

STANDARD REGISTER CO
Form 10-Q
August 06, 2008

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 June 29, 2008

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 [X] No []

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

Large accelerated filer []

Accelerated filer [X]

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

Smaller reporting company []

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

Yes [] No [X]

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

| Class | Outstanding as of June 29, 2008 |
|---------------------------------|---------------------------------|
| Common stock, \$1.00 par value | 24,034,428 shares |
| Class A stock, \$1.00 par value | 4,725,000 shares |

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 29, 2008

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

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|-----------------------|----------------|-----------------------|----------------|
| | <i>June 29,</i> | <i>July 1,</i> | <i>June 29,</i> | <i>July 1,</i> |
| | <i>2008</i> | <i>2007</i> | <i>2008</i> | <i>2007</i> |
| REVENUE | | | | |
| Products | \$ 181,816 | \$ 191,715 | \$ 370,629 | \$ 401,767 |
| Services | 17,011 | 19,450 | 35,383 | 36,829 |
| Total revenue | 198,827 | 211,165 | 406,012 | 438,596 |
| COST OF SALES | | | | |
| Products | 119,986 | 132,398 | 246,743 | 273,362 |
| Services | 11,154 | 11,602 | 22,561 | 22,134 |
| Total cost of sales | 131,140 | 144,000 | 269,304 | 295,496 |
| GROSS MARGIN | 67,687 | 67,165 | 136,708 | 143,100 |
| OPERATING EXPENSES | | | | |
| Selling, general, and administrative | 58,213 | 67,561 | 115,179 | 134,479 |
| Depreciation and amortization | 6,571 | 6,590 | 13,402 | 13,245 |
| Asset impairments | - | (342) | 164 | (751) |
| Restructuring charges | (4) | 1,752 | 5 | 4,158 |
| Total operating expenses | 64,780 | 75,561 | 128,750 | 151,131 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 2,907 | (8,396) | 7,958 | (8,031) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (523) | (886) | (1,284) | (1,683) |
| Other income | 47 | 99 | 129 | 167 |
| Total other expense | (476) | (787) | (1,155) | (1,516) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 2,431 | (9,183) | 6,803 | (9,547) |
| INCOME TAX EXPENSE (BENEFIT) | 1,041 | (3,824) | 2,919 | (3,999) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | 1,390 | (5,359) | 3,884 | (5,548) |
| DISCONTINUED OPERATIONS | | | | |

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| | | | | |
|---|-----------------|-------------------|-----------------|-------------------|
| Loss from discontinued operations, net of taxes | - | (81) | - | (725) |
| Gain on sale of discontinued operations, net of taxes | 2 | 816 | 4 | 821 |
| NET INCOME (LOSS) | \$ 1,392 | \$ (4,624) | \$ 3,888 | \$ (5,452) |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE | | | | |
| Income (loss) from continuing operations | \$ 0.05 | \$ (0.19) | \$ 0.14 | \$ (0.19) |
| Loss from discontinued operations | - | - | - | (0.03) |
| Gain on sale of discontinued operations | - | 0.03 | - | 0.03 |
| Net income (loss) per share | \$ 0.05 | \$ (0.16) | \$ 0.14 | \$ (0.19) |
| Dividends Paid Per Share | \$ 0.23 | \$ 0.23 | \$ 0.46 | \$ 0.46 |
| NET INCOME (LOSS) | \$ 1,392 | \$ (4,624) | \$ 3,888 | \$ (5,452) |
| Net actuarial losses | (2,397) | - | (2,397) | - |
| Net actuarial loss reclassification | 3,239 | 6,387 | 6,477 | 10,733 |
| Net prior service credit reclassification | (926) | (480) | (1,401) | (958) |
| COMPREHENSIVE INCOME | \$ 1,308 | \$ 1,283 | \$ 6,567 | \$ 4,323 |

See accompanying notes.

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

| A S S E T S | <i>June 29,</i> <i>2008</i> | <i>December 30,</i> <i>2007</i> |
|--|--|--|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,114 | \$ 697 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$1,606 and \$1,931 | 108,622 | 130,212 |
| Inventories | 40,560 | 45,351 |
| Deferred income taxes | 13,387 | 13,387 |
| Prepaid expense | 11,054 | 9,136 |
| Total current assets | 177,737 | 198,783 |
| PLANT AND EQUIPMENT | | |
| Land | 2,336 | 2,336 |
| Buildings and improvements | 62,305 | 63,640 |
| Machinery and equipment | 195,356 | 198,664 |
| Office equipment | 156,650 | 158,984 |
| Construction in progress | 7,724 | 6,013 |
| Total | 424,371 | 429,637 |
| Less accumulated depreciation | 319,888 | 318,662 |
| Total plant and equipment, net | 104,483 | 110,975 |
| OTHER ASSETS | | |
| Goodwill | 6,557 | 6,557 |
| Intangible assets, net | 1,249 | 1,304 |
| Software development costs, net | 2,968 | 3,317 |
| Deferred tax asset | 76,171 | 80,852 |
| Other | 15,505 | 17,758 |

| | | |
|--------------------|------------|------------|
| Total other assets | 102,450 | 109,788 |
| Total assets | \$ 384,670 | \$ 419,546 |

See accompanying notes.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | <i>June 29,</i> <i>2008</i> | <i>December 30,</i> <i>2007</i> |
|---|--------------------------------|------------------------------------|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 159 | \$ 21 |
| Accounts payable | 26,920 | 32,147 |
| Accrued compensation | 21,198 | 23,312 |
| Deferred revenue | 2,801 | 2,404 |
| Other current liabilities | 24,375 | 29,479 |
| Total current liabilities | 75,453 | 87,363 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 35,319 | 51,988 |
| Pension benefit obligation | 127,996 | 133,647 |
| Retiree health care obligation | 19,275 | 19,496 |
| Deferred compensation | 10,703 | 12,010 |
| Other long-term liabilities | 5,200 | 5,083 |
| Total long-term liabilities | 198,493 | 222,224 |
| COMMITMENTS AND CONTINGENCIES - see | | |
| Note 11 | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$1.00 par value: | | |
| Authorized 101,000,000 shares | | |
| Issued 26,017,302 and 25,979,167 shares | 26,017 | 25,979 |
| 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 | 61,202 | 60,318 |
| Accumulated other comprehensive losses | (110,125) | (112,804) |

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| | | |
|--|------------|------------|
| Retained earnings | 179,000 | 181,776 |
| Treasury stock at cost: | | |
| 1,982,874 and 1,976,990 shares | (50,095) | (50,035) |
| Total shareholders' equity | 110,724 | 109,959 |
| | | |
| Total liabilities and shareholders' equity | \$ 384,670 | \$ 419,546 |

See accompanying notes.

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

| | <i>26 Weeks Ended</i> <i>June 29,</i> <i>2008</i> | <i>26 Weeks Ended</i> <i>July 1,</i> <i>2007</i> |
|--|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 3,888 | \$ (5,452) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,402 | 13,445 |
| Restructuring charges | - | 4,158 |
| Asset impairments | 164 | (751) |
| Gain on sale of discontinued operations | - | (1,322) |
| Pension and postretirement benefit expense | 11,713 | 20,910 |
| Share-based compensation | 732 | 1,343 |
| Deferred tax expense (benefit) | 2,921 | (3,944) |
| Other | 757 | 441 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | 21,590 | 15,124 |
| Inventories | 4,791 | 1,970 |
| Restructuring spending | (395) | (3,204) |
| Accounts payable and accrued expenses | (5,336) | (11,974) |
| Pension and postretirement benefit obligations | (13,047) | (18,734) |
| Deferred compensation payments | (826) | (6,169) |
| Other assets and liabilities | (41) | 6,247 |
| Net cash provided by operating activities | 40,313 | 12,088 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to plant and equipment | (6,657) | (14,468) |
| Proceeds from sale of discontinued operations | - | 2,500 |
| Proceeds from sale of plant and equipment | 22 | 141 |

| | | |
|---|-----------------|--------------|
| Net cash used in investing activities | (6,635) | (11,827) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in borrowings under revolving credit facility | (16,988) | 13,000 |
| Principal payments on long-term debt | (21) | (311) |
| Proceeds from issuance of common stock | 186 | 220 |
| Dividends paid | (13,378) | (13,349) |
| Purchase of treasury stock | (60) | (349) |
| Net cash used in financing activities | (30,261) | (789) |
| Effect of exchange rate changes on cash | - | 40 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,417 | (488) |
| Cash and cash equivalents at beginning of period | 697 | 488 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 4,114 | \$ - |

See accompanying notes.

THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly-owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 30, 2007 (Annual Report).

In our opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of trends or of results to be expected for a full year.

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

NOTE 2 RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective December 31, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which provides a common definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. SFAS 157 does not require any new fair value measurements, but is applicable under most current accounting pronouncements that require or permit fair value measurements.

The new standard provides guidance on the methods used to measure fair value, including the market, income, and cost approach. These approaches require us to use certain assumptions in our models that market participants would use in pricing assets and liabilities. The models may use readily observable, market corroborated, or generally unobservable inputs.

The new standard also requires expanded disclosures related to fair value measurements. Assets and liabilities that are measured at fair value on a recurring basis (at least annually) subsequent to initial recognition will be classified and disclosed in one of the following three categories:

-

Level 1 Quoted market prices in active markets for identical assets or liabilities

-

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data

•

Level 3 Unobservable inputs that are not corroborated by market data.

We do not have any financial instruments carried at fair value that required a cumulative effect adjustment to beginning retained earnings, and there was no material effect on our consolidated results of operations, financial position, or cash flows as a result of the adoption of SFAS 157. We currently do not have any financial assets or liabilities measured at fair value that would require the expanded disclosures under SFAS 157.

We are not required to apply the new standard to nonfinancial assets and liabilities not currently recognized or disclosed at fair value on a recurring basis until 2009. The major categories of nonfinancial assets and liabilities that apply to us include goodwill, trademark intangible asset, and property and equipment reported at fair value as a result of impairment testing.

Effective December 31, 2007, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits us to voluntarily choose, at specified election dates, to measure specified financial assets and liabilities and other items at fair value that are not currently required to be measured at fair value.

Subsequent changes in fair value would then be required to be reported in earnings each reporting period. At the date of adoption, we did not elect the fair value option for eligible items that existed at December 31, 2007; therefore, the adoption of this standard did not have any effect on our consolidated results of operations, financial position, or cash flows. Any future effect will be dependent upon the nature and amount of eligible items that the Company elects to account for using the fair value option.

Effective December 31, 2007, the Company adopted EITF No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based awards as an increase to additional paid-in capital instead of a credit to income tax expense. The amount recognized in additional paid-in capital is available to absorb potential future tax deficiencies on

share-based payment awards. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

NOTE 3 RESTRUCTURING CHARGES

The 2007 restructuring plan and costs are described in Note 3 to the Consolidated Financial Statements included in our Annual Report. Restructuring costs in the first half of 2008 were primarily for additional employee outplacement assistance that is required to be expensed as incurred. All costs related to restructuring actions are included in restructuring charges in the accompanying Consolidated Statements of Income.

A summary of the 2007 restructuring accrual activity is as follows:

| | <i>Balance</i> <i>2007</i> | <i>Incurred</i> <i>in 2008</i> | <i>Balance</i> <i>2008</i> |
|--------------------------------------|-------------------------------|-----------------------------------|-------------------------------|
| Severance and employer related costs | \$ 404 | \$ (395) | \$ 9 |
| Total | \$ 404 | \$ (395) | \$ 9 |

Subsequent Event

We have elected to integrate several of our production and distribution centers within our Print On Demand (POD) Services segment in order to improve efficiency and reduce cost. This move is in response to a changing product mix away from traditional short-run offset to increased print-on-demand. It allows us to reduce operating expenses by leveraging more cross-functional roles in production and distribution. We will close two production facilities and integrate three other production facilities with warehouses. We expect to have one-time employee related termination costs of approximately \$600; contract termination costs of \$2,400; and other associated exit costs of \$400. This will result in annualized cost savings of approximately \$3,000 in compensation and facility rent. These actions are expected to be completed by the end of 2008.

We also are implementing a plan to redesign our sales support infrastructure to more of a centralized model. Over the next twelve months, we will transition customer transactional and administrative functions from our field sales offices to one of three client support centers, one of which is new. This action will generate approximately \$5,600 annually in compensation and related cost savings. We expect to record approximately \$1,500 of restructuring costs over this period, primarily for one-time employee related termination costs.

NOTE 4 INVENTORIES

Inventories consist of the following:

| | <i>June 29,</i> <i>2008</i> | <i>December 30,</i> <i>2007</i> |
|-------------------|--------------------------------|------------------------------------|
| Finished Products | \$ 34,416 | \$ 38,197 |

| | | |
|------------------------|------------------|-----------|
| Jobs In Process | 2,768 | 3,181 |
| Materials and Supplies | 3,376 | 3,973 |
| Total | \$ 40,560 | \$ 45,351 |

NOTE 5 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | <i>June 29, 2008</i> | <i>December 30, 2007</i> |
|---|--------------------------|------------------------------|
| Non-income taxes | \$ 5,746 | \$ 5,158 |
| Customer deposits and rebates | 6,031 | 2,969 |
| Dividends payable | - | 6,714 |
| Current portion of pension and postretirement obligations | 3,636 | 3,636 |
| Other current liabilities | 8,962 | 11,002 |
| Total | \$ 24,375 | \$ 29,479 |

NOTE 6 EARNINGS PER SHARE

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

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | <i>June 29,</i> <i>2008</i> | <i>July 1,</i> <i>2007</i> | <i>June 29,</i> <i>2008</i> | <i>July 1,</i> <i>2007</i> |
| (Shares in thousands) | | | | |
| Weighted average shares outstanding - basic | 28,754 | 28,677 | 28,745 | 28,656 |
| Effect of potentially dilutive securities | 19 | - | 14 | - |
| Weighted average shares outstanding - diluted | 28,773 | 28,677 | 28,759 | 28,656 |

The effects of stock options and nonvested shares on diluted EPS are reflected through the application of the treasury stock method. No outstanding options were included in the computation of diluted EPS for the 13 and 26-week periods ended June 29, 2008 because the exercise price of the options were greater than the average market price at the end of the period; therefore, the effect would be anti-dilutive. Due to the loss from continuing operations for the 13 and 26-week periods ending July 1, 2007, no outstanding options or nonvested shares were included in the diluted EPS computation because they would automatically result in anti-dilution.

NOTE 7 SHARE BASED COMPENSATION

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

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | <i>June 29,</i> <i>2008</i> | <i>July 1,</i> <i>2007</i> | <i>June 29,</i> <i>2008</i> | <i>July 1,</i> <i>2007</i> |
| Nonvested stock awards, service based | \$ 97 | \$ 347 | \$ 146 | \$ 692 |
| Nonvested stock awards, performance based | 204 | 329 | 272 | 659 |
| Stock options | 210 | 142 | 314 | 239 |
| Total share-based compensation expense | 511 | 818 | 732 | 1,590 |
| Tax effect on share-based compensation expense | 203 | 325 | 290 | 631 |
| Net effect included in continuing operations | \$ 308 | \$ 347 | \$ 442 | \$ 748 |
| Net effect included in discontinued operations | \$ - | \$ 146 | \$ - | \$ 211 |

Stock Options

During the second quarter of 2008, we granted 195,700 stock option awards. The fair value of stock options granted was estimated at \$1.57 per share, using the Black-Scholes option-pricing model, and is being amortized to expense on a straight-line basis over a vesting period of 4 years. The assumptions used to calculate fair value include a weighted-average risk-free interest rate of 2.8%; dividend yield of 9.67%; expected life of 4 years; and expected volatility of 42 %.

Stock Awards

During 2008, we awarded 36,650 shares of nonvested stock with a fair value of \$9.48 per share and 35,210 shares of nonvested stock with a fair value of \$9.51 per share that vest based on service requirements. The fair value of the service-based stock awards granted was based on the closing market price of our common stock on the date of award and is being amortized to expense on a straight-line basis over a vesting period of 4 years.

During the first quarter of 2008, the Company awarded 312,600 shares of nonvested performance-based stock which vest subject to attainment of a pre-determined Company performance goal by fiscal year-end 2009. These shares are entitled to receive dividends during the performance period and have voting rights.

The performance goal is a cumulative goal which allows partial vesting if a minimum level of performance is attained over the two-year period. If the minimum level of performance is not attained by the end of 2009, these stock awards will be forfeited and canceled, and all expense recognized to that date will be reversed. The amount of shares that ultimately vest could range from 50% to 150% of the initial shares granted. Additional shares will be granted and automatically vested upon performance above the target level.

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

NOTE 8 PENSION PLANS

Net periodic benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
| | <i>June 29, 2008</i> | <i>July 1, 2007</i> | <i>June 29, 2008</i> | <i>July 1, 2007</i> |
| Service cost of benefits earned | \$ 1,667 | \$ 1,875 | \$ 3,334 | \$ 4,090 |
| Interest cost on projected benefit obligation | 7,006 | 7,088 | 14,012 | 14,298 |
| Expected return on plan assets | (7,321) | (7,117) | (14,642) | (14,233) |
| Amortization of prior service costs | 95 | 90 | 190 | 180 |
| Amortization of net actuarial loss from prior periods | 5,209 | 7,113 | 10,419 | 14,139 |
| Curtailment gain | (746) | - | (746) | - |
| Settlement loss | - | 3,222 | - | 3,222 |
| Total | \$ 5,910 | \$ 12,271 | \$ 12,567 | \$ 21,696 |

On April 21, 2008, the Company announced it was modifying its qualified and nonqualified defined benefit pension plans for participants still accruing benefits under the plans. Effective June 30, 2008, these participants ceased accruing pension benefits and final pension benefit amounts will be based on pay and service through June 29, 2008. Company match in the 401(k) savings plan was increased for the affected employees from the current 10%, to 75% on the first six percent of eligible compensation deferred, effective June 30, 2008.

As a result, we remeasured our pension obligations under these plans as of June 29, 2008. The plan modification resulted in a reduction of our pension obligations of \$23,213 which was recorded as a reduction in the pension liability, a \$9,218 reduction in noncurrent deferred tax assets, and a net increase to other comprehensive income of \$13,995. This action also resulted in a one-time curtailment gain of \$746 recorded in the second quarter of 2008.

Additionally, as part of the remeasurement, plan asset valuations and actuarial assumptions were also updated, and we recognized a net actuarial loss of \$27,189 primarily due to the actual rate of investment return on the qualified plan being less than the expected rate of return. The actuarial loss increased our pension liability by \$27,189, increased noncurrent deferred taxes by \$10,797, with a net decrease in other accumulated comprehensive income of \$16,392.

As a result of associates retiring and electing a lump-sum payment of their pension benefit from the nonqualified defined benefit pension plan, we recognized a settlement in 2007. A pension settlement is recorded when the total lump sum payments for a year exceed total service and interest costs recognized for that year. As part of the settlement, we recognized a pro-rata portion of the unrecognized actuarial net losses equal to the percentage reduction

in the pension benefit obligation. This non-cash charge of \$3,222 is included in net periodic benefit cost.

NOTE 9 POSTRETIREMENT BENEFIT PLANS

Net postretirement benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
| | <i>June 29, 2008</i> | <i>July 1, 2007</i> | <i>June 29, 2008</i> | <i>July 1, 2007</i> |
| Interest cost | 295 | 307 | 590 | 614 |
| Amortization of prior service cost | (884) | (884) | (1,768) | (1,768) |
| Amortization of net actuarial loss from prior periods | 162 | 184 | 324 | 368 |
| Total | \$ (427) | \$ (393) | \$ (854) | \$ (786) |

The funding policy is to pay claims as they occur. As of June 29, 2008, we paid \$811 to cover to cover claims under our postretirement medical plan and currently expect to pay an additional \$800 to cover benefit claims during the remainder of 2008.

NOTE 10 SEGMENT REPORTING

Information about the Company's operations by segment for the 13-week periods ended June 29, 2008 and July 1, 2007 is as follows:

| | | <i>Document</i> | <i>Label</i> | <i>POD</i> | <i>Document</i> | | |
|---------------------------------|-------------|-------------------|------------------|-----------------|-----------------|--------------------|--------------|
| | | <i>Management</i> | <i>Solutions</i> | <i>Services</i> | <i>Systems</i> | <i>PathForward</i> | <i>Total</i> |
| Revenue from external customers | 2008 | \$ 108,475 | \$ 26,825 | \$ 56,266 | \$ 5,979 | \$ 1,282 | \$ 198,827 |
| | 2007 | 117,697 | 27,727 | 58,613 | 5,592 | 1,536 | 211,165 |
| Operating income (loss) | 2008 | \$ 3,823 | \$ 240 | \$ 2,590 | \$ 886 | \$ (623) | \$ 6,916 |
| | 2007 | 354 | 591 | 1,829 | 903 | (62) | 3,615 |

Information about the Company's operations by segment for the 26-week periods ended June 29, 2008 and July 1, 2007 is as follows:

| | | <i>Document</i> | <i>Label</i> | <i>POD</i> | <i>Document</i> | | |
|---------------------------------|-------------|-------------------|------------------|-----------------|-----------------|--------------------|--------------|
| | | <i>Management</i> | <i>Solutions</i> | <i>Services</i> | <i>Systems</i> | <i>PathForward</i> | <i>Total</i> |
| Revenue from external customers | 2008 | \$ 222,399 | \$ 52,391 | \$ 117,596 | \$ 11,036 | \$ 2,590 | \$ 406,012 |
| | 2007 | 239,350 | 60,325 | 124,222 | 11,741 | 2,958 | 438,596 |
| Operating income (loss) | 2008 | \$ 8,790 | \$ 616 | \$ 7,524 | \$ 1,364 | \$ (1,422) | \$ 16,872 |
| | 2007 | 355 | 1,501 | 9,894 | 2,022 | (557) | 13,215 |

Reconciling information between reportable segments and the Company's consolidated financial statements is as follows:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|-----------------------|----------------|-----------------------|----------------|
| | <i>June 29,</i> | <i>July 1,</i> | <i>June 29,</i> | <i>July 1,</i> |
| | <i>2008</i> | <i>2007</i> | <i>2008</i> | <i>2007</i> |
| Segment operating income | \$ 6,916 | \$ 3,615 | \$ 16,872 | \$ 13,215 |
| Restructuring and asset impairment | 4 | (1,410) | (169) | (3,407) |
| Amortization of prior period pension losses | (5,209) | (7,113) | (10,419) | (14,139) |
| Pension curtailment and settlement | 746 | (3,222) | 746 | (3,222) |
| Other unallocated pension | 315 | (28) | 630 | 66 |
| Other unallocated | 237 | 3 | 137 | (258) |
| LIFO adjustment | (102) | (241) | 161 | (286) |

| | | | | |
|--|----------|------------|----------|------------|
| Total other expense, primarily interest | (476) | (787) | (1,155) | (1,516) |
| Income (loss) from continuing operations before income taxes | \$ 2,431 | \$ (9,183) | \$ 6,803 | \$ (9,547) |

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Company has participated with other Potentially Responsible Parties (PRPs) in the investigation, study, and remediation of the Pasco Sanitary Landfill Superfund Site (the Pasco Site) in eastern Washington State since 1998. The Company is a member of a PRP Group known as the Industrial Waste Area Generators Group II (the IWAG Group). In 2000, the IWAG Group and several other PRP groups entered into agreed orders with the Department of Ecology for implementation of interim remedial actions and expansion of groundwater monitoring. The Department has recently required the PRP groups to implement additional interim actions and delay implementation of a final remedy. This regulatory development has caused an increase in the projected expenses associated with the Pasco Site through the interim and final remedy stages. We have a discounted reserve of \$1,055 that we currently believe is adequate to cover the Company's portion of the total future potential costs of remediation. In addition, we have undiscounted reserves totaling \$509 for environmental remediation at one previously owned facility and one currently owned facility.

Item 2 -

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

FORWARD-LOOKING INFORMATION

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. All statements regarding our expected future financial condition, revenues or revenue growth, Adjusted Operating Income improvement, projected costs or cost savings, cash flows and future cash obligations, dividends, capital expenditures, business strategy, competitive positions, growth opportunities for existing products or products under development, and objectives of management are forward-looking statements that involve certain risks and uncertainties. In addition, forward-looking statements include statements in which we use words such as anticipates, projects, expects, plans, intends, believes, estimates, targets, and other similar words that indicate trends and future events. These forward-looking statements are based on current expectations and estimates; we cannot assure you that such expectations will prove to be correct. The Company undertakes no obligation to update forward-looking statements as a result of new information, since these statements may no longer be accurate or timely.

Because such statements deal with future events, actual results for fiscal year 2008 and beyond could differ materially from our current expectations depending on a variety of factors including, but not limited to, the risk factors discussed in Item 1A to Part I of the Company's Annual Report on Form 10-K for the year ended December 30, 2007 (Annual Report). You should read this Management Discussion and Analysis in conjunction with those risk factors and the financial statements and related notes included in this Quarterly Report on Form 10-Q (Quarterly Report) and included in our Annual Report.

CRITICAL ACCOUNTING POLICIES

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

We believe that some of the more critical estimates and related assumptions are in the areas of pension and postretirement healthcare benefits, fair value measurements, deferred taxes, inventories, contingent liabilities, and share-based compensation. For a detailed discussion of these critical accounting estimates, see the Management Discussion and Analysis included in our Annual Report. Management believes there were no significant changes in these critical accounting policies and estimates in the first half of 2008, except as discussed below.

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

Fair Value Measurements

Effective December 31, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which provides a common definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. SFAS 157 does not require any new fair value measurements, but is applicable under most current accounting pronouncements that require or permit fair value measurements.

The new standard provides guidance on the methods used to measure fair value, including the market, income, and cost approach. These approaches require us to use certain assumptions in our models that market participants would use in pricing assets and liabilities. The models may use readily observable, market corroborated, or generally unobservable inputs.

The new standard also requires expanded disclosures related to fair value measurements. Assets and liabilities that are measured at fair value on a recurring basis (at least annually) subsequent to initial recognition will be classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities

- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data

- Level 3 Unobservable inputs that are not corroborated by market data.

We do not have any financial instruments carried at fair value that required a cumulative effect adjustment to beginning retained earnings and there was no material effect on our consolidated results of operations, financial position, or cash flows as a result of the adoption of SFAS 157. We currently do not have any financial assets or liabilities measured at fair value that would require the expanded disclosures under SFAS 157.

We are not required to apply the new standard to nonfinancial assets and liabilities not currently recognized or disclosed at fair value on a recurring basis until 2009. The major categories of nonfinancial assets and liabilities that apply to us include goodwill, trademark intangible asset, and property and equipment reported at fair value as a result of impairment testing.

Share-Based Compensation

During the first quarter of 2008, the Company awarded 312,600 shares of nonvested performance-based stock which vest subject to attainment of a pre-determined performance goal by the Company by fiscal year-end 2009. The performance goal is a cumulative goal which allows partial vesting if a minimum level of performance is attained over the two-year period. If the minimum level of performance is not attained by the end of 2009, these stock awards will be forfeited and canceled, and all expense recognized to that date will be reversed. The amount of shares that ultimately vest could range from 50% to 150% of the initial shares granted. Additional shares would be granted and automatically vested upon performance above the target level.

The amount of compensation expense recognized is dependent on the total amount of performance-based shares we expect to vest. This requires us to evaluate the probability of achieving the performance goal and assess the level of goal achievement each quarter. The amount of compensation expense recorded is subject to adjustment based on changes in our expectations and the actual level of achievement of the performance goal.

FIRST HALF HIGHLIGHTS

- Net income was \$3.9 million, or \$.14 per share, up substantially from a loss of \$5.5 million, or \$0.19 per share, in the first half of 2007.

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Operating cash flow of \$40.3 million was up significantly over the \$12.1 million generated in the first half of 2007.

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Net debt in the first half declined by \$19.9 million from year-end 2007.

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Paper prices have continued to increase during the first half 2008. We have increased our selling prices and are currently negotiating with customers to recover these paper cost increases. Despite a competitive marketplace, we have generally been able to pass through these paper cost increases, although it often takes several quarters due to the custom nature of our products and our contractual relationships with many of our customers. We expect this trend to continue.

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In April 2008, the Company announced it was modifying its qualified and nonqualified defined benefit pension plans for employees still accruing benefits under the plans. Effective June 30, 2008, these participants ceased accruing pension benefits and the final pension benefit amount will be based on pay and service through June 29, 2008. As a result, we recorded a curtailment gain of \$0.7 million in the second quarter of 2008. Additionally, we reduced our pension liabilities by \$23.2 million to reflect the reduction in plan obligations as a result of the plan modification. However, as part of the remeasurement, asset valuations and actuarial assumptions were also updated which resulted in an increase in our pension liabilities of \$27.2 million, primarily reflecting the decline in the fair value of assets in the first half of 2008. After accounting for contributions and benefit payments, the net pension liability decreased from \$135.1 million at the beginning of the year to \$129.6 million at the end of June.

The company match in the 401(k) saving plan was increased for the affected employees from the current 10% to 75% on the first six percent of eligible compensation deferred, effective June 30, 2008.

We expect to realize annualized savings of approximately \$6 million as a result of these changes. Second half 2008 savings should be approximately half of that annual rate.

RESULTS OF OPERATIONS

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

Consolidated Summary

We evaluate the Company's financial results and those of our segments on the basis of income from continuing operations excluding restructuring charges, asset impairments, pension loss amortization, and pension settlements, referred to as Adjusted Operating Income. We believe that this non-GAAP financial measure enhances the understanding of our results of operations due to the non-operational nature of the excluded items and the significant and varying effect they have on our reported results from period to period. This presentation is consistent with the manner in which our Board of Directors establishes incentives and internally evaluates performance. This 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.

Consolidated results

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During the first half of 2008, the Company's revenue has been under pressure from several aspects. Adoption of digital technologies has continued to decrease revenues from traditional print. In addition to this ongoing trend, the decline in the overall economy has led to weaker pricing in an already over-supplied and competitive industry as customers increasingly are forced to seek further cost savings in their own operations. Economic conditions have also resulted in lower demand for certain growth-targeted products as a result of customers reducing their production levels in response to the downturn in the economy.

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Adjusted Operating Income in the first half of 2008 was \$18.5 million, up 45.7% from the prior year, despite the decrease in consolidated revenues of \$32.6 million. A significant reduction in costs from the cost reduction plans implemented in mid 2007 was largely responsible for the earnings growth.

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In 2007, we implemented plans to reduce our annual operating costs by \$40 million in order to improve profitability, maintain competitiveness, and fund future initiatives essential to the Company's strategy. Restructuring expense during 2007 for these actions totaled \$8.0 million. Second half 2007 costs and expenses were \$17.5 million lower than the first half 2007. The restructuring actions continued to produce benefits in the first half 2008, contributing to the significant reduction in SG&A expense and increasing gross margin percentages in the face of declining revenue. We estimate that costs and expenses were approximately \$19.8 million lower in the first half of 2008 compared with the first half of 2007 as a result of the cost reduction program.

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We have elected to integrate several of our production and distribution centers within our Print On Demand (POD) Services segment in order to improve efficiency and reduce cost. This move is in response to a changing product mix away from traditional short-run offset to increased print-on-demand. It allows us to reduce operating expenses by leveraging more cross-functional roles in production and distribution. We will close two production facilities and integrate three other production facilities with warehouses. We expect to have one-time employee related termination costs of approximately \$0.6 million; contract termination costs of \$2.4 million; and other associated exit costs of \$0.4 million. This will result in annualized cost savings of approximately \$3.0 million in compensation and facility rent. These actions are expected to be completed by the end of 2008.

-

We also are implementing a plan to redesign our sales support infrastructure to more of a centralized model. Over the next twelve months, we will transition customer transactional and administrative functions from our field sales offices to one of three client support centers, one of which is new. This action will generate approximately \$5.6 million annually in compensation and related cost savings. We expect to record approximately \$1.5 million of restructuring costs over this period, primarily for one-time employee related termination costs.

The following table presents Revenue, Gross Margin, and Operating Income (Loss) for each of our reportable segments. The table also reconciles our presentation of Adjusted Operating Income to Income (Loss) from Continuing Operations on a GAAP basis.

| | <i>13 Weeks Ended</i> | | | <i>26 Weeks Ended</i> | | | | |
|--|--------------------------|-------------------------|--------------|--------------------------|-------------------------|--------------|----------|--------|
| | <i>June 29, 2008</i> | <i>July 1, 2007</i> | <i>% Chg</i> | <i>June 29, 2008</i> | <i>July 1, 2007</i> | <i>% Chg</i> | | |
| Revenue | | | | | | | | |
| Document Management | \$ 108.5 | \$ 117.7 | -7.8% | \$ 222.4 | \$ 239.4 | -7.1% | | |
| Label Solutions | 26.8 | 27.7 | -3.2% | 52.4 | 60.3 | -13.1% | | |
| POD Services | 56.2 | 58.6 | -4.1% | 117.5 | 124.2 | -5.4% | | |
| Document Systems | 6.0 | 5.6 | 7.1% | 11.1 | 11.7 | -5.1% | | |
| PathForward | 1.3 | 1.6 | -18.8% | 2.6 | 3.0 | -13.3% | | |
| Consolidated Revenue | \$ 198.8 | \$ 211.2 | -5.9% | \$ 406.0 | \$ 438.6 | -7.4% | | |
| | | | | | | | | |
| | | % Rev | | % Rev | % Rev | % Rev | | |
| Gross Margin | | | | | | | | |
| Document Management | \$ 34.5 | 31.8% | \$ 34.0 | 28.9% | \$ 69.5 | 31.3% | \$ 69.6 | 29.1% |
| Label Solutions | 8.9 | 33.2% | 9.4 | 33.9% | 17.4 | 33.2% | 19.2 | 31.8% |
| POD Services | 21.5 | 38.3% | 21.0 | 35.8% | 44.6 | 38.0% | 48.9 | 39.4% |
| Document Systems | 2.8 | 46.7% | 2.7 | 48.2% | 5.0 | 45.0% | 5.5 | 47.0% |
| PathForward | 0.1 | 7.7% | 0.3 | 18.8% | - | 0.0% | 0.2 | 6.7% |
| Total Segments | 67.8 | 34.1% | 67.4 | 31.9% | 136.5 | 33.6% | 143.4 | 32.7% |
| LIFO Adjustment | (0.1) | | (0.2) | | 0.2 | | (0.2) | |
| Consolidated Gross Margin | \$ 67.7 | 34.1% | \$ 67.2 | 31.8% | \$ 136.7 | 33.7% | \$ 143.2 | 32.6% |
| | | | | | | | | |
| Depreciation & Amortization | 6.6 | 3.3% | 6.6 | 3.1% | 13.4 | 3.3% | 13.3 | 3.0% |
| SG&A Expense (1) | 53.0 | 26.7% | 57.3 | 27.1% | 104.8 | 25.8% | 117.2 | 26.7% |
| | | | | | | | | |
| Operating Income (Loss) | | | | | | | | |
| Document Management | \$ 3.8 | 3.5% | \$ 0.3 | 0.3% | \$ 8.7 | 3.9% | \$ 0.4 | 0.2% |
| Label Solutions | 0.2 | 0.7% | 0.6 | 2.2% | 0.6 | 1.1% | 1.5 | 2.5% |
| POD Services | 2.6 | 4.6% | 1.8 | 3.1% | 7.5 | 6.4% | 9.9 | 8.0% |
| Document Systems | 0.9 | 15.0% | 0.9 | 16.1% | 1.4 | 12.6% | 2.0 | 17.1% |
| PathForward | (0.6) | -46.2% | - | 0.0% | (1.4) | -53.8% | (0.6) | -20.0% |
| Total Segments | \$ 6.9 | 3.5% | \$ 3.6 | 1.7% | \$ 16.8 | 4.1% | \$ 13.2 | 3.0% |
| LIFO and Other Unallocated | 1.2 | | (0.3) | | 1.7 | | (0.5) | |

| | | | | | | | | |
|--------------------------------------|---------------|------|-----------------|------|---------------|------|-----------------|------|
| Adjusted Operating Income | 8.1 | 4.1% | 3.3 | 1.6% | 18.5 | 4.6% | 12.7 | 2.9% |
| Restructuring | - | | (1.7) | | - | | (4.1) | |
| Asset Impairments | - | | 0.3 | | (0.1) | | 0.7 | |
| Pension Loss Amortization | (5.2) | | (7.1) | | (10.4) | | (14.1) | |
| Pension Settlement | - | | (3.2) | | - | | (3.2) | |
| Operating Income | 2.9 | | (8.4) | | 8.0 | | (8.0) | |
| Interest and Other Expense | (0.5) | | (0.8) | | (1.2) | | (1.5) | |
| Income (Loss) Before Taxes | 2.4 | | (9.2) | | 6.8 | | (9.5) | |
| Income Tax (Expense) Benefit | (1.0) | | 3.8 | | (2.9) | | 4.0 | |
| % Rate | 41.7% | | 41.3% | | 42.6% | | 42.1% | |
| Income (Loss) from Continuing | | | | | | | | |
| Operations | \$ 1.4 | | \$ (5.4) | | \$ 3.9 | | \$ (5.5) | |

(1) SG&A expense above excludes pension loss amortization and pension settlements.

Document Management

Document Management revenue in the first half of 2008 was \$222.4 million, down \$17.0 million or 7.1% compared with the same period of 2007. Unit sales were down approximately 11.0% while overall pricing was about 3.9% higher, the latter primarily reflecting the recovery of higher paper costs. The rate of decline in unit sales was higher than expected and partially reflects increased pressure on customers to cut costs in response to the continued overall downturn in the economy during this period. Customer cost-cutting initiatives have led to decreased demand as well as significant price competition within the market in this segment.

Despite the \$17.0 million decrease in revenue, gross margin for the first half of 2008 was approximately equal to the first half of 2007. As a percentage of revenue, gross margin improved to 31.3% compared with 29.1%. This improvement reflects the prior year cost reduction carried forward to this year, plus ongoing cost reduction efforts.

Operating income increased \$8.3 million compared with the first half of 2007, primarily from a decrease in our overall SG&A expense, which resulted in a lower expense allocation to this segment.

Label Solutions

Label Solutions revenue decreased \$7.9 million and gross margin decreased \$1.8 million in the first half of 2008 compared with the same period in 2007, primarily from the loss of a single account during 2007. As a percentage of revenue, gross margin improved to 33.2% compared with 31.8%. Many manufacturing customers have scaled back their production as a result of the weak economy, which has impacted our Label Solutions segment.

Operating income decreased by \$0.9 million, as the lower gross margin was mitigated by a lower SG&A expense allocation to this segment.

POD Services

POD Services revenue was down \$6.7 million, or 5.4%, primarily due to a decline in unit sales. Short-run offset products continued to decline during the first half of 2008 and accounted for \$3.1 million of the decrease. One existing digital print customer accounted for another \$2.7 million of the decrease due to a change in their rate of usage. Expected growth for this segment was not realized during the period as a result of higher than anticipated declines in off-set products and economic conditions which have reduced units and prices.

The gross margin decreased by \$4.3 million in 2008 compared to the first half of 2007. As a percentage of revenue, the gross margin was 38.0% versus 39.4% in 2007. The decline was primarily a result of the decreased unit sales.

Operating income was down \$2.4 million from the prior year. The \$4.3 million reduction in gross margin was partially offset by a decrease in the SG&A expense allocation.

Document Systems

Document Systems reported revenue of \$11.1 million, down \$0.6 million compared with the first half 2007, which had a relatively strong first quarter. Lower software sales and the accompanying professional services contributed to the decrease in revenue and gross margin.

PathForward

The 2008 first half revenue and gross margin for our PathForward segment were down compared with the same period in 2007. The revenue decline was primarily the result of decreased unit sales. Lower revenue combined with increased fixed costs associated with the development and purchase of newer software products resulted in the decline in gross margin.

Operating income decreased \$0.8 million as a result of the reduced gross margin, increased depreciation and SG&A expense allocated to the segment, and higher variable costs associated with the introduction of newer software products.

Selling, General, and Administrative (SG&A) Expenses

As shown in the table below, excluding pension amortization and settlements, SG&A expense decreased by \$12.4 million in the first half 2008 as compared with 2007. The decrease is primarily a result of the restructuring actions completed in 2007. With the exception of a \$1.5 million increase in healthcare costs in the second quarter of 2008, we have maintained the lower cost profile established during 2007.

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
| | <i>June 29, 2008</i> | <i>July 1, 2007</i> | <i>June 29, 2008</i> | <i>July 1, 2007</i> |
| Total selling, general and administrative expense | \$ 58.2 | \$ 67.6 | \$ 115.2 | \$ 134.5 |
| Amortization of pension net actuarial losses | (5.2) | (7.1) | (10.4) | (14.1) |
| Pension settlement | - | (3.2) | - | (3.2) |
| Selling, general and administrative expense, excluding the above | \$ 53.0 | \$ 57.3 | \$ 104.8 | \$ 117.2 |

SECOND HALF OUTLOOK

Our most recent guidance indicated that 2008 revenue would not be significantly different from 2007. Based on the condition of the economy and our experience in the second quarter, we now expect second half 2008 revenue to be slightly above the first half \$406 million figure, bringing the total year in under 2007.

Our prior guidance called for modest double-digit Adjusted Operating Income for 2008. The lower revenue forecast reduces our earnings estimate somewhat, but we expect Adjusted Operating Income to come in above the comparable 2007 amount, given our reduced cost profile and on-going efforts to control expense.

LIQUIDITY AND CAPITAL RESOURCES

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

This discussion also presents financial measures that are considered non-GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows where amounts are either excluded or included not in accordance with generally accepted accounting principles. The presentation of non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States. In particular, we will segregate and highlight cash flows related to restructuring and contributions to our qualified pension plan, both of which are carefully monitored by management and have a significant and variable impact on cash flow. In addition, because our outstanding debt is borrowed under a revolving credit agreement which currently permits us to borrow and repay at will up to a balance of \$100 million, we take the measure of cash flow performance prior to debt borrowing or repayment; in effect, we evaluate cash flow as the change in net debt (total debt less cash and cash equivalents).

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

| CASH INFLOW (OUTFLOW) | <i>26 Weeks Ended</i> | |
|---|--------------------------------|-------------------------------|
| | <i>June 29,</i> 2008 | <i>July 1,</i> 2007 |
| Net income plus non-cash items | \$ 33.6 | \$ 28.8 |
| Working capital | 21.0 | 5.1 |
| Restructuring payments | (0.4) | (3.2) |
| Contributions to qualified pension plan | (11.0) | (11.0) |
| Other (1) | (2.9) | (7.6) |
| Net cash provided by operating activities | 40.3 | 12.1 |
| Capital expenditures | (6.6) | (14.4) |
| Proceeds from sale of discontinued operations | - | 2.5 |
| Proceeds from sale of plant and equipment | - | 0.1 |
| Net cash used in investing activities | (6.6) | (11.8) |
| Net change in long-term debt | (17.0) | 12.7 |
| Dividends paid | (13.4) | (13.3) |
| Other | 0.1 | (0.2) |
| Net cash used in financing activities | (30.3) | (0.8) |
| Net cash flow | \$ 3.4 | \$ (0.5) |
| Memo: | | |
| Add back debt paid (borrowed) | 17.0 | (12.7) |
| Cash flow before change in debt | \$ 20.4 | \$ (13.2) |

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

Operating Activities

Cash provided by operations was \$28.2 million higher in the first half of 2008 compared with the same period of 2007. This increase was primarily driven by improved operating results and lower working capital.

We contributed \$11 million to our qualified defined benefit pension plan in the first six months of 2008 and 2007.

We currently have a mandatory pension-funding requirement of approximately \$20 million for 2008.

Investing Activities

Capital expenditures totaled \$6.6 million thus far in 2008, which is down approximately \$7.8 million compared to spending in the prior year. Capital spending trended downward as we prioritized our capital projects and focused on

those with higher returns on invested capital. We expect our capital spending for the year will be in the range of \$15 to \$18 million.

Financing Activities

As a result of increases in available cash due to improved working capital management, cost savings, and relatively low capital expenditures, we reduced borrowings under our revolving credit facility by \$17 million in the first half of 2008.

Capital Structure

| | <i>June 29,</i> <i>2008</i> | <i>December 30,</i> <i>2007</i> | <i>Change</i> |
|--------------------------------------|--------------------------------|------------------------------------|---------------|
| Total Debt | \$ 35.5 | \$ 52.0 | \$ (16.5) |
| Less Cash and Short-term Investments | (4.1) | (0.7) | (3.4) |
| Net Debt | 31.4 | 51.3 | (19.9) |
| Equity | 110.7 | 110.0 | 0.7 |
| Total | \$ 142.1 | \$ 161.3 | \$ (19.2) |
| <i>Net Debt:Total Capital</i> | <i>22%</i> | <i>32%</i> | |

Our net debt decreased \$19.9 million in the first half of 2008, reflecting the \$16.5 million decrease in borrowings and a \$3.4 million increase in cash reserves. Net debt represented 22% of total capital at quarter end, compared to 32% at the beginning of the year. The Company believes its balance sheet reflects a strong financial condition.

Contractual Obligations

There have been no material changes in our contractual obligations since year-end 2007 outside the normal course of business.

Our near-term cash requirements are primarily related to funding our operations, capital expenditures, dividend payments, and pensions. We have mandatory pension funding requirements of \$20 million in 2008, of which \$11 million has already been contributed.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective December 31, 2007, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits us to voluntarily choose, at specified election dates, to measure specified financial assets and liabilities and other items at fair value that are not currently required to be measured at fair value.

Subsequent changes in fair value would then be required to be reported in earnings each reporting period. At the date of adoption, we did not elect the fair value option for eligible items that existed at December 31, 2007; therefore, the adoption of this standard did not have any effect on our consolidated results of operations, financial position, or cash flows. Any future effect will be dependent upon the nature and amount of eligible items that the Company elects to account for using the fair value option.

Effective December 31, 2007, the Company adopted EITF No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based awards as an increase to additional paid-in capital instead of a credit to income tax expense. The amount recognized in additional paid-in capital is available to absorb potential future tax deficiencies on share-based payment awards. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to interest rate risk on its borrowing under a revolving credit facility. The Company is also exposed to market risk from changes in the cost of paper, the principal raw material used in the production of business forms. There have been no material changes in the Company's exposure to these items since the Company's disclosure in Item 7A, Part II of our Annual Report.

ITEM 4 - CONTROLS AND PROCEDURES

Controls Evaluation

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting (Disclosure Controls) as of June 29, 2008. The evaluation was carried out under the supervision, and with the participation, of our management including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Definition of Disclosure Controls

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

Limitations on the Effectiveness of Disclosure Controls

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

Scope of Evaluation

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

Conclusion

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

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

Changes in Internal Control

During the second quarter of fiscal 2008, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to material weaknesses in such controls.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Item 1A - RISK FACTORS

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended December 30, 2007 in response to Item 1A to Part I of Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The following issues were submitted to a vote of security holders at the Company's Annual Meeting of Shareholders held April 24, 2008.

ISSUE ONE: DIRECTOR NOMINEE ELECTION RESULTS

The following were elected to the Company's Board of Directors to hold office for the ensuing year:

| <u>NOMINEE</u> | <u>IN FAVOR</u> | <u>AGAINST</u> | <u>WITHHELD</u> |
|----------------------|-----------------|----------------|-----------------|
| David P. Bailis | 46,096,861 | 306,823 | 1,278,504 |
| Roy W. Begley, J | 45,180,852 | 1,222,832 | 1,278,504 |
| F. David Clarke, III | 45,959,494 | 444,190 | 1,278,504 |
| Michael E. Kohlsdorf | 46,098,391 | 305,293 | 1,278,504 |
| R. Eric McCarthy | 46,097,438 | 306,246 | 1,278,504 |
| Dennis L. Rediker | 45,927,548 | 476,136 | 1,278,504 |
| John J. Schiff, Jr. | 45,930,838 | 472,846 | 1,278,504 |
| John Q. Sherman, II | 45,214,779 | 1,188,905 | 1,278,504 |

ITEM 5. OTHER INFORMATION

We have elected to integrate several of our production and distribution centers within our Print On Demand (POD) Services segment in order to improve efficiency and reduce cost. This move is in response to a changing product mix away from traditional short-run offset to increased print-on-demand. It allows us to reduce operating expenses by leveraging more cross-functional roles in production and distribution. We will close two production facilities and integrate three other production facilities with warehouses. We expect to have one-time employee related termination costs of approximately \$0.6 million; contract termination costs of \$2.4 million; and other associated exit costs of \$0.4 million. This will result in annualized cost savings of approximately \$3.0 million in compensation and facility rent. These actions are expected to be completed by the end of 2008.

We also are implementing a plan to redesign our sales support infrastructure to more of a centralized model. Over the next twelve months, we will transition customer transactional and administrative functions from our field sales offices to one of three client support centers, one of which is new. This action will generate approximately \$5.6 million annually in compensation and related cost savings. We expect to record approximately \$1.5 million of restructuring costs over this period, primarily for one-time employee related termination costs.

ITEM 6. EXHIBITS

Exhibit # Description

| | | |
|------|--|----------------|
| 2 | | |
| | Plan of acquisition, reorganization, arrangement, liquidation or succession | Not applicable |
| 3 | | Not applicable |
| | Articles of incorporation and bylaws | |
| 4 | | |
| | Instruments defining the rights of security holders, including indentures | Not applicable |
| 10 | | Not applicable |
| | Material contracts | |
| 11 | | Not applicable |
| | Statement re: computation of per share earnings | |
| 15 | | Not applicable |
| | Letter re: unaudited interim financial information | |
| 18 | | Not applicable |
| | Letter re: change in accounting principles | |
| 19 | | Not applicable |
| | Report furnished to security holders | |
| 22 | | |
| | Published reports regarding matters submitted to vote of security holders | Not applicable |
| 23.1 | | Included |
| | Consent of Independent Registered Public Accounting Firm | |
| 24 | | Not applicable |
| | Power of attorney | |
| 31.1 | | |

Certification of Chief Executive Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002
31.2
Included

Certification of Chief Financial Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002
32
Included

Certifications pursuant to 18 U.S.C Section 1350, as adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1
Included
Included

Report of Independent Registered Public Accounting Firm

SIGNATURE

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

Date: August 6, 2008

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)