

STANDARD REGISTER CO
Form 10-Q
November 02, 2005

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

FORM 10-Q

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

For the quarterly period ended October 2, 2005

OR

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

For the transition period from _____ to _____

Commission file number 0-01097

THE STANDARD REGISTER COMPANY

(Exact name of Registrant as specified in its charter)

OHIO

(State or other jurisdiction of
Incorporation or organization)

31-0455440

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

600 ALBANY STREET, DAYTON OHIO

(Address of principal executive offices)

45408

(Zip Code)

(937) 221-1000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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

| Class | Outstanding as of October 2, 2005 |
|---------------------------------|-----------------------------------|
| Common stock, \$1.00 par value | 24,101,423 shares |
| Class A stock, \$1.00 par value | 4,725,000 shares |

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended October 2, 2005

INDEX

| | <u>Page</u> |
|---|-------------|
| Part I Financial Information | |
| Item 1. Consolidated Financial Statements | |
| a) Consolidated Statements of Income and Comprehensive Income for the 13 Weeks Ended October 2, 2005 and September 26, 2004 and for the 39 Weeks Ended October 2, 2005 and September 26, 2004 | 1 |
| b) Consolidated Balance Sheets as of October 2, 2005 and January 2, 2005 | 2 |
| c) Consolidated Statements of Cash Flows for the 39 Weeks Ended October 2, 2005 and September 26, 2004 | 4 |
| d) Notes to Consolidated Financial Statements | 5 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk | 29 |
| Item 4. Controls and Procedures | 29 |

Part II Other Information

| | |
|---|----|
| Item 1. Legal Proceedings | 30 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 30 |
| Item 3. Defaults upon Senior Securities | 30 |
| Item 4. Submission of Matters to a Vote of Security Holders | 30 |
| Item 5. Other Information | 30 |
| Item 6. Exhibits | 30 |
| Signatures | 31 |

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>39 Weeks Ended</i> | |
|---|-----------------------|------------------|-----------------------|------------------|
| | <i>October 2</i> | <i>September</i> | <i>October 2</i> | <i>September</i> |
| | <i>2005</i> | <i>26</i> | <i>2005</i> | <i>26</i> |
| | | <i>2004</i> | | <i>2004</i> |
| REVENUE | | | | |
| Products | \$ 188,472 | \$ 183,442 | \$ 578,356 | \$ 563,574 |
| Services | 32,976 | 29,516 | 100,529 | 90,513 |
| Total revenue | 221,448 | 212,958 | 678,885 | 654,087 |
| COST OF SALES | | | | |
| Products | 120,874 | 118,105 | 377,059 | 356,133 |
| Services | 21,910 | 17,160 | 60,655 | 56,550 |
| Total cost of sales | 142,784 | 135,265 | 437,714 | 412,683 |
| GROSS MARGIN | 78,664 | 77,693 | 241,171 | 241,404 |
| OPERATING EXPENSES | | | | |
| Research and development | 2,476 | 2,888 | 7,520 | 10,240 |
| Selling, general and administrative | 64,012 | 65,718 | 193,083 | 210,640 |
| Depreciation and amortization | 9,068 | 10,395 | 29,976 | 31,726 |
| Goodwill impairments | - | 47,059 | - | 47,059 |
| Asset impairments | 157 | 552 | 157 | 1,341 |
| Restructuring charges | 42 | 6,521 | 2,042 | 12,057 |
| Total operating expenses | 75,755 | 133,133 | 232,778 | 313,063 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 2,909 | (55,440) | 8,393 | (71,659) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (583) | (598) | (1,880) | (1,930) |

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| | | | | |
|---|----------|-------------|----------|-------------|
| Investment and other income (expense) | (48) | 3 | 36 | 132 |
| Total other expense | (631) | (595) | (1,844) | (1,798) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 2,278 | (56,035) | 6,549 | (73,457) |
| INCOME TAX EXPENSE (BENEFIT) | 896 | (20,933) | 5,673 | (28,418) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | \$ 1,382 | \$ (35,102) | \$ 876 | \$ (45,039) |
| DISCONTINUED OPERATIONS | | | | |
| Income from discontinued operations, net of taxes | - | 646 | - | 1,463 |
| Gain on sale of discontinued operations, net of taxes | - | - | 552 | - |
| NET INCOME (LOSS) | \$ 1,382 | \$ (34,456) | \$ 1,428 | \$ (43,576) |
| BASIC AND DILUTED EARNINGS (LOSS) PER SHARE | | | | |
| Income (loss) from continuing operations | \$ 0.05 | \$ (1.23) | \$ 0.03 | \$ (1.58) |
| Income from discontinued operations | - | 0.02 | - | 0.05 |
| Gain on sale of discontinued operations, net of taxes | - | - | 0.02 | - |
| Net income (loss) per share | \$ 0.05 | \$ (1.21) | \$ 0.05 | \$ (1.53) |
| Dividends Paid Per Share | \$ 0.23 | \$ 0.23 | \$ 0.69 | \$ 0.69 |
| NET INCOME (LOSS) | \$ 1,382 | \$ (34,456) | \$ 1,428 | \$ (43,576) |
| Deferred cost on forward contract | (66) | (399) | (5) | (160) |
| Foreign currency translation adjustment | 158 | 362 | 2 | 216 |
| COMPREHENSIVE INCOME (LOSS) | \$ 1,474 | \$ (34,493) | \$ 1,425 | \$ (43,520) |

See accompanying notes.

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

| A S S E T S | <i>October 2, 2005</i> | <i>January 2, 2005</i> |
|--|----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,352 | \$ 44,088 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$3,454 and \$3,903, respectively | 120,723 | 128,396 |
| Inventories | 48,024 | 51,796 |
| Deferred income taxes | 16,261 | 16,577 |
| Prepaid expense | 13,069 | 11,383 |
| Total current assets | 199,429 | 252,240 |
| PLANT AND EQUIPMENT | | |
| Buildings and improvements | 67,932 | 67,767 |
| Machinery and equipment | 221,635 | 221,904 |
| Office equipment | 166,777 | 170,534 |
| Total | 456,344 | 460,205 |
| Less accumulated depreciation | 332,513 | 323,808 |
| Depreciated cost | 123,831 | 136,397 |
| Plant and equipment under construction | 7,475 | 7,775 |
| Land | 2,473 | 2,813 |
| Net assets held for sale | 1,394 | 175 |
| Total plant and equipment | 135,173 | 147,160 |
| OTHER ASSETS | | |
| Goodwill | 6,557 | 6,557 |
| Intangible assets, net | 11,029 | 13,189 |
| Deferred tax asset | 80,773 | 86,505 |
| Software development costs, net | 8,933 | 10,507 |

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| | | |
|--------------------|------------|------------|
| Restricted cash | 1,271 | 3,237 |
| Other | 22,366 | 23,578 |
| Total other assets | 130,929 | 143,573 |
| Total assets | \$ 465,531 | \$ 542,973 |

See accompanying notes.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | October 2, 2005 | January 2, 2005 |
|---|----------------------------|----------------------------|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 558 | \$ 80,549 |
| Accounts payable | 32,217 | 38,183 |
| Accrued compensation | 22,164 | 27,116 |
| Deferred revenue | 3,394 | 3,832 |
| Accrued restructuring | 2,535 | 4,775 |
| Other current liabilities | 19,161 | 34,569 |
| Total current liabilities | 80,029 | 189,024 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 40,548 | 867 |
| Pension benefit obligation | 86,987 | 83,273 |
| Retiree health care obligation | 44,563 | 46,826 |
| Deferred compensation | 15,801 | 16,832 |
| Other long-term liabilities | 596 | 746 |
| Total long-term liabilities | 188,495 | 148,544 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$1.00 par value: | | |
| Authorized 101,000,000 shares | | |
| Issued 2005 - 26,025,185; 2004 - 25,693,001 | 26,025 | 25,693 |
| Class A stock, \$1.00 par value: | | |
| Authorized 9,450,000 shares | | |
| Issued - 4,725,000 | 4,725 | 4,725 |
| Capital in excess of par value | 60,194 | 56,100 |
| Accumulated other comprehensive losses | (110,699) | (110,697) |

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| | | |
|--|------------|------------|
| Retained earnings | 269,868 | 281,670 |
| Treasury stock at cost: | | |
| 1,923,762 shares | (49,351) | (49,351) |
| Unearned compensation - restricted stock | (3,755) | (2,735) |
| Total shareholders' equity | 197,007 | 205,405 |
| | | |
| Total liabilities and shareholders' equity | \$ 465,531 | \$ 542,973 |

See accompanying notes.

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

| | <i>39 Weeks Ended</i> <i>October 2,</i> <i>2005</i> | <i>39 Weeks Ended</i> <i>September 26,</i> <i>2004</i> |
|--|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 1,428 | \$ (43,576) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,976 | 31,770 |
| Asset impairments | 157 | 48,400 |
| Restructuring charges | 2,042 | 12,097 |
| Gain on sale of discontinued operations | (552) | - |
| Pension and postretirement benefit expense | 15,583 | 15,676 |
| Amortization of unearned compensation - restricted stock | 1,661 | 1,764 |
| Loss on sale of assets | 898 | 372 |
| Deferred tax expense (benefit) | 6,047 | (26,329) |
| Loss on sale of equity method investee | 173 | - |
| Other | 341 | 352 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | 7,494 | (1,548) |
| Inventories | 3,772 | (4,177) |
| Prepaid income taxes | (836) | 348 |
| Other assets | 538 | (884) |
| Restructuring spending | (4,281) | (8,966) |
| Accounts payable and accrued expenses | (18,357) | 697 |
| Pension and postretirement obligation | (14,125) | (11,220) |
| Deferred income | (438) | 173 |
| Other liabilities | (1,189) | 90 |
| Net cash provided by operating activities | 30,332 | 15,039 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to plant and equipment | (15,612) | (16,072) |

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| | | |
|--|----------|-----------|
| Proceeds from sale of plant and equipment | 614 | 1,631 |
| Acquisitions | - | (1,461) |
| Proceeds from sale of investment | 1,096 | - |
| Additions to other investments | - | (121) |
| Net cash used in investing activities | (13,902) | (16,023) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in borrowings under revolving credit facility | (39,900) | (40,000) |
| Principal payments on long-term debt | (410) | (12) |
| Proceeds from issuance of common stock | 1,771 | 897 |
| Debt issuance costs | (769) | - |
| Dividends paid | (19,796) | (19,691) |
| Net cash used in financing activities | (59,104) | (58,806) |
| Effect of exchange rate changes on cash | (62) | 202 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | |
| | (42,736) | (59,588) |
| Cash and cash equivalents at beginning of period | 44,088 | 76,959 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | |
| | \$ 1,352 | \$ 17,371 |

See accompanying notes.

THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

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

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

NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 requires, unless impracticable, retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

The Company will adopt the provisions of SFAS No. 154, as applicable, beginning in fiscal 2006 and does not anticipate that the adoption of this standard will have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

NOTE 3 DISCONTINUED OPERATIONS

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

The sale of the equipment service business, which had been a component of the Document and Label Solutions segment, met the criteria to be accounted for as a discontinued operation under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and the results of operations have been excluded from continuing operations in the accompanying Consolidated Statements of Income. Revenue of the equipment service business included in discontinued operations was \$5,768 and \$17,179 for the 13- and 39-week periods ended September 26, 2004. No interest expense was allocated to discontinued operations.

NOTE 4 DISPOSITIONS

On September 23, 2005, the Company sold its interest in its joint venture partnership agreement with Grupo Calidata Thomas Greg, S.A. de C.V. for \$1,096 in cash resulting in a loss of \$173. The joint venture, Label Solutions, S. de R.L. de C.V., is located in Mexico and was accounted for under the equity method of accounting.

NOTE 5 RESTRUCTURING AND IMPAIRMENT CHARGES

The Company has under taken restructuring actions stretching back to the year 2000, as part of an on-going effort to improve utilization and profitability. These restructuring plans are more fully described in Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005.

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

Pre-tax components of restructuring expense are as follows:

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|--------------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | <i>October 2, 2005</i> | <i>September 26, 2004</i> | <i>October 2, 2005</i> | <i>September 26, 2004</i> |
| 2005 Restructuring Actions | | | | |
| Severance and employer related costs | \$ 382 | \$ - | \$ 382 | \$ - |
| Total 2005 | 382 | - | 382 | - |
| 2004 Restructuring Actions | | | | |
| Severance and employer related costs | (778) | 4,986 | (242) | 8,708 |
| Contract exit and termination costs | 128 | 1,144 | 801 | 1,272 |
| Associated costs | - | 88 | - | 148 |

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| | | | | |
|--------------------------------------|--------------|----------|-----------------|-----------|
| Total 2004 | (650) | 6,218 | 559 | 10,128 |
| 2003 Restructuring Actions | | | | |
| Severance and employer related costs | - | (73) | - | (73) |
| Contract exit and termination costs | 48 | 111 | 199 | 358 |
| Associated costs | - | 54 | - | 246 |
| Total 2003 | 48 | 92 | 199 | 531 |
| 2001 Restructuring Actions | | | | |
| Contract exit and termination costs | 262 | 211 | 902 | 1,398 |
| Total 2001 | 262 | 211 | 902 | 1,398 |
| Total restructuring expense | \$ 42 | \$ 6,521 | \$ 2,042 | \$ 12,057 |

2005 Restructuring

Within the POD Services segment, the Company closed one printing center, moving production to other facilities. The Company plans to open a new digital only facility. In addition, envelope production will be outsourced, which will also affect one facility in the Document and Label Solutions segment. Costs to be incurred primarily include severance and employer related costs.

Pre-tax components of 2005 restructuring charges are as follows:

| | <i>Total Costs Expected to be Incurred</i> | | <i>Total Q3 2005 Restructuring Expense</i> | | <i>Cumulative- To-Date Restructuring Expense</i> |
|--------------------------------------|--|----|--|----|--|
| Severance and employer related costs | \$ 392 | \$ | 382 | \$ | 382 |
| Contract lease termination costs | 10 | | - | | - |
| Other exit costs | 12 | | - | | - |
| Total | \$ 414 | \$ | 382 | \$ | 382 |

BY SEGMENT:

| | | | | | |
|------------------------------|--------|----|-----|----|-----|
| Document and Label Solutions | \$ 69 | \$ | 69 | \$ | 69 |
| POD Services | 345 | | 313 | | 313 |
| Total | \$ 414 | \$ | 382 | \$ | 382 |

A summary of the 2005 restructuring accrual activity is as follows:

| | <i>Charged to Accrual</i> | | <i>Incurred in 2005</i> | | <i>Balance 2005</i> |
|---|-------------------------------|----|-----------------------------|----|-------------------------|
| Severance and employer related costs | \$ 382 | \$ | - | \$ | 382 |
| Contract termination costs | - | | - | | - |
| Other | - | | - | | - |
| Total | \$ 382 | \$ | - | \$ | 382 |

2004 Restructuring

In 2004, the Company initiated several restructuring actions as part of a drive to reduce costs. The Company integrated its sales specialist organization with its regional sales organization to improve coordination, resource

deployment, and productivity; adjusted its client services model to improve efficiency; and went to a shared service model in various administrative areas to reduce costs. The Company also outsourced part of its information technology operations, including hardware management, help desk support, and telecommunications. As a result of all these actions, the Company eliminated a significant number of positions, including four executive officer positions.

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

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

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

In the third quarter of 2005, the Company reversed approximately \$778 of the accrual established for severance related to its outsourcing of information technology operations in 2004. The Company had agreed to pay severance to associates whose positions were subsequently eliminated and the number of positions eliminated was less than expected.

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

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

| | <i>Total Costs Expected to be Incurred</i> | | <i>Total Q3 2005 Restructuring Expense</i> | | <i>Cumulative- To-Date Restructuring Expense</i> |
|--------------------------------------|--|----|--|----|--|
| Severance and employer related costs | \$ 10,722 | \$ | (778) | \$ | 9,870 |
| Contract lease termination costs | 1,998 | | 128 | | 2,082 |
| Other exit costs | 149 | | - | | 149 |
| Total | \$ 12,869 | \$ | (650) | \$ | 12,101 |

BY SEGMENT:

| | | | | | |
|------------------------------|-----------|----|-------|----|--------|
| Document and Label Solutions | \$ 4,948 | \$ | 9 | \$ | 4,846 |
| POD Services | 710 | | - | | 703 |
| InSystems | 3,807 | | 118 | | 3,925 |
| Other | 3,404 | | (777) | | 2,627 |
| Total | \$ 12,869 | \$ | (650) | \$ | 12,101 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2004</i> | <i>Reversed in 2004</i> | <i>Balance 2004</i> | <i>Charged to Accrual</i> | <i>Reversed in 2005</i> | <i>Incurred in 2005</i> | <i>Balance 2005</i> |
|--------------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------------------|-----------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 10,006 | \$ (6,713) | \$ (384) | \$ 2,909 | \$ 543 | \$ (810) | \$ (2,213) | \$ |
| Contract termination costs | 1,278 | (61) | (9) | 1,208 | 652 | - | (547) | - |

| | | | | | | | |
|-------|-----------|------------|----------|----------|----------|----------|---------------|
| Other | 45 | (45) | - | - | - | - | - |
| Total | \$ 11,329 | \$ (6,819) | \$ (393) | \$ 4,117 | \$ 1,195 | \$ (810) | \$ (2,760) \$ |

2003 Restructuring

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

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

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

| | <i>Total Costs Expected to be Incurred</i> | <i>Total Q3 2005 Restructuring Expense</i> | <i>Cumulative To-date Restructuring Expense</i> |
|--|--|--|---|
| Severance and employer related costs | \$ 10,848 | \$ - | \$ 10,848 |
| Contract termination costs: | | | |
| Lease obligations | 3,056 | 48 | 2,705 |
| Contractual lease obligations for taxes, utilities, and maintenance costs | 129 | - | 106 |
| Associated costs: | | | |
| Travel | 332 | - | 332 |
| Equipment removal and relocation | 2,908 | - | 2,908 |
| Other exit costs | 2,056 | - | 2,056 |
| Total | \$ 19,329 | \$ 48 | \$ 18,955 |

BY SEGMENT:

| | | | |
|------------------------------|-----------|-------|-----------|
| Document and Label Solutions | \$ 11,072 | \$ - | \$ 11,109 |
| POD Services | 4,903 | 48 | 4,492 |
| InSystems | 2,252 | - | 2,252 |
| Other | 1,102 | - | 1,102 |
| Total | \$ 19,329 | \$ 48 | \$ 18,955 |

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

| | <i>Charged to Accrual</i> | <i>Incurred in 2003</i> | <i>Reversed in 2003</i> | <i>Balance 2003</i> | <i>Incurred in 2004</i> | <i>Reversed in 2004</i> | <i>Balance 2004</i> | <i>Incurred in 2005</i> | <i>Balance 2005</i> |
|---|-----------------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 10,807 | \$ (9,415) | \$ (64) | \$ 1,328 | \$ (1,248) | \$ (72) | \$ 8 | \$ - | \$ 8 |

Contract
termination

| | | | | | | | | | |
|-------|-----------|----------|---------|----------|------------|---------|--------|----------|--------|
| costs | 2,330 | (830) | - | 1,500 | (850) | - | 650 | (168) | 403 |
| | | \$ | | | | | | | |
| Total | \$ 13,137 | (10,245) | \$ (64) | \$ 2,828 | \$ (2,098) | \$ (72) | \$ 658 | \$ (168) | \$ 411 |

2001 Restructuring

Due to the nature of the charges and the duration of the 2001 restructuring program, estimates of the liability for contract exit costs required significant judgment. The Company has been unable to sublease as many of the facilities as expected or to buy out the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. At January 2, 2005, an additional \$1,244 of restructuring expense remained that will be recorded through 2006 related to vacated facilities that the Company has been unable to sublease, of which \$902 was expensed in the first nine months of 2005.

Net Assets Held For Sale

At January 2, 2005, the Company classified a vacant parcel of land in North Carolina with a carrying value of \$175 as held for sale in the accompanying Consolidated Balance Sheet. The Company expects to sell the land in 2005 and record a gain. In the third quarter, the Company also classified its building in Adrian, Michigan as held for sale as a result of the restructuring actions discussed above. The carrying value is \$1,219 and the Company expects to sell the building at a gain.

NOTE 6 INVENTORIES

The components of inventories are as follows:

| | <i>October 2, 2005</i> | <i>January 2, 2005</i> |
|------------------------|----------------------------|----------------------------|
| Finished products | \$ 40,334 | \$ 41,448 |
| Jobs in process | 3,277 | 5,101 |
| Materials and supplies | 4,413 | 5,247 |
| Total | \$ 48,024 | \$ 51,796 |

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

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

NOTE 8 LONG-TERM DEBT

| | <i>October 2, 2005</i> | <i>January 2, 2005</i> |
|---------------------------|----------------------------|----------------------------|
| Revolving credit facility | \$ 40,100 | \$ 80,000 |
| Capital lease obligations | 1,006 | 1,416 |
| Total | 41,106 | 81,416 |
| Less current portion | 558 | 80,549 |
| Long-term portion | \$ 40,548 | \$ 867 |

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

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

The New Facility provides for the payment of interest on amounts borrowed at an annual rate equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin based on the sum of available unborrowed credit plus certain cash balances. The weighted average interest rate, including the spread, was 6.67 % at October 2, 2005. The Company is also required to pay a fee on the unused portion of the New Facility. As of October 2, 2005, such fee is payable at an annual rate of 37.5 basis points.

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

NOTE 9 EARNINGS PER SHARE

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

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|---|-----------------------|------------------|-----------------------|----------------------|
| | <i>October 2,</i> | <i>September</i> | <i>October 2,</i> | <i>September 26,</i> |
| (Shares in thousands) | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| Weighted average shares outstanding - basic | 28,806 | 28,558 | 28,707 | 28,533 |
| Dilutive effect of stock options | 91 | - | 51 | - |
| Weighted average shares outstanding - diluted | 28,897 | 28,558 | 28,758 | 28,533 |

The effects of stock options on diluted EPS are reflected through the application of the treasury stock method. Under this method, proceeds received by the Company, based on assumed exercise, are hypothetically used to repurchase the Company's shares at the average market price for the period. Outstanding options to purchase 1,840,365 and 1,880,322 shares in the three-and nine-months ended October 2, 2005 were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price of the shares; therefore, the effect would be anti-dilutive. Due to the net losses incurred in third quarter and year-to-date 2004, no outstanding options were included in the EPS computation because they would automatically result in anti-dilution.

NOTE 10 - INCOME TAXES

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

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

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

NOTE 11 STOCK OPTIONS

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

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|--|----------------------------|-----------------------------------|----------------------------|-----------------------------------|
| | <i>October 2, 2005</i> | <i>September 26, 2004</i> | <i>October 2, 2005</i> | <i>September 26, 2004</i> |
| Net income (loss) from continuing operations, as reported | \$ 1,382 | \$ (35,102) | \$ 876 | \$ (45,039) |
| Less total compensation expense determined under the fair-value-based method for all awards, net | (48) | (278) | (130) | (1,103) |
| Proforma net income (loss) from continuing operations | \$ 1,334 | \$ (35,380) | \$ 746 | \$ (46,142) |
| Basic and diluted net income (loss) from continuing operations per share | | | | |
| As reported | \$ 0.05 | \$ (1.23) | \$ 0.03 | \$ (1.58) |
| Proforma | \$ 0.05 | \$ (1.24) | \$ 0.03 | \$ (1.62) |

NOTE 12 PENSION PLANS

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

Net periodic benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|---------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | <i>October 2, 2005</i> | <i>September 26, 2004</i> | <i>October 2, 2005</i> | <i>September 26, 2004</i> |
| Service cost of benefits earned | \$ 1,939 | \$ 2,847 | \$ 5,817 | \$ 8,542 |
| | 6,653 | 6,694 | 19,959 | 20,084 |

Interest cost on projected benefit obligation

| | | | | |
|---|-----------------|----------|------------------|-----------|
| Expected return on plan assets | (7,670) | (8,450) | (23,011) | (25,350) |
| Amortization of prior service costs | 280 | 281 | 840 | 841 |
| Amortization of net loss from prior periods | 4,747 | 4,360 | 14,241 | 13,080 |
| Total | \$ 5,949 | \$ 5,732 | \$ 17,846 | \$ 17,197 |

The Company does not have a minimum funding requirement in 2005. The Company contributed \$12,800 to the qualified pension plan in the first nine months of 2005 and \$10,000 in the same period of 2004.

NOTE 13 POSTRETIREMENT BENEFITS OTHER THAN PENSION

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

Postretirement benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | <i>October 2, 2005</i> | <i>September 26, 2004</i> | <i>October 2, 2005</i> | <i>September 26, 2004</i> |
| Service cost | \$ - | \$ - | \$ - | \$ - |
| Interest cost | 516 | 616 | 1,547 | 1,850 |
| Amortization of prior service cost | (551) | (551) | (1,654) | (1,654) |
| Amortization of net loss from prior periods | 131 | 334 | 393 | 1,001 |
| Total | \$ 96 | \$ 399 | \$ 286 | \$ 1,197 |

The funding policy is to pay claims as they occur. Payments for postretirement health benefits, net of retiree contributions, were approximately \$793 and \$819 for the 13-week periods ended October 2, 2005 and September 26, 2004, respectively and \$2,405 and \$2,496 for the 39-week periods ended October 2, 2005 and September 26, 2004, respectively.

NOTE 14 SEGMENT REPORTING

Information about the Company's operations by segment for the 13-week periods ended October 2, 2005 and September 26, 2004 is as follows:

| | | <i>Document and Label</i> | | <i>POD</i> | | <i>Digital</i> | | <i>Total</i> |
|----------------------------|----------|-------------------------------|-----------------|------------------|------------------|----------------|------------|--------------|
| | | <i>Solutions</i> | <i>Services</i> | <i>InSystems</i> | <i>Solutions</i> | <i>Other</i> | | |
| Revenue | 2005 | \$ 151,839 | \$ 59,497 | \$ 2,805 | \$ 80 | \$ 7,227 | \$ 221,448 | |
| from external customers | 2004 | 146,416 | 57,815 | 2,590 | 66 | 6,071 | 212,958 | |
| Operating income (loss) | (a) 2005 | \$ 10,934 | \$ (454) | \$ (1,275) | \$ (1,380) | \$ (1,699) | \$ 6,126 | |
| | (b) 2004 | 5,194 | 648 | (52,721) | (1,320) | (1,762) | (49,961) | |

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

| | | | | | | |
|---------------|-------|--------|--------|------|------|--------|
| Restructuring | \$ 78 | \$ 361 | \$ 118 | \$ - | \$ - | \$ 557 |
| Impairment | 157 | - | - | - | - | 157 |

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

| | | | | | | | | | | | | |
|---------------|----|-------|----|-----|----|--------|----|---|----|----|----|--------|
| Restructuring | \$ | 1,013 | \$ | 507 | \$ | 2,601 | \$ | - | \$ | 29 | \$ | 4,150 |
| Impairment | | 516 | | - | | 47,095 | | - | | - | | 47,611 |

Information about the Company's operations by segment for the 39-week periods ended October 2, 2005 and September 26, 2004 is as follows:

| | | <i>Document and Label Solutions</i> | <i>POD Services</i> | <i>InSystems</i> | <i>Digital Solutions</i> | <i>Other</i> | <i>Total</i> |
|----------------------------|-----------------|---|-------------------------|------------------|------------------------------|--------------|--------------|
| Revenue | 2005 | \$ 465,044 | \$ 180,547 | \$ 8,371 | \$ 167 | \$ 24,756 | \$ 678,885 |
| from external customers | 2004 | 451,703 | 177,184 | 8,808 | 66 | 16,326 | 654,087 |
| Operating | (a) 2005 | \$ 32,208 | \$ 954 | \$ (5,343) | \$ (4,393) | \$ (2,947) | \$ 20,479 |
| income (loss) | (b) 2004 | 10,544 | (1,642) | (58,415) | (4,411) | (4,920) | (58,844) |
| Total assets | 2005 | \$ 243,465 | \$ 68,662 | \$ 24,431 | \$ 1,745 | \$ 5,966 | \$ 344,269 |
| | 2004 | 263,610 | 70,035 | 34,073 | 2,192 | 8,519 | 378,429 |

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

| | | | | | | |
|---------------|--------|--------|----------|------|------|----------|
| Restructuring | \$ 179 | \$ 477 | \$ 1,252 | \$ - | \$ - | \$ 1,908 |
| Impairment | 157 | - | - | - | - | 157 |

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

| | | | | | | |
|---------------|----------|--------|----------|------|-------|----------|
| Restructuring | \$ 3,667 | \$ 873 | \$ 2,601 | \$ - | \$ 29 | \$ 7,170 |
| Impairment | 516 | 245 | 47,639 | - | - | 48,400 |

Reconciling information between reportable segments and the Company's consolidated financial statements for the 13- and 39-week periods ended October 2, 2005 and September 26, 2004 is as follows:

| | <i>13 Weeks Ended</i> | | <i>39 Weeks Ended</i> | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | <i>October 2, 2005</i> | <i>September 26, 2004</i> | <i>October 2, 2005</i> | <i>September 26, 2004</i> |
| Operating income (loss) | \$ 6,126 | \$ (49,961) | \$ 20,479 | \$ (58,844) |
| Corporate restructuring charges | 515 | (2,372) | (134) | (4,887) |
| LIFO Adjustment | - | (695) | (511) | (695) |
| Other unallocated corporate expense | (3,732) | (2,412) | (11,441) | (7,233) |
| Total other expense | (631) | (595) | (1,844) | (1,798) |
| Income (loss) from continuing operations before income taxes | \$ 2,278 | \$ (56,035) | \$ 6,549 | \$ (73,457) |

| | | |
|---------------------------|------------|------------|
| Total Assets | \$ 344,269 | \$ 378,429 |
| Corporate and unallocated | 121,262 | 158,636 |
| Total consolidated assets | \$ 465,531 | \$ 537,065 |

Item 2 -

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

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

FORWARD-LOOKING INFORMATION

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

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

Variation in demand and acceptance of our products and services

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

The effect of alternative technologies on our traditional product offerings

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

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

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

General business and economic conditions beyond our control

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

Timing of the completion and integration of acquisitions

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

Consequences of competitive factors in the marketplace

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

Ability to retain large customer contracts

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

Success in attracting and retaining key personnel

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

OVERVIEW

The Company

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

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

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

Industry Challenges

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

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

Business Challenges

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

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

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

Paper companies instituted three price increases during 2004, and an additional increase in early 2005, reflecting high operating rates at paper mills and escalating energy costs. Rising inventories, lower operating rates, and modest discounts in some grades are an indication of a somewhat weaker paper market at mid-year 2005. Paper companies are taking capacity off-line in an effort to prop up prices. We increased our target selling prices in 2004 and have made very good progress thus far in recovering the paper cost increases. With each paper cost increase, we expect margins to worsen initially and to then recover over a period of several quarters as selling price increases are negotiated; however, there is no guarantee that we will be successful in the future.

Our Focus

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

We plan to address the large and growing market to provide for digital print-on-demand (POD) 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 plan to step up the level of investment in our POD Services business in order to ensure that we catch the building market momentum in this important growth segment. This will translate into an up-tick in our capital expenditures and selling, general, and administrative expenses in the coming quarters.

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

In addition, we will focus on improving the performance of operations that currently do not make a sufficient contribution to profit, and on improving our overall productivity. We continue to expect modest revenue growth for the full year, adjusted for the extra accounting week in 2004, and an approximate 4 percentage point improvement in the second half 2005 operating margins (excluding restructuring and impairment charges), versus the first half of 2004 base period.

Digital Pen and Paper is an emerging market that shows promise. Although the initial adoption rate is proving slower than originally expected, we are encouraged by the results of our customer pilots and the growing interest among prospects in the technology and its application. There are seven pilots currently running and we expect to report revenue in the fourth quarter for this segment. The fourth quarter of 2005 calls for continued investment in product and market development, despite the scaled back revenue forecast.

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

Deferred Taxes

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

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

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

Ohio corporate tax legislation enacted on June 30, 2005, phases out the Ohio Corporate Franchise Tax and phases in a new gross receipts tax called the Commercial Activity Tax. The Corporate Franchise Tax was generally based on federal taxable income, but the Commercial Activity Tax is based on current year sales in Ohio. This change in tax legislation resulted in a net charge of \$2.9 million in the second quarter of 2005 to reduce the deferred tax assets established for net operating losses in Ohio that are not expected to be realized and other deferred tax assets, primarily related to employee benefit plans.

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

RESULTS OF OPERATIONS

Discontinued Operations

In December 2004, we sold selected assets and transferred selected liabilities of our equipment service business to Pitney Bowes. The transaction was completed on December 31, 2004 and resulted in a gain of \$12.8 million, net of income taxes of \$8.6 million. In the second quarter of 2005, we finalized the working capital adjustment with Pitney Bowes related to the sale of the service business. The net impact of this adjustment and the adjustment of related reserves resulted in a \$0.5 million increase in the gain on sale, net of income taxes.

The sale of the equipment service business, which had been a component of the Document and Label Solutions segment, was accounted for as a discontinued operation; accordingly, the results of its operations have been excluded from continuing operations in the accompanying Consolidated Statements of Operations. Revenue of the equipment service business included in discontinued operations was \$5.8 million and \$17.2 million for the 13- and 39-week periods ended September 26, 2004. No interest expense was allocated to discontinued operations. The following discussion focuses on the results of continuing operations.

Continuing 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.

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

Unless otherwise noted, references to 2005 and 2004 refer to the 13- and 39-week periods ended October 2, 2005 and September 26, 2004.

| Continuing Operations | <i>Third Quarter</i> | | <i>Year-to-Date</i> | |
|---|----------------------|-------------|---------------------|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| Revenue | \$ 221.4 | \$ 213.0 | \$ 678.9 | \$ 654.1 |
| % Change | 4.0% | -1.6% | 3.8% | -2.8% |
| Gross Margin | 78.7 | 77.7 | 241.2 | 241.4 |
| % Revenue | 35.5% | 36.5% | 35.5% | 36.9% |
| SG&A Expense | 66.5 | 68.6 | 200.6 | 220.9 |
| Depreciation and Amortization | 9.1 | 10.4 | 30.0 | 31.7 |
| Goodwill Impairment | - | 47.0 | - | 47.0 |
| Asset Impairments | 0.2 | 0.6 | 0.2 | 1.4 |
| Restructuring Expense | - | 6.5 | 2.0 | 12.0 |
| Income (Loss) From Continuing Operations | 2.9 | (55.4) | 8.4 | (71.6) |
| Interest Expense | (0.6) | (0.6) | (1.9) | (1.9) |
| Investment and Other Income | - | - | 0.1 | 0.1 |
| Pretax Income (Loss) from Continuing Operations | 2.3 | (56.0) | 6.6 | (73.4) |
| Ohio Tax Law Change | - | - | 2.9 | - |
| Other Income Tax Expense (Benefit) | 0.9 | (20.9) | 2.8 | (28.4) |
| Net Income (Loss) from Continuing Operations | \$ 1.4 | \$ (35.1) | \$ 0.9 | \$ (45.0) |

Effects to Earnings Per Share**Continuing Operations**

| | | | | |
|--------------------------------------|---------|-----------|-----------|-----------|
| Restructuring and Impairment Expense | \$ - | \$ (1.14) | \$ (0.05) | \$ (1.27) |
| Pension Loss Amortization | (0.10) | (0.09) | (0.30) | (0.28) |
| Ohio Tax Law Change | - | - | (0.10) | - |
| Other | 0.15 | - | 0.48 | (0.03) |
| Total | \$ 0.05 | \$ (1.23) | \$ 0.03 | \$ (1.58) |

Revenue

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

On a consolidated basis, through nine months revenue increased \$24.8 million, or 3.8%, compared with 2004. The revenue increase was attributed equally to unit volume and price. Higher discounting in both new and existing business was more than offset by price increases implemented in response to paper cost increases. Notwithstanding a competitive marketplace which has put downward pressure on pricing, we have made good progress in recovering the paper cost increases incurred during 2004 and early 2005.

Revenue increased \$8.5 million, or 4.0%, in the third quarter to \$221.4 million. Approximately two-thirds of the increase in revenue was attributable to unit growth with the balance provided by higher prices. This was the fourth consecutive quarter that revenue increased over the comparable prior-year quarter.

The table below presents revenue from continuing operations by reportable segment. As indicated in the table, revenue growth was broad-based in the third quarter, with all segments reporting increased revenue.

| | <i>Third Quarter</i> | | | | <i>Year-to-Date</i> | | | |
|------------------------------|----------------------|-----------------|-------------|-----------------|---------------------|-----------------|-------------|-----------------|
| | <i>2005</i> | | <i>2004</i> | | <i>2005</i> | | <i>2004</i> | |
| | <i>\$</i> | <i>% Change</i> | <i>\$</i> | <i>% Change</i> | <i>\$</i> | <i>% Change</i> | <i>\$</i> | <i>% Change</i> |
| Document and Label Solutions | \$ 151.8 | 3.7% | \$ 146.4 | -3.2% | \$ 465.1 | 3.0% | \$ 451.7 | -3.6% |
| POD Services | 59.5 | 2.9% | 57.8 | 1.7% | 180.5 | 1.9% | 177.2 | 0.3% |
| InSystems | 2.8 | 8.3% | 2.6 | -36.2% | 8.4 | -5.0% | 8.8 | -38.2% |
| Digital Solutions | 0.1 | 19.7% | 0.1 | - | 0.2 | - | 0.1 | - |
| Other | 7.2 | 19.1% | 6.1 | 42.3% | 24.7 | 51.6% | 16.3 | 18.8% |
| Total | \$ 221.4 | 4.0% | \$ 213.0 | -1.6% | \$ 678.9 | 3.8% | \$ 654.1 | -2.8% |

Our core Document and Label Solutions (DLS) segment reported solid revenue gains of 3.7% and 3.0% for the quarter and year-to-date periods, despite the industry challenges brought about by digital technology product substitution, higher raw material prices, and oversupply.

Print-on-Demand (POD) Services revenue increased 2.9% in the third quarter, improving the first half growth rate of 1.4%. Year-to-date, revenue increased 1.9% over the prior year. This segment provides a variety of short-run printed products and related services and is expected to undergo an accelerating transition from conventional offset print to digital print. Offset print declined 7% in the third quarter, but this was overcome by a combination of growth in digital print, value added services, and variable imprinting.

Although InSystems revenue was down slightly on a year-to-date basis, revenue increased in the third quarter of 2005 compared with 2004. Despite overall revenues being slightly lower, year-to-date license and maintenance revenues have increased over the same period in 2004. InSystems saw an 8.3% increase in third quarter revenue on the strength of higher professional services and an increasing revenue stream from maintenance.

Digital Solutions is a start-up software and services venture based on the application of digital pen and paper technology to enable a user to directly transfer handwriting on a paper document to digital format as input to a software application. The ASP solution is being marketed directly and through channel partners. There are seven pilots currently running and the Company expects to report revenue in the fourth quarter of this year.

Other includes our Commercial Print, PathForward, and International business units. The increase in revenue for both the third quarter and on a year-to-date basis was primarily a result of our commercial print initiative.

Gross Margin

Gross margin dollars were relatively unchanged for both the third quarter and the year-to-date period of 2005 versus

the same periods of 2004. As discussed above, a sizable share of the revenue increase was attributable to price, which was effectively offset by higher paper costs. Also, the unit growth came in at generally lower margins, a function of competitive market pricing and product mix. Manufacturing costs were lower than the prior year, primarily as a result of lower staffing and other cost reduction actions taken in recent periods, which helped to offset the favorable impact of a one-time supplier rebate of \$2.8 million received in 2004.

SG&A Expense

Selling, general, and administrative and research and development (SG&A) expense decreased \$2.1 million and \$20.3 million in the third quarter and year-to-date periods of 2005 as compared to the prior year. These reductions are primarily the result of lower staffing from restructuring actions taken last year. An updated actuarial analysis, based on final 2004 census data, indicates lower pension expense for 2005 than originally estimated - \$23.8 million vs. \$27.2 million. Approximately \$19.0 million of the \$23.8 million in annual 2005 expense relates to the amortization of past pension losses.

Depreciation & Amortization

Depreciation and amortization expense decreased in 2005 due in part to major software systems becoming fully depreciated at the end of the second quarter of 2005.

Investment and Other Income

On September 23, 2005, we sold our interest in our joint venture partnership agreement with Grupo Calidata Thomas Greg, S.A. de C.V. for \$1.1 million in cash resulting in a loss of \$0.2 million. The joint venture, Label Solutions, S. de R.L. de C.V., is located in Mexico and was accounted for under the equity method of accounting.

Income Taxes

The State of Ohio enacted new tax legislation in June 2005 that had a significant unfavorable effect on income taxes.

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

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

Net Income (Loss) from Continuing Operations

As the table below indicates, pretax income from continuing operations for the third quarter was \$2.3 million, compared to a loss in the prior year of \$56.0 million. Restructuring and impairment had a significant impact on the prior year's reported results. Excluding these items, our pretax income from continuing operations went from a \$1.3 million loss in 2004 to a \$3.1 million profit in 2005. Through nine months, the improvement is \$21.8 million from an \$11.2 million loss to a \$10.6 million profit. These improvements were primarily the result of lower expenses and depreciation.

| | <i>Effect on Third Quarter Income</i> | | | <i>Effect on Year-to-Date Income</i> | | |
|--|---------------------------------------|-------------|---------------|--------------------------------------|-------------|---------------|
| | <i>2005</i> | <i>2004</i> | <i>Change</i> | <i>2005</i> | <i>2004</i> | <i>Change</i> |
| Continuing Operations | | | | | | |
| Restructuring Expense | \$ - | \$ (6.5) | \$ 6.5 | \$ (2.0) | \$ (12.0) | \$ 10.0 |
| Goodwill Impairment | - | (47.0) | 47.0 | - | (47.0) | 47.0 |
| Asset Impairments | (0.2) | (0.6) | 0.4 | (0.2) | (1.4) | 1.2 |
| All Other Operations | 3.1 | (1.3) | 4.4 | 10.6 | (11.2) | 21.8 |
| Interest & Other Income (Expense) | (0.6) | (0.6) | - | (1.8) | (1.8) | - |
| Pretax Income (Loss) from Continuing Operations | 2.3 | (56.0) | 58.3 | 6.6 | (73.4) | 80.0 |
| Ohio Tax Law Change | - | - | - | 2.9 | - | 2.9 |
| Other Income Tax Expense (Benefit) | 0.9 | (20.9) | 21.8 | 2.8 | (28.4) | 31.2 |
| Net Income (Loss) from Continuing Operations | 1.4 | (35.1) | 36.5 | 0.9 | (45.0) | 45.9 |

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

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Segment Footnote for the reconciliation to consolidated income (loss) from continuing operations.

| | <i>Third Quarter</i> | | | | <i>Year-to-Date</i> | | | |
|------------------------------|----------------------|----------|----------------|----------------|---------------------|----------------|-------------|----------------|
| | <i>2005</i> | | <i>2004</i> | | <i>2005</i> | | <i>2004</i> | |
| | <i>\$</i> | <i>%</i> | <i>\$</i> | <i>%</i> | <i>\$</i> | <i>%</i> | <i>\$</i> | <i>%</i> |
| | <i>Revenue</i> | | <i>Revenue</i> | <i>Revenue</i> | | <i>Revenue</i> | | <i>Revenue</i> |
| Document and Label Solutions | \$ 10.9 | 7.2% | \$ 5.1 | 3.5% | \$ 32.2 | 6.9% | \$ 10.5 | 2.3% |
| POD Services | (0.4) | -0.8% | 0.7 | 1.1% | 1.0 | 0.5% | (1.6) | -0.9% |
| InSystems | (1.3) | -45.5% | (52.7) | - | (5.4) | -63.8% | (58.4) | - |
| Digital Solutions | (1.4) | - | (1.3) | - | (4.4) | - | (4.4) | - |
| Other | (1.7) | -23.5% | (1.7) | -29.0% | (2.9) | -11.9% | (4.9) | -30.1% |
| Total | \$ 6.1 | 2.8% | \$ (49.9) | -23.5% | \$ 20.5 | 3.0% | \$ (58.8) | -9.0% |

Third quarter operating income for DLS includes \$0.2 million and