates of expansion in label and wristband products. We continued to expand our customer base and market share during the first half of 2010 and also increased sales in some growth-targeted products, such as marketing and training solutions and patient information solutions. However, this expansion in units did not outpace the declines. The decrease in pricing primarily is a result of an increase in discounts related to new customers acquired as a result of the Novation agreement, as well as other new customers.

Cost of sales declined \$8.1 million or 9% on a year-to-date basis as compared with the 2009. The following table details our estimate of the changes in cost of sales due to units and price.

|              | <i>% Cost of Sales Change</i> |                     |
|--------------|-------------------------------|---------------------|
|              | <i>Quarter</i>                | <i>Year-to-Date</i> |
| <b>Units</b> | -7%                           | -5%                 |
| <b>Price</b> | -4%                           | -4%                 |
|              | -11%                          | -9%                 |

Cost of sales declined at a higher rate in the second quarter due to units as a result of lower sales during the quarter. Lower production expenses realized from our cost reduction initiatives further reduced costs for the quarter and year-to-date, allowing the gross margin percentages to remain consistent with 2009 despite the decline in revenue.

Operating income was down \$3.1 million for the second quarter and \$4.6 million year-to-date in 2010 compared with 2009. This decline resulted from lower sales volume and higher SG&A costs. Compensation-related selling expenses declined substantially in 2010 due to sales optimization initiatives implemented as a result of MyC3. However, these savings were offset by increases in certain selling and administrative costs as a result of planned investments.

### *Financial Services*

Financial Services segment revenue declined \$9.3 million or approximately 10% in 2010 compared with the first half of 2009. The following table details the estimated changes in revenue due to units and price for both the second quarter and the first half of 2009. Changes in product mix did not materially contribute to the change in revenue.

|              | <i>% of Revenue Change</i> |                     |
|--------------|----------------------------|---------------------|
|              | <i>Quarter</i>             | <i>Year-to-Date</i> |
| <b>Units</b> | -7%                        | -9%                 |
| <b>Price</b> | -1%                        | -1%                 |
|              | -8%                        | -10%                |

Although we increased our customer base and expanded sales to existing customers, units were lower compared with the first half of 2009. We continued to see the effects of the significant erosion in volume with a few customers that occurred during 2009, although the rate of decline was lessened in the second quarter by growth from new customers as we began to see positive effects from our go-to-market strategy. Financial services institutions continue to struggle as economic conditions within this market remain weak, resulting in increased pricing pressures on our products with new and existing customers. Declines were most significant in our specialized print products, such as forms and customer communication products, and in training solutions; while revenue increased in our marketing solutions.

Year-to-date cost of sales declined \$7.7 million or 11% compared with the 2009. The following table details the estimated changes in cost of sales due to units, price, and mix for the second quarter and year-to-date 2010.

|              | <i>% Cost of Sales Change</i> |                     |
|--------------|-------------------------------|---------------------|
|              | <i>Quarter</i>                | <i>Year-to-Date</i> |
| <b>Units</b> | -7%                           | -8%                 |
| <b>Price</b> | -6%                           | -5%                 |
| <b>Mix</b>   | 2%                            | 2%                  |
|              | -11%                          | -11%                |

Decreases in cost of sales were driven by lower volume and lower production costs resulting from our MyC3 cost reduction and restructuring initiatives. These reductions resulted in improved gross margin percentages for the quarter and year-to-date in 2010. However, paper prices increased during the second quarter, and we expect to see increased costs as the year progresses as a result.

Operating income increased slightly by \$0.3 million in the second quarter of 2010 compared with 2009 due primarily to higher gross margin. Year-to-date operating income declined \$1.3 million, due primarily to planned increases in selling and administrative expenses related to business development activities and improvements in our infrastructure. Increased costs were offset somewhat by lower selling expenses due to lower commission on reduced revenue and cost savings realized from our cost reduction initiatives taken in 2008 and 2009.

***Emerging***

Emerging segment revenue declined \$0.3 million in the first half of 2010 compared with 2009. For the second quarter, revenue increased \$1.8 million or approximately 4%. The following table details the estimated changes in revenue due to units and price for both the second quarter and the first half of 2009. Changes in product mix did not materially contribute to the change in revenue.

|              | <i>% of Revenue Change</i> |                     |
|--------------|----------------------------|---------------------|
|              | <i>Quarter</i>             | <i>Year-to-Date</i> |
| <b>Units</b> | 10%                        | 7%                  |
| <b>Price</b> | -6%                        | -7%                 |
|              | 4%                         | 0%                  |

Units increased primarily as a result of expanding our customer base and improved economic conditions. However, this increase was partially offset by pricing declines. Intense competition within the industry has resulted in higher discounts on new business, as well as with existing customers. Pricing declines were higher year-to-date as compared to the second quarter, primarily as a result of seasonal sales of highly discounted products in the first quarter. Except for forms, labels, and secure documents, revenue increased across all of our products, with increases in marketing solutions being most substantial.

Cost of sales increased \$1.3 million year-to-date, or 2% compared with 2009. The following table details the changes in cost of sales due to units, price, and mix for the second quarter and year-to-date 2010.

|              | <i>% Cost of Sales Change</i> |                     |
|--------------|-------------------------------|---------------------|
|              | <i>Quarter</i>                | <i>Year-to-Date</i> |
| <b>Units</b> | 10%                           | 7%                  |
| <b>Price</b> | -5%                           | -6%                 |
| <b>Mix</b>   | -                             | 1%                  |
|              | 5%                            | 2%                  |

As shown in the table, higher costs were primarily driven by increased units as a result of higher sales volume. A shift in product mix from some internally produced products to outsourced products also increased costs. However, lower production costs due to our workforce reductions and other cost reduction initiatives significantly reduced pricing.

The gross margin percentage for the second quarter of 2010 was consistent with 2009; however, the year-to-date gross margin percentage for 2010 declined compared with 2009 as a result of the changes in product mix.

Operating loss for the second quarter of 2010 was consistent with 2009. Year-to-date loss for 2010 was \$2.9 million, compared to \$0.9 million in 2009. Increased administrative expenses related to planned investments in infrastructure, offset partially by decreased selling expenses due to workforce reductions, resulted in the reduced operating profits.

### ***Industrial***

Industrial segment year-to-date revenue increased \$7.4 million or approximately 25% compared with 2009. The following table details the estimated changes in revenue due to units and price for both the second quarter and year-to-date 2010. Changes in product mix did not materially contribute to the change in revenue.

|              | <i>% of Revenue Change</i> |                     |
|--------------|----------------------------|---------------------|
|              | <i>Quarter</i>             | <i>Year-to-Date</i> |
| <b>Units</b> | 20%                        | 26%                 |
| <b>Price</b> | -1%                        | -1%                 |
|              | 19%                        | 25%                 |

Improved economic conditions accounted for more than half of the increase in units, as order levels trended higher for many of our customers. The acquisition of new customers and expanded product sales to existing customers also contributed significantly to increased units during the first half of 2010.

Our customers continue to project a partial recovery of the declines sustained in 2009, which should continue to result in increased unit sales for this segment in 2010. Additionally, during the quarter, we acquired selected assets of Fusion Graphics, Inc. which is expected to enable us to expand our in-mold product line and result in increased revenues long-term. While we expect to continue to see higher revenue in 2010 compared with 2009, we do not expect revenue increases to be consistent with the rate of increase for the first half of 2010.

Year-to-date costs of sales increased \$5.3 million or 24% compared with 2009. The following table details the estimated changes in our cost of sales related to price, units, and mix.

|              | <i>% Cost of Sales Change</i> |                     |
|--------------|-------------------------------|---------------------|
|              | <i>Quarter</i>                | <i>Year-to-Date</i> |
| <b>Units</b> | 17%                           | 23%                 |
| <b>Price</b> | 3%                            | 1%                  |
| <b>Mix</b>   | -1%                           | -                   |
|              | 19%                           | 24%                 |

As typical for this segment, margins from new customers are lower during implementation and can take many quarters to reach expected levels. Due to the increased number of new accounts, cost economies gained from higher unit sales were partially offset by the higher cost of implementing new accounts. Additionally, we incurred higher costs of approximately 2% related to expanding our in-mold product line. However, we successfully offset some of these increased costs with reduced production costs as a result of our restructuring and cost reduction initiatives of approximately 1%. As a result, the gross margin percentages remained consistent with 2009.

Operating income declined during the second quarter and on a year-to-date basis compared with 2009 as a result of higher administrative costs and increases in selling expenses. Administrative costs increased as part of planned investments in infrastructure and increased costs related to the acquisition of Fusion Graphics. Selling expenses increased due to planned investments in business development activities associated with implementing our go-to-market strategy and higher commissions due to increased revenues as compared with the first half of 2009.

## **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. 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. Because our credit facility is borrowed under a revolving credit agreement which currently permits us to borrow and repay at will up to a balance of \$100 million (subject to limitations related to receivables, inventories, and letters of credit), we take the measure of cash flow performance prior to borrowing or repayment of the credit facility. In effect, we evaluate cash flow and capital structure as the change in net debt (credit facility less cash and cash equivalents).



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

| <b>CASH INFLOW (OUTFLOW)</b>                        | <i>26 Weeks Ended</i>   |                          |
|---|-------------------------|--------------------------|
|   | <i>July 4,<br/>2010</i> | <i>June 28,<br/>2009</i> |
| Net loss plus non-cash items                        | \$ 20.4                 | \$ 27.3                  |
| Working capital                                     | 0.1                     | 10.6                     |
| Restructuring payments                              | (3.5)                   | (2.9)                    |
| Contributions to qualified pension plan             | (13.5)                  | (14.5)                   |
| Other (1)   | (4.0)                   | (7.0)                    |
| Net cash (used in) provided by operating activities | (0.5)                   | 13.5                     |
| Capital expenditures                                | (4.3)                   | (5.0)                    |
| Acquisition   | (2.5)                   | -                        |
| Net cash used in investing activities               | (6.8)                   | (5.0)                    |
| Net change in borrowings under credit facility      | 9.6                     | (0.4)                    |
| Principal payments on long-term debt                | (0.7)                   | (0.1)                    |
| Dividends paid                                      | (2.9)                   | (8.1)                    |
| Net cash provided by (used in) financing activities | 6.0                     | (8.6)                    |
| Net change in cash                                  | \$ (1.3)                | \$ (0.1)                 |
| Memo:   |                         |                          |
| Add back credit facility (borrowed) paid            | (9.6)                   | 0.4                      |
| Cash flow on a net debt basis                       | \$ (10.9)               | \$ 0.3                   |

(1) Includes deferred compensation and non-qualified pension payments and changes in other non-current assets and liabilities

### *Operating Activities*

Cash provided by operations was \$14.0 million lower in the first half of 2010 compared with the same period of 2009. This decrease was primarily driven by a decline in net income adjusted for non-cash items in 2010 as compared with

2009.

Restructuring payments were higher for the first half of 2010 compared to 2009 as we progressed with the plans initiated in late 2009.

We also contributed \$13.5 million to our qualified defined benefit pension plan in the first half of 2010 compared to \$14.5 million in 2009. Based upon preliminary estimates, we expect to contribute approximately \$29 million for 2010.

### ***Investing Activities***

Year-to-date capital expenditures totaled \$4.3 million in 2010 and are expected to be in the range of \$11 to \$13 million for the year. We also entered into both operating and capital lease agreements totaling approximately \$6.3 million for advanced digital workflow equipment integral to developing our product portfolio going forward.

Payments under these arrangements will be required over the next 60 months. In 2010, we expect to continue to scrutinize capital projects and limit spending to projects required for operations and those with higher returns on invested capital.

In the second quarter of 2010, we purchased selected assets of Fusion Graphics, Inc. for approximately \$2.5 million. The purchase was an important part of our plans for transforming our product portfolio and consisted primarily of patents which will be utilized by our Industrial segment for our in-mold product line.

### ***Financing Activities***

As a result of early funding of payables due to the holiday and our new acquisition, borrowings under our revolving credit facility increased by \$9.6 million in the first half of 2010.

Dividend payments to shareholders were lower in the first half of 2010 as compared with the same period in 2009, as our Board of Directors elected to reduce the quarterly dividend from \$0.23 to \$0.05 per share beginning in the second quarter of 2009. The amount of dividend payments in subsequent quarters will be determined on a quarter by quarter basis.

Under Ohio law, dividend payments in excess of Earned Surplus, defined as the sum of retained earnings and accumulated other comprehensive income or losses, are considered a return of capital. Dividends declared and paid for the second quarter were in excess of Earned Surplus and were therefore recorded as a reduction in paid in capital. Dividends for the third quarter, declared on July 29, 2010, will be paid out of retained earnings.

### *Capital Structure*

|   | <i>July 4,</i><br><i>2010</i> | <i>January 3,</i><br><i>2010</i> | <i>Change</i> |
|---|-------------------------------|----------------------------------|---------------|
| Credit Facility                                 | \$ 45.3                       | \$ 35.7                          | \$ 9.6        |
| Less Cash and Cash Equivalents                  | (1.1)                         | (2.4)                            | 1.3           |
| Net Debt  | 44.2                          | 33.3                             | 10.9          |
| Capitalized Lease Obligation                    | 4.1                           | -                                | 4.1           |
| Loan Payable                                    | 1.2                           | 0.2                              | 1.0           |
| Total Debt                                      | 49.5                          | 33.5                             | 16.0          |
| Equity  | 45.2                          | 42.2                             | 3.0           |
| Total Capital                                   | \$ 94.7                       | \$ 75.7                          | \$ 19.0       |
| <i>Total Debt:Total Capital</i>                 | <i>52%</i>                    | <i>44%</i>                       |               |
| <i>Total Debt:Total Capital on a GAAP basis</i> | <i>53%</i>                    | <i>46%</i>                       |               |

Our net debt increased \$10.9 million in the first half of 2010, reflecting a \$9.6 million increase in borrowings and a \$1.3 million decrease in cash reserves.

On March 31, 2010, we entered into a \$100 million four-year senior secured revolving credit facility (Credit Facility) with five banks. The Credit Facility replaced our existing \$100 million revolving credit facility that would have matured in May 2010.

The Credit Facility is secured by accounts receivable, inventories, fixed assets, and certain other assets. The Credit Facility contains a fixed charge coverage covenant test that becomes applicable if the sum of available unborrowed credit plus certain cash balances falls below 15% of aggregate commitments or \$11.2 million, whichever is greater.

The Credit Facility provides for the payment of interest on amounts borrowed under London Interbank Offered Rate (LIBOR) contracts and base rate loans. Payment of interest on LIBOR contracts is at an annual rate equal to the LIBOR rate plus 3.00% to 3.50% based on our level of liquidity. Payment of interest on base rate loans is based on the prime rate plus 2.00% to 2.50% based upon our level of liquidity. We are also required to pay a fee on the unused portion of the Credit Facility. Such fee is payable at an annual rate of 50.0 basis points if the unused portion is equal to or less than 50% of the aggregate commitment or 75.0 basis points if the unused portion is greater than 50% of the aggregate commitment.

At quarter end, we had \$48.3 million available under the Credit Facility. We believe that the combination of our internally-generated funds, available cash reserves, and our new credit facility are sufficient to fund our operations, capital expenditures, and investments in growth initiatives over the next year.

***Contractual Obligations***

During the first quarter of 2010, we entered into a five-year capital lease obligation for digital equipment that will assist us in transforming our product portfolio. The capitalized lease obligation provides for aggregate payments, including interest, of approximately \$5.0 million. Payments under the lease, including interest, are as follows: 2010-\$0.8; 2011-\$1.0; 2012-\$1.0; 2013-\$1.0; and 2014-\$1.0; and \$0.2 thereafter.

Our near-term cash requirements are primarily related to funding our operations, capital expenditures, and pension.

**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. 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 our Annual Report.

## **ITEM 4 - CONTROLS AND PROCEDURES**

### ***Controls Evaluation***

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting (Disclosure Controls) as of July 4, 2010. The evaluation was carried out under the supervision, and with the participation, of our management including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

### ***Definition of Disclosure Controls***

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our Securities Exchange Act reports, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting. A comprehensive evaluation of our internal control over financial reporting is performed on an annual basis.

### ***Limitations on the Effectiveness of Disclosure Controls***

Our Company's management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### ***Scope of Evaluation***

Our evaluation of Disclosure Controls included a review of their objectives, design, and effectiveness, including their effect on the information generated for use in this Quarterly Report on Form 10-Q. This evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of our Disclosure Controls can be reported upon in our quarterly reports on Form 10-Q.

### ***Conclusion***

Based on that evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report on Form 10 Q, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed,

summarized, and reported within the time periods specified by the SEC and that material information relating to The Standard Register Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

*Changes in Internal Control*

During the second quarter of fiscal 2010, 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 1A - RISK FACTORS

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended January 3, 2010 in response to Item 1A to Part I of Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit #   Description

2

Plan of acquisition, reorganization, arrangement,  
liquidation or succession

Not applicable

3

Articles of incorporation and bylaws

Not applicable

4

Instruments defining the rights of security holders,  
including indentures

Not applicable

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 Financial 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

**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.

Date: August 2, 2010

**THE STANDARD REGISTER COMPANY  
(REGISTRANT)**

/S/ ROBERT M. GINNAN

By: Robert M. Ginnan, Vice President, Treasurer and Chief

Financial Officer

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