

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**

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

	<i>13 Weeks Ended</i>		<i>39 Weeks Ended</i>	
	<i>October 2</i>	<i>September</i>	<i>October 2</i>	<i>September</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<b>REVENUE</b>				
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
<b>COST OF SALES</b>				
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
<b>GROSS MARGIN</b>	78,664	77,693	241,171	241,404
<b>OPERATING EXPENSES</b>				
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
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	2,909	(55,440)	8,393	(71,659)
<b>OTHER INCOME (EXPENSE)</b>				
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)
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	2,278	(56,035)	6,549	(73,457)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	896	(20,933)	5,673	(28,418)
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	\$ 1,382	\$ (35,102)	\$ 876	\$ (45,039)
<b>DISCONTINUED OPERATIONS</b>				
Income from discontinued operations, net of taxes	-	646	-	1,463
Gain on sale of discontinued operations, net of taxes	-	-	552	-
<b>NET INCOME (LOSS)</b>	\$ 1,382	\$ (34,456)	\$ 1,428	\$ (43,576)
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b>				
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
<b>NET INCOME (LOSS)</b>	\$ 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
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ 1,474	\$ (34,493)	\$ 1,425	\$ (43,520)

See accompanying notes.



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

<b>A S S E T S</b>	<i>October 2, 2005</i>	<i>January 2, 2005</i>
<b>CURRENT ASSETS</b>		
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
<b>PLANT AND EQUIPMENT</b>		
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
<b>OTHER ASSETS</b>		
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)**

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>October 2, 2005</b>	<b>January 2, 2005</b>
<b>CURRENT LIABILITIES</b>		
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
<b>LONG-TERM LIABILITIES</b>		
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
<b>SHAREHOLDERS' EQUITY</b>		
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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	(42,736)	(59,588)
Cash and cash equivalents at beginning of period	44,088	76,959
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		
	\$ 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>
<b>2005 Restructuring Actions</b>				
Severance and employer related costs	\$ 382	\$ -	\$ 382	\$ -
Total 2005	382	-	382	-
<b>2004 Restructuring Actions</b>				
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



Total 2004	<b>(650)</b>	6,218	<b>559</b>	10,128
<b>2003 Restructuring Actions</b>				
Severance and employer related costs	-	(73)	-	(73)
Contract exit and termination costs	<b>48</b>	111	<b>199</b>	358
Associated costs	-	54	-	246
Total 2003	<b>48</b>	92	<b>199</b>	531
<b>2001 Restructuring Actions</b>				
Contract exit and termination costs	<b>262</b>	211	<b>902</b>	1,398
Total 2001	<b>262</b>	211	<b>902</b>	1,398
Total restructuring expense	\$ <b>42</b>	\$ 6,521	\$ <b>2,042</b>	\$ 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	<b>28,806</b>	28,558	<b>28,707</b>	28,533
Dilutive effect of stock options	<b>91</b>	-	<b>51</b>	-
Weighted average shares outstanding - diluted	<b>28,897</b>	28,558	<b>28,758</b>	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	<b>(7,670)</b>	(8,450)	<b>(23,011)</b>	(25,350)
Amortization of prior service costs	<b>280</b>	281	<b>840</b>	841
Amortization of net loss from prior periods	<b>4,747</b>	4,360	<b>14,241</b>	13,080
Total	<b>\$ 5,949</b>	\$ 5,732	<b>\$ 17,846</b>	\$ 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	<b>2005</b>	\$ 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) <b>2005</b>	\$ 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	<b>2005</b>	\$ 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.

<b>Continuing Operations</b>	<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>
<b>Continuing Operations</b>						
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

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>% Revenue</i>	<i>\$</i>	<i>% Revenue</i>	<i>\$</i>	<i>% Revenue</i>	<i>\$</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 \$1.5 million of restructuring and impairment expense in 2005 and 2004, respectively. Year-to-date operating income includes \$0.3 million and \$4.2 million of restructuring and impairment expense in 2005 and 2004, respectively.

Third quarter operating loss for POD Services includes \$0.4 and \$0.5 million of restructuring expense in 2005 and 2004, respectively. Year-to-date operating income includes \$0.5 million of restructuring expense in 2005 and \$0.9 million of restructuring and impairment expense in 2004.

Third quarter operating loss for InSystems includes \$0.1 million and \$49.7 million of restructuring and impairment charges in 2005 and 2004, respectively. Year-to-date operating loss for InSystems includes \$1.3 million of restructuring expense in 2005 and \$50.2 million of restructuring and impairment charges in 2004.

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

Insystems operated at a \$5.4 million loss for the first nine months of 2005, an improvement from the prior year's results which included \$50.2 million of restructuring and impairment charges. The restructuring actions taken last year were aimed at operating in the near term, at or above break-even before non-cash depreciation, intangible amortization, and restructuring.

The loss for Digital Solutions represents operating expenses incurred to develop and market their products; there was minimal revenue in 2005 or 2004.

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

We have undertaken 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 our Annual Report on Form 10-K for the year ended January 2, 2005.

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

Pre-tax components of restructuring expense are as follows:

	<i>13 Weeks Ended</i>		<i>39 Weeks Ended</i>	
	<i>October 2,</i>	<i>September 26,</i>	<i>October 2,</i>	<i>September 26,</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<b>2005 Restructuring Actions</b>				
Severance and employer related costs	\$ 0.4	\$ -	\$ 0.4	\$ -
Total 2005	0.4	-	0.4	-



**2004 Restructuring  
Actions**

Severance and employer related costs	<b>(0.8)</b>	5.0	<b>(0.3)</b>	\$	8.7
Contract exit and termination costs	<b>0.1</b>	1.1	<b>0.8</b>		1.3
Associated costs	-	0.1	-		0.1
Total 2004	<b>(0.7)</b>	6.2	<b>0.5</b>		10.1

**2003 Restructuring  
Actions**

Severance and employer related costs	-	(0.1)	-	\$	(0.1)
Contract exit and termination costs	-	0.1	<b>0.2</b>		0.4
Associated costs	-	0.1	-		0.2
Total 2003	-	0.1	<b>0.2</b>		0.5

**2001 Restructuring  
Actions**

Contract exit and termination costs	<b>0.3</b>	0.2	<b>0.9</b>		1.4
Total 2001	<b>0.3</b>	0.2	<b>0.9</b>		1.4
Total restructuring expense	\$ -	\$ 6.5	\$ 2.0	\$	12.0

**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	\$ 0.4	\$	0.4	\$	0.4
Contract lease termination costs	-		-		-
Other exit costs	-		-		-
Total	\$ 0.4	\$	0.4	\$	0.4

**BY SEGMENT:**

Document and Label Solutions	\$ -	\$	-	\$	-
POD Services	0.4		0.4		0.4
Total	\$ 0.4	\$	0.4	\$	0.4

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	\$ 0.4	\$	-	\$	0.4
Contract termination costs	-		-		-
Other	-		-		-
Total	\$ 0.4	\$	-	\$	0.4

**2004 Restructuring**

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

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

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

Late in June 2005, InSystems trimmed its staffing by an additional ten persons and elected to vacate and offer an additional portion of its headquarters facility for sublease. In conjunction with these actions, we 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, we reversed approximately \$0.8 million of the accrual established for severance related to its outsourcing of information technology operations in 2004. We had agreed to pay severance to associates whose positions were subsequently eliminated and the number of positions eliminated was less than expected.

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	\$ 9.9	\$	(0.8)	\$	9.9
Contract lease termination costs	2.0		0.1		2.0
Other exit costs	0.2		-		0.2
	\$ 12.1	\$	(0.7)	\$	12.1

**BY SEGMENT:**

Document and Label Solutions	\$ 4.9	\$	-	\$	4.9
POD Services	0.7		-		0.7
InSystems	3.8		0.1		3.9
Other	2.7		(0.8)		2.6
Total	\$ 12.1	\$	(0.7)	\$	12.1

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>
							\$						
Severance and employer related costs	\$ 10.0	\$	(6.7)		(0.4)	\$	2.9	\$	0.5	\$	(0.8)	\$	(2.2)
Contract termination costs	1.3		(0.1)		-		1.2		0.7		-		(0.5)
Other	-		-		-		-		-		-		-
							\$						
Total	\$ 11.3	\$	(6.8)		(0.4)	\$	4.1	\$	1.2	\$	(0.8)	\$	(2.7)

**2003 Restructuring**

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

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

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

	<i>Total Costs Expected to be Incurred</i>	<i>Total Q3 2005 Restructuring Expense</i>	<i>Cumulative To-date Restructuring Expense</i>
Severance and employer related costs	\$ 10.8	\$ -	\$ 10.8
Contract termination costs:			
Lease obligations	3.1	0.1	2.7
Contractual lease obligations for taxes, utilities, and maintenance costs	0.1	-	0.1
Associated costs:			
Travel	0.3	-	0.3
Equipment removal and relocation	2.9	-	2.9
Other exit costs	2.1	-	2.1
	\$ 19.3	\$ 0.1	\$ 18.9

**BY SEGMENT:**

Document and Label Solutions	\$ 11.1	\$ -	\$ 11.1
POD Services	4.9	0.1	4.5
InSystems	2.2	-	2.2
Other	1.1	-	1.1
Total	\$ 19.3	\$ 0.1	\$ 18.9

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

	<i>Charged to Accrual</i>	<i>Incurred in 2003</i>	<i>Reversed in 2003</i>	<i>Balance 2003</i>	<i>Incurred in 2004</i>	<i>Reversed in 2004</i>	<i>Balance 2004</i>	<i>Incurred in 2005</i>	<i>Balance 2005</i>
Severance and employer related costs	\$ 10.8	\$ (9.4)	\$ (0.1)	\$ 1.3	\$ (1.2)	\$ (0.1)	\$ -	\$ -	\$ -
Contract termination costs	2.3	(0.8)	-	1.5	(0.9)	-	0.6	(0.2)	0.4
Total	\$ 13.1	\$ (10.2)	-	\$ 2.8	\$ (2.1)	\$ (0.1)	\$ 0.6	\$ (0.2)	\$ 0.4

\$  
(0.1)

***2001 Restructuring***

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

***Net Assets Held For Sale***

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

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 \$1.2 million and the Company expects to sell the building at a gain.

**ENVIRONMENTAL MATTERS**

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

**LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

	<b>Year-to-Date</b>		
<b>CASH INFLOW (OUTFLOW)</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
Net cash provided by operating activities	\$ 30.3	\$ 15.0	\$ 15.3
Capital expenditures	(15.6)	(16.0)	0.4
Proceeds from sale of plant and equipment	0.6	1.6	(1.0)
Acquisitions	-	(1.5)	1.5
Proceeds from sale of investment	1.1	-	1.1
Additions to other investments	-	(0.1)	0.1
Net cash used in investing activities	(13.9)	(16.0)	2.1
Net debt payments	(40.3)	(40.0)	(0.3)
Dividends paid	(19.8)	(19.7)	(0.1)
Debt issuance costs	(0.8)	-	(0.8)
Proceeds from issuance of common stock	1.8	0.9	0.9
Net cash used in financing activities	(59.1)	(58.8)	(0.3)
Exchange rate differences	-	0.2	(0.2)
Net cash flow	\$ (42.7)	\$ (59.6)	\$ 16.9
Net cash flow before debt payments	(2.4)	(19.6)	17.2



Contribution to defined pension plan	(12.8)	(10.0)	(2.8)
Restructuring spending	(4.3)	(9.0)	4.7

Net cash flow was strong for the first nine months of 2005 on the strength of improved operations and working capital turnover. Net debt, total debt less cash, increased modestly by \$2.4 million since year-end after satisfying funding requirements for capital expenditures, restructuring, dividends, pension funding, and all other operations.

### *Operating Activities*

Cash provided by operations was \$30.3 million in the first nine months of 2005 compared to \$15.0 million in the same period of 2004. The most significant factor in the increase was the improvement in net income. Accounts receivable and inventory decreased by \$11.3 million over the first nine months of 2005, compared with a \$5.7 million increase in the previous year. Restructuring payments of \$4.3 million were approximately half of the prior year spending level.

We contributed \$12.8 million to the defined benefit pension plan in the first nine months of 2005 compared to \$10.0 million in the same period of 2004. We do not currently have a mandatory pension-funding requirement, but expect to make additional voluntary contributions of \$2.0 million in the fourth quarter for a total of approximately \$15 million in 2005.

***Investing Activities***

Capital expenditures totaled \$15.6 million thus far in 2005, which is comparable to capital spending in the prior year. We continue to expect our capital spending for the year to be \$22-\$25 million, with an emphasis on investments in our POD Services offering.

***Financing Activities***

During 2005 we repaid a net total of \$40.3 million of debt. Dividend payments to shareholders in 2005 were \$19.8 million, which is in line with 2004. We have paid a \$.23 quarterly dividend in each quarter of the last five years.

***Capital Structure***

	<b><i>October 2, 2005</i></b>	<b><i>Jan 2, 2005</i></b>	<b><i>Change</i></b>
Total Debt	\$ 41.1	\$ 81.4	\$ (40.3)
Less Cash and Short-term Investments	1.3	44.1	(42.8)
Net Debt	39.8	37.3	2.5
Equity	197.0	205.4	(8.4)
Total	\$ 236.8	\$ 242.7	\$ (5.9)
<i>Net Debt: Total Capital</i>	<b><i>17%</i></b>	<b><i>15%</i></b>	

The net debt to capital ratio increased slightly from the previous year-end to 17%. The ratio continues to indicate a strong balance sheet.

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

The New Facility is secured by our accounts receivable and inventories and certain other assets as described in the loan and security agreement filed as an exhibit to the second quarter 2005 Form 10-Q. The New Facility contains a fixed charge coverage covenant test that becomes applicable if the sum of available unborrowed credit plus certain cash balances falls below \$10 million.

The New Facility provides for the payment of interest on amounts borrowed at an annual rate equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin based on the sum of available unborrowed credit plus certain cash balances. The 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 our previous revolving credit facility, \$40 million was outstanding. This amount was immediately transferred to the New Facility.

***Contractual Obligations***

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

Our near-term cash requirements are primarily related to funding our operations and capital expenditures. The remaining cash requirements of our restructuring programs are approximately \$3.5 million through 2006, primarily for severance and lease obligations. The remaining cash requirements for lease obligations do not include expected sublease rental income. If we were able to sublease the facilities, our cash requirements under the restructuring plans would decrease. We do not have mandatory pension funding requirements in 2005, although we made voluntary contributions to our defined benefit pension plan in the first nine months of 2005 of \$12.8 million. We currently plan to contribute a total of approximately \$15 million to this plan in 2005.

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

***Recently Issued Accounting Pronouncements***

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

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

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

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended October 2, 2005**

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

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

**ITEM 4 - CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

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

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

*Changes in Internal Control*

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

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit #   Description

2

Plan of acquisition, reorganization, arrangement,  
liquidation or succession

Not applicable

3

Articles of incorporation and bylaws

Not applicable

4

Instruments defining the rights of security holders,

including indentures

Not applicable

10

Material contracts

Not applicable

11

Statement re: computation of per share earnings

Not applicable

15

Letter re: unaudited interim financial information

Not applicable

18

Letter re: change in accounting principles

Not applicable

19

Report furnished to security holders

Not applicable

22

Published reports regarding matters submitted

to vote of security holders

Not applicable

23.1

Consent of Independent Registered Public Accounting Firm

Included

24

Power of attorney

Not applicable

31.1

Certification of Chief Executive Officer pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

Included

31.2

Certification of Chief Financial Officer pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

Included

32

Certifications pursuant to 18 U.S.C Section 1350, as adopted  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Included

1.1

Report of Independent Registered Public Accounting Firm

Included



**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended October 2, 2005**

**SIGNATURE**

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 2, 2005

**THE STANDARD REGISTER COMPANY**

**(REGISTRANT)**

/S/ CRAIG J. BROWN

By: Craig J. Brown, Sr. Vice President, Treasurer and Chief Financial Officer  
(On behalf of the Registrant and as Chief Accounting Officer)

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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 officers 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 controls 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: November 2, 2005

/S/ DENNIS L. REDIKER

Dennis L. Rediker

President and Chief Executive Officer

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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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 officers 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 controls 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: November 2, 2005

/S/ CRAIG J. BROWN

Craig J. Brown

Senior Vice President, Treasurer and Chief Financial Officer

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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 October 2, 2005, 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: November 2, 2005

/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