

STANDARD REGISTER CO
Form 10-Q
July 30, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 27, 2004

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

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(State or other jurisdiction of
Incorporation or organization)

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

600 ALBANY STREET, DAYTON OHIO

45408

(Address of principal executive offices)

(Zip Code)

(937) 221-1000

(Registrant's telephone number, including area code)

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

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

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

| Class | Outstanding as of June 27, 2004 |
|---------------------------------|---------------------------------|
| Common stock, \$1.00 par value | 23,847,205 shares |
| Class A stock, \$1.00 par value | 4,725,000 shares |

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 27, 2004

INDEX

| | <u>Page</u> |
|--|-------------|
| Part I Financial Information | |
| Item 1. Consolidated Financial Statements | |
| a) Consolidated Statement of Income and Comprehensive Income for the 13 Weeks Ended June 27, 2004 and June 29, 2003 and for the 26 Weeks Ended June 27, 2004 and June 29, 2003 | 3 |
| b) Consolidated Balance Sheet as of June 27, 2004 and December 28, 2003 | 4 |
| c) Consolidated Statement of Cash Flows for the 26 Weeks Ended June 27, 2004 and June 29, 2003 | 6 |
| d) Notes to Consolidated Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk | 33 |
| Item 4. Controls and Procedures | 33 |

Part II Other Information

| | |
|---|----|
| Item 1. Legal Proceedings | 34 |
| Item 2. Changes in Securities and Use of Proceeds | 34 |
| Item 3. Defaults upon Senior Securities | 34 |
| Item 4. Submission of Matters to a Vote of Security Holders | 34 |
| Item 5. Other Information | 34 |
| Item 6. Exhibits and Reports on Form 8-K | 35 |
| Signatures | 36 |

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>June 27</i> <i>2004</i> | <i>13 Weeks Ended</i> <i>June 29</i> <i>2003</i> | <i>26 Weeks Ended</i> <i>June 27</i> <i>2004</i> | <i>26 Weeks Ended</i> <i>June 29</i> <i>2003</i> |
|-------------------------------------|--|--|--|--|
| REVENUE | | | | |
| Products | \$ 190,964 | \$ 193,164 | \$ 380,132 | \$ 380,132 |
| Services | 35,522 | 39,786 | 72,408 | 72,408 |
| Total revenue | 226,486 | 232,950 | 452,540 | 452,540 |
| COST OF SALES | | | | |
| Products | 121,185 | 117,785 | 238,028 | 238,028 |
| Services | 23,684 | 26,057 | 49,352 | 49,352 |
| Total cost of sales | 144,869 | 143,842 | 287,380 | 287,380 |
| GROSS MARGIN | 81,617 | 89,108 | 165,160 | 165,160 |
| OPERATING EXPENSES | | | | |
| Research and development | 3,747 | 4,749 | 7,352 | 7,352 |
| Selling, general and administrative | 69,085 | 69,440 | 144,922 | 144,922 |
| Depreciation and amortization | 10,729 | 12,293 | 21,365 | 21,365 |
| Asset impairments | 789 | 9,545 | 789 | 789 |
| Restructuring charges | 2,195 | 12,972 | 5,576 | 5,576 |
| Total operating expenses | 86,545 | 108,999 | 180,004 | 180,004 |
| LOSS FROM OPERATIONS | (4,928) | (19,891) | (14,844) | (14,844) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (642) | (971) | (1,332) | (1,332) |
| Investment income and other | 79 | 381 | 129 | 129 |
| Total other expense | (563) | (590) | (1,203) | (1,203) |
| LOSS BEFORE INCOME TAXES | (5,491) | (20,481) | (16,047) | (16,047) |
| INCOME TAX BENEFIT | (2,870) | (8,485) | (6,927) | (6,927) |
| NET LOSS | \$ (2,621) | \$ (11,996) | \$ (9,120) | \$ (9,120) |
| LOSS PER SHARE | \$ (0.09) | \$ (0.42) | \$ (0.32) | \$ (0.32) |

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| | | | | | | | |
|---|----|---------|----|----------|----|---------|----|
| Dividends Paid Per Share | \$ | 0.23 | \$ | 0.23 | \$ | 0.46 | \$ |
| NET LOSS | \$ | (2,621) | \$ | (11,996) | \$ | (9,120) | \$ |
| Deferred cost on interest rate swap, net of \$815 deferred income tax expense | | - | | - | | - | |
| Unrealized gain on available-for-sale securities | | - | | - | | - | |
| Deferred cost on forward contract net of \$146 deferred tax expense for 26-weeks ended June 29, 2003 | | 377 | | (37) | | 239 | |
| Foreign currency translation adjustment | | (146) | | 540 | | (146) | |
| COMPREHENSIVE (LOSS) INCOME | \$ | (2,390) | \$ | (11,493) | \$ | (9,027) | \$ |

See accompanying notes.

THE STANDARD REGISTER COMPANY**CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

| A S S E T S | <i>June 27, 2004</i> | <i>December 28, 2003</i> |
|--|--------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 25,561 | \$ 76,959 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$3,363 and \$3,740, respectively | 129,736 | 125,943 |
| Inventories | 52,153 | 49,757 |
| Prepaid income taxes | 1,696 | 2,251 |
| Deferred income taxes | 19,416 | 19,297 |
| Prepaid expense | 13,477 | 11,254 |
| Total current assets | 242,039 | 285,461 |
| PLANT AND EQUIPMENT | | |
| Buildings and improvements | 69,575 | 68,891 |
| Machinery and equipment | 223,436 | 224,294 |
| Office equipment | 167,204 | 167,524 |
| Total | 460,215 | 460,709 |
| Less accumulated depreciation | 315,827 | 304,075 |
| Depreciated cost | 144,388 | 156,634 |
| Plant and equipment under construction | 6,501 | 3,556 |
| Land | 3,233 | 3,233 |
| Net assets held for sale | - | 2,115 |
| Total plant and equipment | 154,122 | 165,538 |
| OTHER ASSETS | | |
| Goodwill | 53,616 | 53,616 |
| Intangible assets, net | 14,722 | 15,007 |
| Deferred tax asset | 78,665 | 72,654 |
| Software development costs, net | 11,875 | 12,197 |
| Restricted cash | 2,194 | 1,971 |

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| | | |
|--------------------|------------|------------|
| Other | 22,927 | 22,513 |
| Total other assets | 183,999 | 177,958 |
| Total assets | \$ 580,160 | \$ 628,957 |

See accompanying notes.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | <i>June 27,</i> 2004 | <i>December 28,</i> 2003 |
|---|--------------------------------|------------------------------------|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 100,000 | \$ 12 |
| Accounts payable | 27,641 | 32,089 |
| Accrued compensation | 26,639 | 23,928 |
| Deferred revenue | 11,216 | 10,979 |
| Accrued restructuring | 3,293 | 2,828 |
| Other current liabilities | 20,818 | 29,987 |
| Total current liabilities | 189,607 | 99,823 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | - | 125,000 |
| Pension benefit obligation | 90,247 | 89,608 |
| Retiree health care obligation | 48,755 | 49,769 |
| Deferred compensation | 15,459 | 15,526 |
| Other long-term liabilities | 890 | 643 |
| Total long-term liabilities | 155,351 | 280,546 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$1.00 par value: | | |
| Authorized 101,000,000 shares | | |
| Issued 2004 -25,770,967; 2003 - 25,667,217 | 25,771 | 25,667 |
| Class A stock, \$1.00 par value: | | |
| Authorized 9,450,000 shares | | |
| Issued - 4,725,000 | 4,725 | 4,725 |
| Capital in excess of par value | 58,097 | 56,687 |
| Accumulated other comprehensive losses | (121,406) | (121,499) |
| Retained earnings | 322,467 | 338,164 |
| Treasury stock at cost: | | |
| 1,923,762 shares | (49,351) | (49,351) |
| Unearned compensation - restricted stock | (5,101) | (5,805) |

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| | | |
|--|------------|------------|
| Total shareholders' equity | 235,202 | 248,588 |
| Total liabilities and shareholders' equity | \$ 580,160 | \$ 628,957 |

See accompanying notes.

THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

26 Weeks Ended

June 27

2004

26 Weeks Ended

June 29

2003

**CASH FLOWS FROM OPERATING
ACTIVITIES**

| | | |
|---|------------|-------------|
| Net loss | \$ (9,120) | \$ (13,128) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 21,365 | 24,886 |
| Asset impairments | 789 | 9,545 |
| Restructuring charges | 5,576 | 12,972 |
| Pension and postretirement benefit expense | 10,450 | 4,976 |
| Amortization of unearned compensation - restricted stock | 1,348 | 1,072 |
| Loss on sale of assets | 250 | 843 |
| Deferred income taxes | (6,131) | (937) |
| Other | 265 | 98 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (3,793) | 20,964 |
| Inventories | (2,396) | 9,721 |
| Prepaid income taxes | 555 | 4,975 |
| Other assets | (3,170) | (3,386) |
| Restructuring spending | (5,100) | (6,420) |
| Accounts payable and accrued expenses | (4,368) | (16,030) |
| Pension and postretirement obligations | (10,825) | (10,590) |
| Deferred income | 237 | 260 |
| Other liabilities | 181 | 776 |
| Net cash (used in) provided by operating activities | (3,887) | 40,597 |

**CASH FLOWS FROM INVESTING
ACTIVITIES**

| | | |
|---|----------|---------|
| Additions to plant and equipment | (10,080) | (9,652) |
| Proceeds from sale of plant and equipment | 1,630 | 3,427 |
| Acquisitions | (1,503) | - |
| Additions to other investments | (121) | (293) |
| Net cash used in investing activities | (10,074) | (6,518) |

**CASH FLOWS FROM FINANCING
ACTIVITIES**

| | | |
|--------------------------------------|----------|----------|
| Principal payments on long-term debt | (25,012) | (32,531) |
|--------------------------------------|----------|----------|

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| | | |
|---|------------------|-------------------|
| Proceeds from issuance of common stock | 784 | 1,040 |
| Dividends paid | (13,124) | (13,059) |
| Net cash used in financing activities | (37,352) | (44,550) |
| Effect of exchange rate changes on cash | (85) | 665 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (51,398) | (9,806) |
| Cash and cash equivalents at beginning of period | 76,959 | 122,579 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 25,561 | \$ 112,773 |

See accompanying notes.

THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The Company's investments in international joint ventures are included in the accompanying consolidated financial statements using the equity method of accounting. The Company's share of earnings (losses) from these joint ventures is included in Investment income (expense) for periods ending one month prior to the Company's fiscal period-end in order to ensure timely preparation of the consolidated financial statements. The consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 28, 2003 included in the Company's Annual Report on Form 10-K.

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

NOTE 2 RESTRUCTURING AND IMPAIRMENT CHARGES

In January 2001, the Company announced a restructuring and renewal plan (Renewal Plan), designed to establish a solid platform for long-term earnings growth and recover its market value. The Renewal Plan was comprised of four components: restructuring, reorganization, performance improvement, and investments for future growth. In 2001, the Company completed major restructuring actions and in the last two fiscal years has executed additional restructuring actions as part of a multi-year program aimed at realigning our resources to improve utilization and profitability. These restructuring plans are more fully described in Note 3 to the Consolidated Financial Statements included in the Company's annual report on Form 10-K for the year ended December 28, 2003.

A summary of total restructuring charges recorded in 2004 is as follows:

| | <i>Directly to Restructuring Expense</i> | <i>Charges to Restructuring Accrual</i> | <i>2004 Restructuring Expense</i> |
|-----------------------------|--|---|---|
| 2004 restructuring actions | \$ 296 | \$ 3,654 | \$ 3,950 |
| 2003 restructuring actions | 439 | - | 439 |
| 2001 restructuring actions | 1,187 | - | 1,187 |
| Total restructuring expense | \$ 1,922 | \$ 3,654 | \$ 5,576 |

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

2004 Restructuring

In 2004, the Company initiated several restructuring actions. As part of a drive to reduce costs and accelerate growth, in the first quarter the Company integrated its sales specialist organization with its regional sales organization to improve coordination, resource deployment, and productivity; adjusted its Client Services model to improve efficiency and performance through better alignment of resources with the sales organization and customer base; and went to a shared service model in various administrative areas to reduce costs and increase focus on key initiatives.

As a result, the Company eliminated a number of positions, particularly in the Document and Label Solutions segment.

The Company finalized an agreement in the second quarter of 2004 to outsource part of its information technology operations, including hardware management, help desk support, and telecommunications. The agreement requires the Company to pay severance to associates that are terminated within a certain time period. Additional workforce reductions also occurred, particularly in the client care function.

Subsequent to the end of the second quarter, the Company eliminated four executive officer positions and the Company reduced the workforce and leased office space at its InSystems facility. The estimated costs of these actions are included in the table below.

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

| | <i>Total Costs Expected to be Incurred</i> | <i>Total Q2 2004 Restructuring Expense</i> | <i>Cumulative- To-Date Restructuring Expense</i> |
|--------------------------------------|---|---|---|
| Severance and employer related costs | \$ 6,300 | \$ 1,430 | \$ 3,762 |
| Contract lease termination costs | 1,850 | (7) | 128 |
| Other exit costs | 50 | 15 | 60 |
| | \$ 8,200 | \$ 1,438 | \$ 3,950 |
| BY SEGMENT: | | | |
| Document and Label Solutions | \$ 2,900 | \$ 409 | \$ 2,630 |
| Fulfillment Services | 200 | 70 | 235 |

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| | | | | | | |
|-----------|----|-------|----|-------|----|-------|
| InSystems | | 2,800 | | - | | - |
| Other | | 2,300 | | 959 | | 1,085 |
| Total | \$ | 8,200 | \$ | 1,438 | \$ | 3,950 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2004</i> | <i>Balance 2004</i> |
|--------------------------------------|-------------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 3,517 | \$ (1,696) | \$ 1,821 |
| Contract termination costs | 137 | (18) | 119 |
| Total | \$ 3,654 | \$ (1,714) | \$ 1,940 |

2003 Restructuring

In the second quarter of 2003, the Company initiated several actions to improve utilization and profitability. The Company consolidated four printing and service operations within the Fulfillment Services segment to form a regional print-on-demand and fulfillment center in Dallas, Texas. Within the Document and Label Solutions segment, a rotary printing plant was closed to trim excess capacity and several warehouses were consolidated in response to shifting demand in favor of print-on-demand services.

Within the InSystems segment, the Company determined that certain software development initiatives would not produce an adequate return and elected to stop further investment in those projects. In conjunction with this decision and to further reduce costs, the Company reduced staffing levels within this segment. The Company also eliminated management and other positions at its corporate headquarters. Most of these actions were completed by the end of 2003. In an additional cost savings move, the Company approved the relocation of SMARTworks personnel and support operations, which occurred in the first quarter of 2004.

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

| | <i>Total Costs Expected to be Incurred</i> | <i>Total Q2 2004 Restructuring Expense</i> | <i>Cumulative To-date Restructuring Expense</i> |
|---|--|--|---|
| Severance and employer related costs | \$ 11,054 | \$ - | \$ 11,054 |
| Contract termination costs: | | | |
| Lease obligations | 3,100 | 125 | 3,225 |
| Contractual lease obligations for taxes, utilities, and maintenance costs | 398 | - | 398 |

Associated costs:

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| | | | |
|----------------------------------|--------|-----|-----------|
| Travel | 332 | - | 332 |
| Equipment removal and relocation | 2,904 | 4 | 2,908 |
| Other exit costs | 1,792 | 42 | 1,834 |
| | \$ | \$ | |
| | 19,580 | 171 | \$ 19,751 |

BY SEGMENT:

| | | | |
|------------------------------|--------|--------|--------|
| | \$ | | \$ |
| Document and Label Solutions | 11,505 | \$ 34 | 11,539 |
| Fulfillment Services | 4,967 | 57 | 5,024 |
| InSystems | 2,324 | - | 2,324 |
| Other | 784 | 80 | 864 |
| | \$ | | \$ |
| Total | 19,580 | \$ 171 | 19,751 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2003</i> | <i>Reversed in 2003</i> | <i>Balance 2003</i> | <i>Incurred in 2004</i> | <i>Balance 2004</i> |
|--------------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 10,807 | \$ (9,415) | (64) | \$ 1,328 | \$ (1,128) | \$ 200 |
| Contract termination costs | 2,330 | (830) | - | 1,500 | (347) | 1,153 |
| | | | | \$ | | |
| Total | \$ 13,137 | \$ (10,245) | (64) | \$ 2,828 | \$ (1,475) | \$ 1,353 |

2001 Restructuring

Due to the nature of the charges and the duration of the 2001 restructuring program, estimates of the liability for contract exit costs required significant judgment. The Company has been unable to sublease as many of the facilities as expected or to buyout the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. Approximately \$3,275 of remaining lease payments will be charged to restructuring expense as incurred through 2006, of which \$1,187 was expensed in the first half of 2004.

2004 Impairment

Due to excess capacity, the Company's InSystems segment decided to sell one of its buildings. The carrying value was adjusted to its fair value less costs to sell, based upon a recent appraisal, resulting in an impairment charge of approximately \$544. In addition, the remaining assets held for sale at December 28, 2003 were sold in 2004, resulting in an impairment charge of \$245 for the Fulfillment Services segment.

2003 Impairment

In conjunction with the 2003 restructuring, assets were either written off or written down to estimated fair value if the asset was to be sold. Due to an oversupply of used production equipment in the marketplace, approximately \$2,919 of assets, primarily machinery & equipment, were determined to have no fair value and were disposed of, resulting in a non-cash impairment charge. Of this amount, \$2,211 related to the Document and Label Solutions segment and \$708 related to the Fulfillment Services segment.

The Company also identified certain pieces of equipment and two buildings that were closed that it believed could be sold. The carrying values were adjusted to their fair value less costs to sell, considering recent sales of similar properties, real estate brokers valuations, and offers and bids, resulting in a net impairment charge of \$5,684. Of this

amount, \$4,300 related to the Document and Label Solutions segment and \$1,384 related to the Fulfillment Services segment. The Company discontinued depreciation on these assets in June 2003. At June 27, 2004 all of the assets had been sold or otherwise disposed of.

In addition, the Document and Label Solutions segment recorded an impairment charge of \$2,020 related to forms-designs software that became technologically outdated. The Company is replacing the software used for forms design to one that is more widely used by its customers and is more of an industry standard. Accordingly, the carrying value of the software was written down to its fair value, based upon the fair value of the number of estimated remaining forms to be designed with the software, and its useful life was reduced. The fair value was calculated based upon the weighted average of probable future cash flows of the asset. The effect on annual depreciation expense was not material.

In conjunction with the 2001 restructuring, management performed a review of its existing property and equipment and determined that certain long-lived assets were impaired. These assets were either written off or written down to estimated fair value if the asset was to be sold. In the second quarter of 2003, the Company sold buildings resulting in a total gain of \$1,078 that was included as a credit to Asset Impairments in the accompanying Consolidated Statement of Income.

NOTE 3 INVENTORIES

The components of inventories are as follows:

| | June 27, 2004 | December 28, 2003 |
|------------------------|------------------|----------------------|
| Finished products | \$ 42,036 | \$ 38,975 |
| Jobs in process | 5,225 | 5,506 |
| Materials and supplies | 4,892 | 5,276 |
| Total | \$ 52,153 | \$ 49,757 |

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

During the second quarter of 2004, the Company performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are calculated using discounted expected future cash flows, using a risk-adjusted discount rate. Based upon the test results, the Company determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

NOTE 5 ACQUISITIONS

On March 30, 2004, the Company purchased the assets of PenForms, LLC for \$1,503 in cash. The assets acquired include certain intellectual property primarily related to digital pen and paper software solutions, licenses and contracts held by PenForms, and computers and other office equipment. Of the purchased assets, \$735 was assigned to intellectual property and \$750 to capitalized software development costs, both of which were assigned a three-year useful life.

NOTE 6 EARNINGS PER SHARE

The weighted-average number of shares outstanding for calculation of earnings per share (EPS) was 28,558,131 and 28,264,399 for the 13-week periods ended June 27, 2004 and June 29, 2003 and 28,520,582 and 28,233,273 for the 26-week periods ended June 27, 2004 and June 29, 2003, respectively. The effects of stock options on diluted EPS are reflected through the application of the treasury stock method. Under this method, proceeds received by the Company, based on assumed exercise, are hypothetically used to repurchase the Company's shares at the average market price for the period. Due to the net loss incurred in the first and second quarters of 2004 and 2003, no outstanding options were included in the EPS computation because they would automatically result in anti-dilution.

NOTE 7 STOCK OPTIONS

The Company has two stock-based employee compensation plans, which are fully described in Note 14 to the Consolidated Financial Statements included in the Company's annual report on Form 10-K for the year ended December 28, 2003. The Company accounts for those plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is recognized in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Had compensation cost for the Company's stock-based employee compensation plans been determined based on the fair value of such awards at the grant dates consistent with the provisions of SFAS No. 123, the Company's total and per share net income would be reduced as follows:

| | 13 Weeks Ended June 27, 2004 | 13 Weeks Ended June 29, 2003 | 26 Weeks Ended June 27, 2004 | 26 Weeks Ended June 29, 2003 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Net loss as reported | \$ (2,621) | \$ (11,996) | \$ (9,120) | \$ (13,128) |
| Less total compensation expense determined under the fair-value based method for all awards, net | (424) | (398) | (825) | (846) |
| Proforma net loss | \$ (3,045) | \$ (12,394) | \$ (9,945) | \$ (13,974) |
| Net loss per share | | | | |
| As reported | \$ (0.09) | \$ (0.42) | \$ (0.32) | \$ (0.46) |
| Proforma | \$ (0.11) | \$ (0.44) | \$ (0.35) | \$ (0.49) |

NOTE 8 PENSION PLANS

The Company has a qualified defined benefit plan and a nonqualified supplementary benefit plan that provides supplemental pension payments in excess of qualified plan payments including payments in excess of limits imposed by federal tax law and other benefits. In addition, the Company has a noncontributory supplemental nonqualified retirement plan for elected officers. These plans are more fully described in Note 15 to the Consolidated Financial Statements included in the Company's annual report on Form 10-K for the year ended December 28, 2003.

Net periodic benefit cost includes the following components:

| | 13 Weeks Ended June 27, 2004 | 13 Weeks Ended June 29, 2003 | 26 Weeks Ended June 27, 2004 | 26 Weeks Ended June 29, 2003 |
|---|------------------------------------|------------------------------------|---------------------------------|------------------------------------|
| Service cost of benefits earned | \$ 2,601 | \$ 3,129 | \$ 5,695 | \$ 6,258 |
| Interest cost on projected benefit obligation | 6,674 | 6,845 | 13,390 | 13,689 |
| Expected return on plan assets | (8,581) | (9,650) | (16,900) | (19,300) |

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| | | | | |
|---|----------|----------|-----------|----------|
| Amortization of prior service costs | 280 | 266 | 560 | 532 |
| Curtailement loss | - | 155 | - | 311 |
| Amortization of net loss from prior periods | 4,257 | 1,898 | 8,720 | 3,796 |
| Total | \$ 5,231 | \$ 2,643 | \$ 11,465 | \$ 5,286 |

The Company does not have a minimum funding requirement in 2004. The Company contributed \$10,000 to the qualified pension plan in the first half of 2004 and \$10,000 in the first half of 2003.

NOTE 9 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to providing pension benefits, the Company provides certain healthcare benefits for eligible retired employees as described in Note 16 to the Consolidated Financial Statements included in the Company's annual report on Form 10-K for the year ended December 28, 2003.

Postretirement benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | <i>13 Weeks Ended</i> | <i>26 Weeks Ended</i> | <i>26 Weeks Ended</i> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | <i>June 27, 2004</i> | <i>June 29, 2003</i> | <i>June 27, 2004</i> | <i>June 29, 2003</i> |
| Service cost | \$ 617 | \$ 921 | \$ 1,234 | \$ 1,843 |
| Interest cost | - | - | - | - |
| Amortization of prior service cost | (551) | (407) | (1,103) | (814) |
| Amortization of net loss from prior periods | 333 | 441 | 667 | 881 |
| Total | \$ 399 | \$ 955 | \$ 798 | \$ 1,910 |

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

NOTE 10 SEGMENT REPORTING

In fiscal 2004, the Company reclassified certain operating segments included in its reportable segments to reflect the revised organizational structure of the Company. The Company's three reportable segments continue to be Document and Label Solutions, Fulfillment Services, and InSystems.

SMARTworks, previously a wholly owned subsidiary, was merged and became part of the Company's corporate center. In 2004, we changed our method of allocating certain expenses. Corporate center costs are generally allocated to reportable segments, except for certain components of pension expense and new product development costs that are not being allocated in 2004. The document systems group that was previously part of InSystems became part of Document and Label Solutions. Commercial Print, a new operating segment, is aggregated with International and PathForward into Other.

Segment profit and loss information for 2003 has been revised from previously reported amounts to reflect the current organizational structure. 2003 asset amounts have not been revised because it is not practicable to do so. Information about the Company's operations by segment for the 13-week periods ended June 27, 2004 and June 29, 2003 is as follows:

| | | <i>Document and Label Solutions</i> | <i>Fulfillment Services</i> | <i>InSystems</i> | <i>Other</i> | <i>Total</i> |
|---------------------------------|----------|---|---------------------------------|------------------|--------------|--------------|
| Revenue from external customers | 2004 | \$ 158,333 | \$ 59,836 | \$ 2,927 | \$ 5,390 | \$ 226,486 |
| | 2003 | 164,287 | 59,564 | 4,241 | 4,858 | 232,950 |
| Intersegment revenues | 2004 | \$ - | \$ - | \$ - | \$ - | \$ - |
| | 2003 | - | - | - | 331 | 331 |
| Operating income (loss) | | | | | | |
| (a) | 2004 | \$ 4,668 | \$ 163 | \$ (3,225) | \$ (1,332) | \$ 274 |
| | (b) 2003 | (10,632) | (6,340) | (2,295) | (701) | (19,968) |

(a) 2004 operating income (loss) includes the following charges:

| | | | | | |
|--------------------------|--------|--------|------|----------|----------|
| Restructuring charges | \$ 443 | \$ 127 | \$ - | \$ 1,039 | \$ 1,609 |
| Asset impairment charges | - | 245 | 544 | - | 789 |

(b) 2003 operating loss includes the following charges:

| | | | | | |
|--------------------------|----------|----------|------|-------|-----------|
| Restructuring charges | \$ 9,090 | \$ 3,401 | \$ - | \$ 53 | \$ 12,544 |
| Asset impairment charges | 8,531 | 2,092 | - | - | 10,623 |

Information about the Company's operations by segment for the 26-week periods ended June 27, 2004 and June 29, 2003 is as follows:

| | | <i>Document and Label Solutions</i> | <i>Fulfillment Services</i> | <i>InSystems</i> | <i>Other</i> | <i>Total</i> |
|---------------------------------|----------|---|---------------------------------|------------------|--------------|--------------|
| Revenue from external customers | 2004 | \$ 316,698 | \$ 119,369 | \$ 6,218 | \$ 10,255 | \$ 452,540 |
| | 2003 | 329,644 | 119,774 | 10,197 | 9,478 | 469,093 |
| Intersegment revenues | 2004 | \$ - | \$ - | \$ - | \$ - | \$ - |
| | 2003 | - | - | - | 458 | 458 |
| Operating income (loss) | | | | | | |
| (a) | 2004 | \$ 6,725 | \$ (2,290) | \$ (5,694) | \$ (3,158) | \$ (4,417) |
| | (b) 2003 | (6,551) | (7,434) | (3,567) | (1,825) | (19,377) |
| Total assets | 2004 | \$ 274,061 | \$ 70,811 | \$ 85,486 | \$ 8,988 | \$ 439,346 |

(a) 2004 operating income (loss) includes the following charges:

| | | | | | | | | | | |
|--------------------------|----|-------|----|-----|----|-----|----|-------|----|-------|
| Restructuring charges | \$ | 2,694 | \$ | 366 | \$ | - | \$ | 1,039 | \$ | 4,099 |
| Asset impairment charges | | - | | 245 | | 544 | | - | | 789 |

(b) 2003 operating loss includes the following charges:

| | | | | | | | | | | |
|--------------------------|----|-------|----|-------|----|---|----|----|----|--------|
| Restructuring charges | \$ | 9,090 | \$ | 3,401 | \$ | - | \$ | 53 | \$ | 12,544 |
| Asset impairment charges | | 8,531 | | 2,092 | | - | | - | | 10,623 |

Reconciling information between reportable segments and the Company's consolidated financial statements for the 13- and 26-week periods ended June 27, 2004 and June 29, 2003 is as follows:

| | <i>Thirteen Weeks Ended</i> | | <i>Twenty-six Weeks Ended</i> | |
|---------------------------------|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | <i>June 27, 2004</i> | <i>June 29, 2003</i> | <i>June 27, 2004</i> | <i>June 29, 2003</i> |
| Operating Income (Loss) | \$ 274 | \$ (19,968) | \$ (4,417) | \$ (19,377) |
| Corporate restructuring charges | (586) | (651) | (1,477) | (651) |
| Corporate and other | (4,616) | 12 | (8,950) | (1,230) |
| LIFO adjustment | - | 716 | - | 716 |
| Total other expense | (563) | (590) | (1,203) | (1,857) |
| Loss before income tax benefit | \$ (5,491) | \$ (20,481) | \$ (16,047) | \$ (22,399) |
| Total Assets | | | \$ 439,346 | |
| Corporate and unallocated | | | 140,814 | |
| Total consolidated assets | | | \$ 580,160 | |

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Dollars in Millions, Except Per Share Amounts*)

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

FORWARD-LOOKING INFORMATION

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

Because such statements deal with future events, they are subject to various risks and uncertainties and actual results for fiscal year 2004 and beyond could differ materially from the Company's current expectations. Forward-looking statements are identified by words such as anticipates, projects, expects, plans, intends, believes, estimates, and other similar expressions that indicate trends and future events. Factors that could cause the Company's results to differ materially from those expressed in forward-looking statements include, without limitation, variation in demand and acceptance of the Company's products and services, the frequency, magnitude, and timing of paper and other raw material price changes, general business and economic conditions beyond the Company's control, timing of the completion and integration of acquisitions, the consequences of competitive factors in the marketplace, ability to retain large customer contracts, the Company's success in attracting and retaining key personnel, and the effect of alternative technologies on the Company's traditional product offerings. The Company undertakes no obligation to update forward-looking statements as a result of new information since these statements may no longer be accurate or timely.

We caution you that the following risks and factors, and those other business risks discussed elsewhere in this report, could cause our actual results to differ materially from those included in forward-looking statements.

Variation in demand and acceptance of our products and services

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

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

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

General business and economic conditions beyond our control

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

Timing of the completion and integration of acquisitions

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

Consequences of competitive factors in the marketplace

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

Ability to retain large customer contracts

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

Success in attracting and retaining key personnel

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

The effect of alternative technologies on our traditional product offerings

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

OVERVIEW

The Company

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

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

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

Industry challenges

The overall market for most printed business documents will increasingly be marked by unfavorable economic forces.

The industry is currently oversupplied, and competing software and Internet technologies will continue to make inroads, eliminating or devaluing the role of many traditional paper forms. These conditions will lead to lower unit demand and relatively weak pricing. The pace of change is expected to be gradual, but is difficult to predict.

Advances in digital printing will increasingly intrude on the quality and cost advantages historically claimed by conventional long-run offset printing. For many print applications, this will require the industry to add capital investment and will accelerate the commoditization of custom printed documents.

Business Challenges

The above industry conditions, exacerbated by some post 2001 restructuring sales productivity issues, resulted in revenue decreases in each of the past two years. The lower revenue has, in turn, produced substantial profit declines. The expected payoff from the significant realignment and investments made in our sales force has taken time to develop.

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

The weak stock market in 2001 and 2002, coupled with historically low interest rates, has driven our pension plan from an overfunded to an underfunded position. Pensions produced earnings in 2002 equal to \$0.04 per share, but resulted in annual expense in 2003 equivalent to \$0.76 per share, the latter including a pension settlement charge of \$0.57 per share triggered by an unusually high number of retirements. Pension expense for 2004 is currently estimated at \$0.51 per share with no settlement charge expected.

Paper costs have changed little in recent years; however, paper companies announced price increases that were effective in April 2004. A second increase has been announced effective July 15, 2004. Although the document-pricing environment is difficult, we have increased our prices. We expect to recover these higher paper costs over the next several quarters; however, there is no guarantee that we will be successful.

Our Focus

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

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

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

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

Our Outlook

We are encouraged by our steady progress in retaining and growing our healthcare base while focusing on achieving greater gains in our traditional core products. We will continue to support our SMARTworks® e-procurement platform, and to invest in our long-term growth opportunities in Print on Demand and our Expedata™ Digital Pen and Paper offering. In the very near term, however, our focus must be on addressing the performance of operations that

currently do not make a sufficient contribution to profit, and on improving our overall productivity. Accordingly, we expect to improve our cost and expense ratios over the next several quarters by approximately five percentage points in relation to revenue. As a result, we will have additional restructuring charges in 2004.

CRITICAL ACCOUNTING POLICIES

In preparing these unaudited financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements contained in our annual report on Form 10-K for the year ended December 28, 2003. Preparation of these unaudited financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although we believe our estimates and assumptions are reasonable, they are based on information presently available and actual results may differ significantly from those estimates.

We believe that some of the more critical estimates and related assumptions are in the areas of pension and postretirement healthcare benefits, restructuring charges, impairment of long-lived assets, and business combinations. For a detailed discussion of these critical accounting estimates, see the Management Discussion and Analysis (MD&A) included in our annual report on Form 10-K for the year ended December 28, 2003.

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

In 2003, we consolidated PlanetPrint and other Fulfillment Services centers into a supercenter located in Dallas, Texas. During the second quarter of 2004, the Company performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are calculated using discounted expected future cash flows, using a risk-adjusted discount rate. Based upon the test results, the Company determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

In performing the test for impairment, we made assumptions about future sales and profitability that required significant judgment. In estimating expected future cash flows related to the PlanetPrint assets, we used internal forecasts that were based upon actual results, assuming flat to declining revenue, minimal cost improvement, and substantial gross margin improvement due to a higher mix of more profitable products.

At the time of the impairment tests, the carrying value of net assets for PlanetPrint was \$8.3 million. If our estimate of expected future cash flows had been 10% lower, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

During the third quarter of 2003, we performed the annual test for goodwill impairment related to the InSystems acquisition. As described more fully in our annual report on Form 10-K for the year ended December 28, 2003, as a result of changes to the strategic direction of InSystems, we performed additional impairment tests in the fourth quarter of 2003. No impairment charges were recorded as a result of these impairment tests. While the annual test for 2004 is not required until the fourth quarter, it may be necessary to perform an impairment test in the third quarter of 2004 as a result of recent restructuring actions described under Restructuring and Impairment.

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

RESULTS OF OPERATIONS

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

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

Unless otherwise noted, references to 2004 and 2003 refer to the thirteen and twenty-six week periods ended June 27, 2004 and June 29, 2003.

| | <i>Thirteen Weeks Ended</i> | | <i>Twenty-six Weeks Ended</i> | |
|--|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | <i>June 27, 2004</i> | <i>June 29, 2003</i> | <i>June 27, 2004</i> | <i>June 29, 2003</i> |
| Revenue | \$226.5 | \$233.0 | \$452.5 | \$469.1 |
| <i>% Decrease</i> | -2.8% | -8.2% | -3.5% | -9.4% |
| Gross Margin | 81.6 | 89.1 | 165.2 | 177.6 |
| <i>% Revenue</i> | 36.0% | 38.3% | 36.5% | 37.9% |
| SG&A and R&D Expense | 72.8 | 74.2 | 152.3 | 150.7 |
| Depreciation & Amortization | 10.7 | 12.3 | 21.4 | 24.9 |
| Asset Impairment | 0.8 | 9.5 | 0.8 | 9.5 |
| Restructuring | 2.2 | 13.0 | 5.6 | 13.0 |
| Loss From Operations | (4.1) | (19.9) | (14.1) | (20.5) |
| Interest Expense | (0.6) | (1.0) | (1.3) | (2.7) |
| Investment and Other Income | 0.1 | 0.4 | 0.1 | 0.8 |
| Pretax Loss | (4.6) | (20.5) | (15.3) | (22.4) |
| Net Loss | \$ (2.6) | \$ (12.0) | \$ (9.1) | \$ (13.1) |
| <i>Basic and Diluted Loss per Share</i> | (0.09) | (0.42) | (0.32) | (0.46) |
| <i>Effects to Earnings Per Share</i> | | | | |
| Restructuring & Impairment | \$ (0.07) | \$ (0.46) | \$ (0.14) | \$ (0.46) |
| Amortization of prior pension losses | (0.09) | (0.04) | (0.19) | (0.08) |

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| | | | | |
|----------------|------------------|------------------|------------------|------------------|
| Tax adjustment | 0.03 | - | 0.03 | - |
| Other | 0.04 | 0.08 | (0.02) | 0.08 |
| Total | \$ (0.09) | \$ (0.42) | \$ (0.32) | \$ (0.46) |

Summary

We reported a net loss of \$2.6 million, or \$0.09 per share, in second quarter 2004 compared with a net loss of \$12.0 million, or \$0.42 per share, in second quarter 2003. On a year-to-date basis, we reported a net loss of \$9.1 million, or \$0.32 per share, in 2004 compared with a net loss of \$13.1 million, or \$0.46 per share, in 2003. Restructuring, asset impairment, pension loss amortization, and taxes reduced earnings in both periods. Excluding these items, earnings for the second quarter and first half of 2004 declined \$0.04 and \$0.10 per share, respectively, versus the prior year.

Revenue

Consolidated revenue in the second quarter of 2004 decreased \$6.5 million or 2.8% compared with the second quarter of 2003. Lower pricing resulted in a 3% reduction in revenue that was offset by a slight increase in unit volume.

On a year-to-date basis, consolidated revenue decreased \$16.6 million or 3.5% compared with 2003. Lower pricing reduced revenue by 2.5%; lower unit volume reduced revenue by 1.0%.

Operating in the very competitive environment described in the overview, the Document and Label Solutions segment has been impacted by downward pricing pressures and accounted for most of the decreases related to pricing. While the segment experienced growth in products such as pharmacy labels, the new business gained was at lower pricing.

In comparison with the prior year, overall unit volume declined slightly on a year-to-date basis for 2004, but increased slightly for the second quarter. Decreased license revenue in the InSystems segment accounted for the majority of the decrease in unit volume. We also witnessed a decrease in conventional offset printing in our Stanfast centers, but a corresponding increase in digital print on demand. Unit sales in the traditional core business are beginning to stabilize, as indicated by the relatively consistent pattern of sales over the last four quarters.

Our earnings prospects for 2004 are heavily dependent on the success of our initiatives to improve the revenue trend. The changes in sales structure, planning tools, and incentives have placed increased focus on penetrating strategic accounts and vertical markets where we have a strong presence and value proposition. An example is our agreement with Broadlane, Inc., where we were one of five vendors selected to meet their hospitals' document management needs, estimated at \$100.0 million annually. We have thus far secured contracts valued at \$26.0 million annually from member hospitals and have begun to realize revenue in 2004 as their existing inventories are depleted.

We were encouraged by revenue trends in the first half of 2004. Although modest, revenue has edged higher in each of the recent three consecutive quarters. Key indicators of future revenue are also positive. Our production backlogs and unbilled custom finished inventories are 3.5% higher than a year ago and new account implementations are up significantly versus last year. Industry oversupply and technology are working against our traditional core products, however, and our near term outlook is for relatively steady revenue performance, influenced by typical quarterly seasonal factors.

Gross Margin

Gross margin decreased to 36.0% and 36.5% in the second quarter and first half of 2004 compared with 38.3% and 37.9% in 2003. Lower revenue from price discounting and a shift in product mix to lower priced products was the primary factor. The impact of lower unit volume was offset by cost savings from the recent restructurings, other cost savings initiatives, and a favorable \$2.8 million one-time supplier rebate in the first quarter of 2004. We have raised our prices in response to recent paper price increases; however, we have not yet been able to completely recover the

increased costs.

SG&A and R&D

Selling, general, and administrative (SG&A) and Research and Development (R&D) expense decreased \$1.4 million compared with the second quarter of 2003 and increased \$1.5 million compared with the first half of 2003. Pension expense increased \$2.4 million and \$5.5 million in the second quarter and first half of 2004 compared with the comparable periods of 2003. Expenditures associated with the new ExpeData™ digital pen and paper technology solutions initiative were \$1.8 million in the second quarter of 2004 and \$3.1 million for the year-to-date period.

Excluding these items, second quarter and year-to-date 2004 expense was down \$5.5 million and \$7.0 million, respectively, primarily as a result of restructuring actions.

Pension benefits are measured using actuarial valuations that are discussed more fully in the MD&A of our annual report on Form 10-K for the year ended December 28, 2003. We expect 2004 pension expense to increase by approximately \$15.0 million over the 2003 amount, before the 2003 settlement charge of \$25.2 million. Assumptions and factors that are significantly impacting retirement expense in 2004 include:

A reduction of the expected long-term rate of return from 9.0% for 2003 to 8.75% for 2004 is expected to increase annual pension expense by approximately \$6.0 million.

Amortization of net losses from prior periods is expected to increase annual pension expense by approximately \$10.0 million. The decline in U.S. equity markets in recent years resulted in negative returns on our pension funds in 2001 and 2002; however, actual return on plan assets was approximately 22% in 2003. Differences between actual and expected return on assets are recognized in the pension cost calculation over five years.

Net periodic pension benefit cost includes the following components:

| | <i>Thirteen Weeks Ended</i> | | <i>Twenty-six Weeks Ended</i> | |
|---|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | <i>June 27, 2004</i> | <i>June 29, 2003</i> | <i>June 27, 2004</i> | <i>June 29, 2003</i> |
| Service cost of benefits earned | \$ 2.6 | \$ 3.1 | \$ 5.7 | \$ 6.2 |
| Interest cost on projected benefit obligation | 6.7 | 6.8 | 13.4 | 13.6 |
| Expected return on plan assets | (8.6) | (9.6) | (16.9) | (19.2) |
| Amortization of prior service costs | 0.3 | 0.3 | 0.6 | 0.6 |
| Curtailement loss | - | 0.1 | - | 0.2 |
| Amortization of net loss from prior periods | 4.3 | 1.9 | 8.7 | 3.8 |
| Total | \$ 5.3 | \$ 2.6 | \$ 11.5 | \$ 5.2 |
| Income Statement Classification | | | | |
| Cost of sales | \$ 1.4 | \$ 1.5 | \$ 2.7 | \$ 3.0 |
| SG&A and R&D Expense | 3.9 | 1.1 | 8.8 | 2.2 |

| | | | | | | | | |
|-------|----|-----|----|-----|----|------|----|-----|
| Total | \$ | 5.3 | \$ | 2.6 | \$ | 11.5 | \$ | 5.2 |
|-------|----|-----|----|-----|----|------|----|-----|

Interest Expense

Interest expense was \$0.3 million and \$1.3 million lower in the second quarter and first half of 2004 as a result of lower debt balances and lower interest rates. We have reduced our outstanding debt balance by \$70.0 million since June 2003. An interest rate swap that fixed our borrowing rate at an all-in rate of 6.65% for 2002, expired in January 2003, allowing us to take advantage of much lower floating rate debt.

Income Taxes

The overall effective tax rate for the second quarter of 2004 was favorably affected by a \$0.8 million tax adjustment.

Restructuring and Impairment

In January 2001, we announced a restructuring and renewal plan (Renewal Plan), designed to establish a solid platform for long-term earnings growth and recover our market value. The Renewal Plan was comprised of four components: restructuring, reorganization, performance improvement, and investments for future growth. In 2001, we completed a major restructuring plan and in the last two fiscal years we have executed additional restructuring actions as part of a multi-year program aimed at realigning our resources to improve utilization and profitability.

For a detailed discussion of these restructurings, see the MD&A included in our annual report on Form 10-K for the year ended December 28, 2003.

A summary of total restructuring charges recorded in 2004 is as follows:

| | <i>Charges Directly to Restructuring Expense</i> | <i>Charges to Restructuring Accrual</i> | <i>Total 2004 Restructuring Expense</i> |
|-----------------------------|---|--|--|
| 2004 restructuring actions | \$ 0.3 | \$ 3.7 | \$ 4.0 |
| 2003 restructuring actions | 0.4 | - | 0.4 |
| 2001 restructuring actions | 1.2 | - | 1.2 |
| Total restructuring expense | \$ 1.9 | \$ 3.7 | \$ 5.6 |

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

2004 Restructuring

In 2004, the Company initiated several restructuring actions. As part of a drive to reduce costs and accelerate growth, in the first quarter the Company integrated its sales specialist organization with its regional sales organization to improve coordination, resource deployment, and productivity; adjusted its Client Services model to improve efficiency and performance through better alignment of resources with the sales organization and customer base; and

went to a shared service model in various administrative areas to reduce costs and increase focus on key initiatives. As a result, the Company eliminated a number of positions, particularly in the Document and Label Solutions segment.

The Company finalized an agreement in the second quarter of 2004 to outsource part of its information technology operations, including hardware management, help desk support, and telecommunications. The agreement requires the Company to pay severance to associates that are terminated within a certain time period. Additional workforce reductions also occurred, particularly in the client care function.

Subsequent to the end of the second quarter, the Company eliminated four executive officer positions and reduced the workforce and leased office space at its InSystems facility. The estimated costs of these actions are included in the table below.

Pre-tax components of the 2004 restructuring charge are as follows:

| | <i>Total Costs Expected to be Incurred</i> | <i>Total Q2 2004 Restructuring Expense</i> | <i>Cumulative- To-Date Restructuring Expense</i> |
|--------------------------------------|--|--|--|
| Severance and employer related costs | \$ 6.3 | \$ 1.4 | \$ 3.8 |
| Contract lease termination costs | 1.9 | - | 0.1 |
| | - | | |
| Other exit costs | - | - | - |
| | \$ 8.2 | \$ 1.4 | \$ 3.9 |

BY SEGMENT:

| | | | |
|------------------------------|--------|--------|--------|
| Document and Label Solutions | \$ 2.9 | \$ 0.4 | \$ 2.6 |
| | | - | |
| Fulfillment Services | 0.2 | | 0.2 |
| | | - | |
| InSystems | 2.8 | | - |
| Other | 2.3 | 1.0 | 1.1 |
| Total | \$ 8.2 | \$ 1.4 | \$ 3.9 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2004</i> | <i>Balance 2004</i> |
|--------------------------------------|-------------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 3.5 | \$ (1.7) | \$ 1.8 |
| Contract termination costs | 0.1 | - | 0.1 |
| Total | \$ 3.6 | \$ (1.7) | \$ 1.9 |

2003 Restructuring

In the second quarter of 2003, the Company initiated several actions to improve utilization and profitability. The Company consolidated four printing and service operations within the Fulfillment Services segment to form a regional print-on-demand and fulfillment center in Dallas, Texas. Within the Document and Label Solutions segment, a rotary printing plant was closed to trim excess capacity and several warehouses were consolidated in response to shifting demand in favor of print-on-demand services.

Within the InSystems segment, the Company determined that certain software development initiatives would not produce an adequate return and elected to stop further investment in those projects. In conjunction with this decision and to further reduce costs, the Company reduced staffing levels within this segment. The Company also eliminated management and other positions at its corporate headquarters. Most of these actions were completed by the end of 2003. In an additional cost saving move, we approved the relocation of SMARTworks personnel and support operations, which occurred in the first quarter of 2004.

Pre-tax components of the 2003 restructuring charge are as follows:

| | <i>Total Costs Expected to be Incurred</i> | <i>Total Q2 2004 Restructuring Expense</i> | <i>Cumulative- to-Date Restructuring Expense</i> |
|--|--|--|--|
| Severance and employer related costs | \$ 11.1 | \$ - | \$ 11.1 |
| Contract termination costs: | | | |
| Lease obligations | 3.1 | 0.1 | 3.2 |
| Contractual lease obligations for taxes, utilities, and maintenance costs | 0.4 | - | 0.4 |
| Associated costs: | | | |
| Travel | 0.3 | - | 0.3 |
| Equipment removal and relocation | 2.9 | - | 2.9 |
| Other exit costs | 1.8 | - | 1.8 |
| | \$ 19.6 | \$ 0.1 | \$ 19.7 |

BY SEGMENT:

| | | | |
|------------------------------|---------|--------|---------|
| Document and Label Solutions | \$ 11.5 | \$ - | \$ 11.5 |
| Fulfillment Services | 5.0 | - | 5.0 |
| InSystems | 2.3 | - | 2.3 |
| Other | 0.8 | 0.1 | 0.9 |
| Total | \$ 19.6 | \$ 0.1 | \$ 19.7 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2003</i> | <i>Reversed in 2003</i> | <i>Balance 2003</i> | <i>Incurred in 2004</i> | <i>Balance 2004</i> |
|--------------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 10.8 | \$ (9.4) | \$ (0.1) | \$ 1.3 | \$ (1.1) | \$ 0.2 |
| Contract termination costs | 2.3 | (0.8) | - | 1.5 | (0.3) | 1.2 |
| Total | \$ 13.1 | \$ (10.2) | \$ (0.1) | \$ 2.8 | \$ (1.4) | \$ 1.4 |

2001 Restructuring

Due to the nature of the charges and the duration of the 2001 restructuring program, estimates of the liability for contract exit costs required significant judgment. The Company has been unable to sublease as many of the facilities

as expected or to buyout the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. Approximately \$3.3 million of remaining lease payments will be charged to restructuring expense as incurred through 2006, of which \$1.2 million was expensed in the first half of 2004.

2004 Impairment

Due to excess capacity, the Company's InSystems segment decided to sell one of its buildings. The carrying value was adjusted to its fair value less costs to sell, based upon a recent appraisal, resulting in an impairment charge of approximately \$0.5 million. In addition, the remaining assets held for sale at December 28, 2003 were sold in 2004, resulting in an impairment charge of \$0.2 million for the Fulfillment Services segment.

2003 Impairment

In conjunction with the 2003 restructuring, assets were either written off or written down to estimated fair value if the asset was to be sold. Due to an oversupply of used production equipment in the marketplace, approximately \$2.9 million of assets, primarily machinery & equipment, were determined to have no fair value and were disposed of, resulting in a non-cash impairment charge. Of this amount, \$2.2 million related to the Document and Label Solutions segment and \$0.7 million related to the Fulfillment Services segment.

The Company also identified certain pieces of equipment and two buildings that were closed that it believed could be sold. The carrying values were adjusted to their fair value less costs to sell, considering recent sales of similar properties, real estate brokers valuations, and offers and bids, resulting in a net impairment charge of \$5.7 million. Of this amount, \$4.3 million related to the Document and Label Solutions segment and \$1.4 million related to the Fulfillment Services segment. The Company discontinued depreciation on these assets in June 2003. At June 27, 2004 all of the assets had been sold or otherwise disposed of.

In addition, the Document and Label Solutions segment recorded an impairment charge of \$2.0 million related to forms-designs software that became technologically outdated. The Company is replacing the software used for forms design to one that is more widely used by its customers and is more of an industry standard. Accordingly, the carrying value of the software was written down to its fair value, based upon the fair value of the number of estimated remaining forms to be designed with the software, and its useful life was reduced. The fair value was calculated based upon the weighted average of probable future cash flows of the asset. The effect on annual depreciation expense was not material.

In conjunction with the 2001 restructuring, management performed a review of its existing property and equipment and determined that certain long-lived assets were impaired. These assets were either written off or written down to estimated fair value if the asset was to be sold. In the second quarter of 2003, the Company sold buildings resulting in a total gain of \$1.1 million that was included as a credit to Asset Impairments in the accompanying Consolidated Statement of Income.

SEGMENT REPORTING

In fiscal 2004, we reclassified certain operating segments included in our reportable segments to reflect the revised organizational structure of our Company. Our three reportable segments continue to be Document and Label Solutions, Fulfillment Services, and InSystems.

SMARTworks, previously a wholly owned subsidiary, was merged and became part of our corporate center. In 2004, we changed our method of allocating certain expenses. Corporate center costs are generally allocated to reportable segments except for certain components of pension expense and new product development costs that are not being allocated in 2004. The document systems group that was previously part of InSystems became part of Document and Label Solutions. Commercial Print, a new operating segment, is aggregated with International and PathForward into Other. Segment profit and loss information for 2003 has been revised from previously reported amounts to reflect the current organizational structure.

The segment discussions that follow include quarterly operating results, excluding LIFO inventory adjustments, interest income, and interest expense not allocated to the business segments.

Document and Label Solutions

This segment provides custom printed documents, storage and distribution services, pressure sensitive labels, hardware, document management software, maintenance and supplies. It primarily serves companies in the healthcare, financial, manufacturing, and distribution markets. This segment's document systems group also focuses on hardware and software solutions for negotiable and secure document output in insurance, banking, healthcare and other markets.

DOCUMENT AND LABEL SOLUTIONS

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|--|----------------------|------------------|------------------------|------------------|
| | June 27, 2004 | June 29, 2003 | June 27, 2004 | June 29, 2003 |
| Revenue | \$ 158.3 | \$ 164.3 | \$ 316.7 | \$ 329.6 |
| <i>% Change</i> | -3.6% | -11.6% | -3.9% | -12.5% |
| Income (Loss) from Operations * | \$ 4.7 | \$ (10.6) | \$ 6.7 | \$ (6.5) |
| <i>% Revenue</i> | 2.9% | -6.5% | 2.1% | -2.0% |
| Income from Operations, excluding | | | | |
| restructuring charges | \$ 5.1 | \$ 7.0 | \$ 9.4 | \$ 11.1 |
| <i>% Revenue</i> | 3.2% | 4.3% | 3.0% | 3.4% |
| * Operating income (loss) includes the following charges | | | | |
| Restructuring charges | \$ 0.4 | \$ 9.1 | \$ 2.7 | \$ 9.1 |
| Asset impairment charges | - | 8.5 | - | 8.5 |

While this segment's revenues decreased from the prior year, the second quarter of 2004 was the third consecutive quarter of revenue growth. As previously discussed, pricing pressure in the marketplace was the primary factor impacting revenue in this segment. Technology inroads continue to reduce demand for some of our traditional products. However, we experienced growth in products such as pharmacy labels and are beginning to recognize revenue from the new contracts won under the Broadlane agreement, although the new business gained is at lower pricing. We continue to believe there are many opportunities for growth in this segment and have undertaken initiatives, including recent changes in our sales organization and incentives. These initiatives are showing signs of increased volume from new business as well as existing accounts.

This segment is succeeding in obtaining new contracts and customers; however, some of this new business is at lower gross margins, which is having an impact on operating income. Excluding restructuring charges, operating income for the second quarter and first half of 2004 decreased slightly compared with 2003. Cost savings from the recent restructurings, other cost savings initiatives, and a favorable \$2.8 million one-time supplier rebate in the first quarter of 2004 helped to offset the impact of lower pricing.

Key indicators of future revenue are positive, including solid gains in both our production backlogs and our unbilled custom finished inventories awaiting future shipment to customers.

Fulfillment Services

This segment helps our customers communicate effectively with their customers by helping them provide customized information and marketing materials. Examples are monthly billing statements, customized marketing brochures and information kits, and one-to-one marketing communications. This segment also offers short-run, quick print production (print-on demand) services. We focus on outsourcing services that primarily serve large-and middle-market companies in the financial services, healthcare, and membership industries.

| FULFILLMENT SERVICES | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|----------------------|------------------|------------------------|------------------|
| | June 27, 2004 | June 29, 2003 | June 27, 2004 | June 29, 2003 |
| Revenue | \$ 59.8 | \$ 59.6 | \$ 119.4 | \$ 119.8 |
| <i>% Change</i> | 0.5% | -5.8% | -0.3% | -7.3% |
| Income (Loss) from Operations* | \$ 0.2 | \$ (6.3) | \$ (2.3) | \$ (7.4) |
| <i>% Revenue</i> | 0.3% | -10.6% | -1.9% | -6.2% |
| Income (Loss) from Operations, excluding restructuring charges | \$ 0.5 | \$ (0.8) | \$ (1.7) | \$ (1.9) |
| <i>% Revenue</i> | 0.9% | -1.4% | -1.4% | -1.6% |

* Operating income (loss) includes the following charges

| | | | | |
|--------------------------|------------|--------|------------|--------|
| Restructuring charges | \$ 0.1 | \$ 3.4 | \$ 0.4 | \$ 3.4 |
| Asset impairment charges | 0.2 | 2.1 | 0.2 | 2.1 |

Revenue in the second quarter and first half of 2004 was flat compared to the same periods of 2003. Growth in digital print on demand (POD) business was offset by lower volume of document outsourcing and traditional short-run offset. This segment's focus remains on growing document outsourcing and digital print on demand revenue.

Operating income in 2004 has improved over 2003, due in large part to improved performance in the second quarter of 2004 by our Stanfast printing centers and our Dallas supercenter. Recent restructuring efforts included actions to drive costs down at this facility.

InSystems

Our InSystems segment specializes in complex document and compliance automation for the insurance and financial services industries. Our software solutions allow organizations to automate the creation, management, and multi-channel distribution of customized documents and streamline product development and regulatory filing processes.

| INSYSTEMS | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|----------------------|----------------------|------------------|------------------------|------------------|
| | June 27, 2004 | June 29, 2003 | June 27, 2004 | June 29, 2003 |
| Revenue | \$ 2.9 | \$ 4.2 | \$ 6.2 | \$ 10.2 |
| <i>% Change</i> | -31.0% | | -39.0% | |
| Loss from Operations | \$ (3.2) | \$ (2.3) | \$ (5.7) | \$ (3.6) |
| <i>% Revenue</i> | -100.1% | -54.1% | -91.6% | -35.0% |

* Second quarter and year-to-date 2004 operating income include \$0.5 million of asset impairment charges. The revenue decrease in 2004 is primarily due to the continued decrease in license revenue. In the areas of the insurance industry in which InSystems operates, we are still experiencing a slowdown in software spending as customers delay software purchases. The reduction in license revenue also negatively affects current and future service revenue as well. During 2003, one of InSystems' larger customers was acquired by another company. As a result of this acquisition, revenue from this customer will be phased out during 2004. The effect on the second quarter and first half of 2004 was a reduction of revenue of approximately \$0.8 million and \$1.5 million, respectively. The business is now focused on its proven core products where there are solid market opportunities.

The lower license revenue, which is at much higher margins than service revenue, had a significant impact on operating income. Also impacting second quarter and year-to-date 2004 operating income is the rapid appreciation of the Canadian dollar versus the U.S. dollar in 2003. Results in 2003 were largely insulated from this appreciation due to our hedging activities. Our revenues in this segment are primarily denominated in U.S. dollars and expenses are heavily denominated in Canadian dollars. The appreciation in exchange rates has resulted in an increase in our costs on a U.S. dollar basis. Exchange rates have generally stabilized, but have not returned to more favorable levels. In response to these circumstances, we implemented a cost reduction initiative early in the second quarter and savings are beginning to be realized.

ENVIRONMENTAL MATTERS

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

LIQUIDITY AND CAPITAL RESOURCES

Our discussion will provide information on the cash flow for 2004, the net investment and capital structure at quarter-end, and our significant contractual obligations.

Major elements of the Statements of Cash Flows are summarized below:

| CASH INFLOW (OUTFLOW) | June 27, 2004 | June 29, 2003 |
|---|--------------------------|--------------------------|
| Net Loss plus non-cash adjustments ¹ | \$ 24.8 | \$ 40.6 |
| Changes in operating assets & liabilities, net of acquisition effects: | | |
| Accounts receivable | (3.8) | 21.0 |
| Inventories | (2.4) | 9.7 |
| Prepaid income taxes | 0.5 | 5.0 |
| Restructuring spending | (5.1) | (6.4) |
| Accounts payable and accrued expenses | (4.4) | (16.0) |
| Pension and postretirement obligations | (10.8) | (10.9) |
| All other | (2.7) | (2.4) |
| Net cash (used in) provided by operating activities | (3.9) | 40.6 |
| Capital expenditures | (10.1) | (9.6) |
| Proceeds from sale of plant and equipment | 1.6 | 3.4 |
| Acquisitions | (1.5) | - |
| Additions to investments | (0.1) | (0.3) |
| Net cash used for investing activities | (10.1) | (6.5) |
| Debt payments | (25.0) | (32.5) |
| Dividends paid | (13.1) | (13.1) |
| Purchase of treasury stock | - | - |
| Proceeds from issuance of common stock | 0.8 | 1.0 |
| Net cash used for financing activities | (37.3) | (44.6) |
| Effect of exchange rates on cash | (0.1) | 0.7 |
| Net cash flow | \$ (51.4) | \$ (9.8) |

¹ Non-cash adjustments included above include depreciation, amortization, asset impairments, restructuring, gain or loss on sale of assets, and other items reported on the Consolidated Statement of Cash Flows under the category Adjustments to reconcile net loss to net cash (used in) provided by operating activities.

Cash Flow from Operating Activities

Cash used in operating activities was \$3.9 million after contributing \$10.0 million to our qualified pension plan. Accounts receivable increased from year-end as a result of slightly higher revenue and higher rebates due from vendors. The inventory increase reflected a build in the level of custom documents produced and awaiting future shipment to customers. Restructuring spending was primarily for severance and other benefits paid to terminated associates and lease payments on previously vacated facilities. This spending will continue through 2006, as severance and related employer costs, lease payments and other associated costs related to restructurings are incurred.

Cash Flows From Investing Activities

Our investing activities included capital expenditures totaling \$10.1 million in 2004, primarily for machinery and equipment. We expect to spend \$20-\$25 million on capital projects in 2004, including improvements to our internal systems infrastructure and current year investments in our print-on-demand strategy.

Cash Flows From Financing Activities

We repaid \$25 million of long-term debt related to our revolving credit facility. We paid \$13.1 million of dividends to shareholders in 2004. The Company has paid a \$.23 quarterly dividend in each quarter of the last four years.

Net Investment and Capital Structure

| NET INVESTMENT | June 27, 2004 | December 28, 2003 |
|---------------------------------------|--------------------------|------------------------------|
| Accounts and Notes Receivable | \$ 129.8 | \$ 125.9 |
| Inventories | 52.1 | 49.8 |
| Prepaid Expense | 13.5 | 11.3 |
| Prepaid Income Taxes | 1.7 | 2.2 |
| Deferred Income Taxes | 19.4 | 19.3 |
| Accounts Payable & Accruals | (86.3) | (97.0) |
| Accrued Restructuring | (3.3) | (2.8) |
| Net Current Assets Excl Cash and Debt | 126.9 | 108.7 |
| <i>Turnover *</i> | <i>7.1x</i> | <i>8.3x</i> |
| Capital Assets @ NBV | 154.1 | 165.5 |
| <i>YTD Capital Expenditures</i> | <i>(10.1)</i> | <i>(18.3)</i> |
| <i>YTD Depreciation</i> | <i>18.8</i> | <i>41.0</i> |
| Goodwill, Software & Intangibles | 68.3 | 68.6 |
| Retiree Healthcare Liability | (48.7) | (49.8) |
| Pension Liability | (90.2) | (89.6) |
| Long-term Deferred Tax Asset | 78.6 | 72.7 |
| Other Long-term Net Assets | 20.7 | 20.5 |
| Total | \$ 309.7 | \$ 296.6 |
| CAPITAL STRUCTURE | | |
| Total Debt | \$ 100.0 | \$ 125.0 |
| Less Cash and Cash Equivalents | 25.5 | 77.0 |
| Net Debt | 74.5 | 48.0 |
| Equity | 235.2 | 248.6 |
| Total | \$ 309.7 | \$ 296.6 |
| <i>Net Debt: Total Capital</i> | <i>24.0%</i> | <i>16.2%</i> |

* The turnover calculation divides the quarter's revenue times four by the ending balance of net current assets. The turnover of net current assets was 7.1x at June 27, 2004 compared to 8.3x at December 28, 2003. This decrease in turnover reflects the changes in working capital previously discussed.

The net book value (NBV) of capital assets decreased \$11.4 million as expenditures continued to lag behind depreciation. The balance is expected to decrease further in the remainder of 2004 as an estimated \$39 million in depreciation will once again exceed capital spending, currently estimated at \$20 to \$25 million.

Total bank debt at June 27, 2004 was \$100 million with a net debt to total capital ratio of 24.0%. At June 27, 2004, we had a \$150 million unsecured revolving credit facility agreement with ten banks. The agreement provides for a four-year commitment of up to \$150 million, maturing May 2005. The credit facility incurs interest at a floating rate of the London Interbank Offered Rate (LIBOR) plus a spread dependent upon our net debt to total capital ratio. The credit facility also contains financial covenants that require us to maintain, among other things, a minimum coverage of interest expense.

The \$100 million of debt is classified as a current liability in the accompanying consolidated balance sheet. We anticipate renegotiating the revolving credit facility later in 2004 or early 2005.

Contractual Obligations

There have been no material changes in our contractual obligations since year-end 2003 outside the normal course of business.

Our near-term cash requirements are primarily related to funding our operations and capital expenditures. The remaining cash requirements of our restructuring programs are approximately \$6.0 million, primarily for severance and lease obligations. We expect to pay this amount over several years, including approximately \$3.5 million during the remainder of 2004. The \$6.0 million does not include any cash requirements related to additional restructuring actions in 2004. The remaining cash requirements for lease obligations do not include expected sublease rental income. If we are able to sublease the facilities, our cash requirements under the restructuring plans would decrease.

We do not have a minimum funding requirement in 2004, although we made voluntary contributions to our defined benefit pension plan in the first half of 2004 of \$10.0 million. Our expected cash requirements for our postretirement healthcare benefit plan are approximately \$4.0 million for 2004.

We believe that the combination of internally generated funds, available cash reserves, and our existing credit facility are sufficient to fund our operations, including capital expenditures, dividends, remaining restructuring costs, and investments in growth initiatives over the next year.

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 27, 2004

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to interest rate risk on its borrowings under a revolving credit facility and the Company's short-term investments, as outlined in the 2003 Form 10K. The Company is also exposed to market risk from changes in the cost of paper, the principal raw material used in the production of business forms. There have been no material changes in the Company's exposure to these items since the Company's disclosure in Item 7A, Part II of Form 10-K for the year ended December 28, 2003.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company's Annual Meeting of Shareholders was held April 22, 2004.

As a result of voting of the Shareholders, the following were elected to the Company's Board of Directors to hold office for the ensuing year:

NOMINEE

IN FAVOR

WITHHELD

Roy W. Begley, Jr.

44,605,513

693,220

F. David Clarke, III

44,543,328

755,405

Paul H. Granzow

42,932,518

2,366,215

Sherrill W. Hudson

44,606,536

692,197

Dennis L. Rediker

42,882,998

2,415,735

Ann Scavullo

44,605,326

693,407

John J. Schiff, Jr.

44,948,082

350,651

John Q. Sherman, II

44,614,390

684,343

Following is the result of voting by the Shareholders regarding selection of Battelle & Battelle LLP as the Company's Auditors for the year 2004:

IN FAVOR

OPPOSED

ABSTAINED

45,129,141

155,586

14,006

ITEM 5. OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8K

a)

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

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 Auditor

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

Review report of Independent Auditor

Included

b)

Reports on Form 8K

On April 27, 2004, the Company filed a report on Form 8K related to the Company's press release announcing the results of operations for the quarter ended March 28, 2004.

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 27, 2004

SIGNATURE

Pursuant to the requirements 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.

July 30, 2004

/s/ Craig J. Brown, Sr.

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dennis L. Rediker, certify that:

1.

I have reviewed this quarterly report on Form 10-Q of The Standard Register Company;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

c)

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

/s/ Dennis L. Rediker

Dennis L. Rediker

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig J. Brown, certify that:

1.

I have reviewed this quarterly report on Form 10-Q of The Standard Register Company;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

c)

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

and

5.

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

/s/ Craig J. Brown

Craig J. Brown

Senior Vice President, Treasurer and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Standard Register Company (the Company) on Form 10-Q for the period ending June 27, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Dennis L. Rediker, President and Chief Executive Officer, and I, Craig J. Brown, Senior Vice President, Treasurer and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1)

the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2004

/s/ Dennis L. Rediker

Dennis L. Rediker

President and Chief Executive Officer

/s/ Craig J. Brown

Craig J. Brown

Senior Vice President, Treasurer and

Chief Financial Officer