STANDARD REGISTER CO
Form 10-Q
August 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 1, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 0-01097

THE STANDARD REGISTER COMPANY

(Exact name of registrant as specified in its charter)

OHIO	**31-0455440**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
600 ALBANY STREET, DAYTON OHIO	**45408**
(Address of principal executive offices)	(Zip Code)

(937) 221-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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 [ ]

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 July 1, 2007
Common stock, $1.00 par value	23,971,685 shares
Class A stock, $1.00 par value	4,725,000 shares

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended July 1, 2007

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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)

	13 Weeks Ended		*26 Weeks Ended*	
	July 1, 2007	*July 2, 2006*	*July 1, 2007*	*July 2, 2006*
REVENUE				
Products	$ 191,059	$ 207,470	$ 400,071	$ 419,251
Services	20,106	15,195	38,525	31,935
Total revenue	211,165	222,665	438,596	451,186
COST OF SALES				
Products	132,265	136,568	273,279	273,673
Services	11,735	8,291	22,217	17,903
Total cost of sales	144,000	144,859	295,496	291,576
GROSS MARGIN	67,165	77,806	143,100	159,610
OPERATING EXPENSES				
Selling, general, and administrative	67,561	65,015	134,479	131,263
Depreciation and amortization	6,590	7,318	13,245	14,644
Asset impairments	(342)	(155)	(751)	1,539
Restructuring charges	1,752	774	4,158	1,864
Total operating expenses	75,561	72,952	151,131	149,310
(LOSS) INCOME FROM CONTINUING OPERATIONS	(8,396)	4,854	(8,031)	10,300
OTHER INCOME (EXPENSE)				
Interest expense	(886)	(523)	(1,683)	(1,037)
Other income	99	97	167	134
Total other expense	(787)	(426)	(1,516)	(903)
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(9,183)	4,428	(9,547)	9,397
INCOME TAX (BENEFIT) EXPENSE	(3,824)	1,733	(3,999)	3,823
NET (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(5,359)	2,695	(5,548)	5,574
DISCONTINUED OPERATIONS				
Loss from discontinued operations, net of taxes	(81)	(2,039)	(725)	(3,498)
Gain (loss) on sale of discontinued operations, net of taxes	816	(9,168)	821	(9,168)

LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(4,624)	(8,512)	(5,452)	(7,092)
Cumulative effect of a change in accounting principle, net of taxes	-	-	-	78
NET LOSS	$ (4,624)	$ (8,512)	$ (5,452)	$ (7,014)
BASIC AND DILUTED (LOSS) INCOME PER SHARE				
(Loss) income from continuing operations	$ (0.19)	$ 0.10	$ (0.19)	$ 0.19
Loss from discontinued operations	-	(0.07)	(0.03)	(0.11)
Gain (loss) on sale of discontinued operations	0.03	(0.32)	0.03	(0.32)
Net loss per share	$ (0.16)	$ (0.29)	$ (0.19)	$ (0.24)
Dividends Paid Per Share	$ 0.46	$ 0.23	$ 0.46	$ 0.46
NET LOSS	$ (4,624)	$ (8,512)	$ (5,452)	$ (7,014)
Net actuarial loss reclassification	6,387	-	10,733	-
Net prior service credit reclassification	(480)	-	(958)	-
Deferred cost on forward contract	-	(44)	-	-
Foreign currency translation adjustment	-	(2,234)	-	(2,288)
COMPREHENSIVE INCOME	$ 1,283	$ (10,790)	$ 4,323	$ (9,302)

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

A S S E T S	***July 1, 2007***	***December 31, 2006***
CURRENT ASSETS		
Cash and cash equivalents	$ -	$ 488
Accounts and notes receivable, less allowance for doubtful		
accounts of $2,112 and $2,164	120,715	135,839
Inventories	47,129	49,242
Deferred income taxes	18,635	18,635
Prepaid expense	12,228	13,566
Total current assets	198,707	217,770
PLANT AND EQUIPMENT		
Land	2,336	2,354
Buildings and improvements	62,234	65,408
Machinery and equipment	206,734	210,617
Office equipment	157,372	155,092
Construction in progress	13,611	10,297
Total	442,287	443,768
Less accumulated depreciation	324,118	325,620
Plant and equipment, net	118,169	118,148
Net assets held for sale	1,405	1,191
Total plant and equipment, net	119,574	119,339
OTHER ASSETS		
Goodwill	6,557	6,557
Intangible assets, net	1,476	1,611
Deferred tax asset	84,216	86,710
Other	18,274	20,092

Total other assets		110,523		114,970
Total assets	$	428,804	$	452,079

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	*July 1, 2007*	*December 31, 2006*
CURRENT LIABILITIES		
Current portion of long-term debt	$ 68	$ 358
Accounts payable	31,781	36,254
Accrued compensation	22,705	28,050
Deferred revenue	2,652	1,725
Other current liabilities	27,301	34,927
Total current liabilities	84,507	101,314
LONG-TERM LIABILITIES		
Long-term debt	54,000	41,021
Pension benefit obligation	139,843	153,953
Retiree health care obligation	20,470	20,398
Deferred compensation	12,618	17,190
Other long-term liabilities	1,246	36
Total long-term liabilities	228,177	232,598
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value:		
Authorized 101,000,000 shares		
Issued 2007 - 25,948,675; 2006 - 25,845,304	25,949	25,846
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	62,028	60,321

Accumulated other comprehensive losses		(131,527)		(141,302)
Retained earnings		204,995		218,278
Treasury stock at cost:				
1,976,990 and 1,949,200 shares		(50,050)		(49,701)
Total shareholders' equity		116,120		118,167
Total liabilities and shareholders' equity	$	428,804	$	452,079

See accompanying notes.

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

	26 Weeks Ended July 1, 2007	*26 Weeks Ended July 2, 2006*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,452)	$ (7,014)
Cumulative effect of a change in accounting principle	-	(78)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,445	17,212
Restructuring charges	4,158	1,864
Asset impairments	(751)	1,539
(Gain) loss on sale of discontinued operations	(1,322)	11,955
Pension and postretirement benefit expense	20,910	14,164
Share-based compensation	1,343	1,032
Deferred income taxes	(3,944)	(209)
Other	441	846
Changes in operating assets and liabilities:		
Accounts and notes receivable	15,124	(135)
Inventories	1,970	626
Restructuring spending	(3,204)	(2,001)
Accounts payable and accrued liabilities	(11,974)	(8,304)
Pension and postretirement benefit obligations	(18,734)	(11,024)
Deferred compensation payments	(6,169)	(1,077)
Other assets and liabilities	6,247	(1,139)
Net cash provided by operating activities	12,088	18,257
CASH FLOWS FROM INVESTING ACTIVITIES		

Additions to plant and equipment	(14,468)	(9,579)
Proceeds from sale of discontinued operations	2,500	8,925
Proceeds from sale of plant and equipment	141	312
Net cash used in investing activities	(11,827)	(342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in borrowings under revolving credit facility	13,000	(15,999)
Principal payments on capital lease	(311)	(304)
Proceeds from issuance of common stock	220	503
Dividends paid	(13,349)	(13,291)
Purchase of Treasury Stock	(349)	-
Tax benefit from exercise of stock options	-	41
Net cash used in financing activities	(789)	(29,050)
Effect of exchange rate changes on cash	40	(48)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(488)	(11,183)
Cash and cash equivalents at beginning of period	488	13,609
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 2,426

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 31, 2006.

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.

Revenue Recognition

Revenue is recognized in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No.101, Revenue Recognition in Financial Statements , as amended by SAB No. 104, Revenue Recognition , when all of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or services have been performed
- The fee is fixed or determinable, and
- Collectibility is reasonably assured.

Product Revenue

Revenue is generally recognized when products are shipped to the customer, title and risks of ownership have passed to the customer, and all significant obligations have been satisfied. Under contractual arrangements with certain customers, the Company prints and stores custom forms for future delivery. Such products are stored in the Company s warehouses and remain in the Company s inventory. Under these arrangements, title and risk of ownership remain with the Company until the product is shipped to the customer. At that time, the customer is invoiced and product revenue is recognized. Because the majority of products are customized, product returns are not significant.

Service Revenue

Service revenue primarily includes distribution services, design services, professional services, software postcontract support, consulting, sourcing services, and membership fees. The Company generally recognizes service revenue as the services are performed.

Revenue Arrangements with Multiple Deliverables

When a customer arrangement involves multiple deliverables, the Company evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

•

Whether the delivered item has value to the customer on a standalone basis;

•

Whether objective and reliable evidence exists for the fair value of the undelivered item; and

•

If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and is substantially in the Company s control.

If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting based on relative fair values. Where objective and reliable evidence exists as to the fair value for all undelivered items, but not for the delivered items, the residual method is used to allocate the consideration. Under the residual method, the amount of revenue allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of any undelivered items. Each unit of accounting is then accounted for under the applicable revenue recognition guidance.

The determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgment, such as whether fair value can be established on undelivered obligations and/or whether delivered items have standalone value to the customer. Changes to the Company s assessment of the accounting units in a multiple deliverable arrangement and/or the ability to establish fair values could change the timing of revenue recognition.

Software - The Company recognizes software revenue in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 97-2 (SOP 97-2), Software Revenue Recognition , and Statement of Position No. 98-9 (SOP 98-9), Modification of SOP 97-2 with Respect to Certain Transactions. The Company generates revenue from licensing the rights to software products to end-users. These licenses are sold as perpetual licenses. Product revenue from software license agreements is recognized upon receipt of a signed license agreement, or an amendment under an existing license agreement, and delivery of the software; there is no significant modification or customization of the software required and no significant remaining obligations; the fee is fixed and determinable; and collection of the receivable is probable.

The Company also licenses its software in combination with professional services and ongoing maintenance and post-contract customer support (PCS) which includes telephone assistance, software problem corrections, and the right to unspecified upgrades on a when-and-if- available basis. Under these multiple deliverable arrangements, revenue is allocated to the separate elements based on objective and reliable evidence, specific to the Company, of the fair value of each element in the arrangement. Fair value for the software license is based upon the price charged to customers when the software is sold on a standalone basis, and is recognized as product revenue when revenue recognition criteria are met. Fair value for ongoing PCS is based upon established renewal rates; the related service revenue is deferred and subsequently recognized ratably over the term of the support agreement. Fair value for professional services associated with licensing the software, such as training, software installation, building simple interfaces, and consulting services such as implementation support, forms design and system configuration, is based upon rates charged to customers when these services are sold in separate transactions. Revenue for these professional services is recognized either on the completed contract method or when specific milestones are reached.

Product Revenue with Distribution Services - For multiple deliverable arrangements that do not involve licensing, selling, leasing, or otherwise marketing of software, the Company applies the guidance under Emerging Issues Task Force (EITF) 00-21, Revenue Arrangements with Multiple Deliverables.

For customers that want a just-in-time delivery service of long-run, custom-printed documents, the Company provides distribution services that deliver the product at specified times, locations and quantities requested by the customer. The distribution services incorporate warehousing storage and custom delivery options. In addition to the product revenue, the Company receives a distribution service fee for the services it provides. Under these contractual arrangements, at the customer s request the Company prints and stores custom forms for the customer s specified future delivery. Such products are stored in the Company s warehouses and are not used to fill other customers orders. For these products, manufacturing is complete, the finished product is not included in the Company s inventory, and title and risk of loss have transferred to the customer. In these transactions, the customer is invoiced under normal billing and credit terms and revenue is recognized when the product is placed in the warehouse for storage.

If requested by the customer, the distribution service fee is invoiced separately and recognized as distribution service revenue. However, in many arrangements, the fee is combined, or bundled, into the price of the product. The Company previously accounted for these bundled transactions as one unit of accounting and revenue from both the sale of the product and distribution services were combined and recognized as product revenue when the product was placed in storage.

In the second quarter of 2007, the Company revised its revenue recognition policy for these bundled transactions having concluded that the criteria under EITF 00-21 to separate the product and service elements were met. Fair value for the distribution services is based on price lists and custom quoting templates used to establish a customer profile that determines the amount of distribution services revenue (stated as a % of the total consideration) that is allocated to all orders for a particular customer. Revenue from distribution services under these arrangements is now deferred and recognized proportionally when the product is shipped from the warehouse to the customer. The effect of this change on prior periods was not material.

Since the product is primarily custom-printed documents, there is not sufficient objective and reliable evidence of fair value and the amount of revenue allocated to the product is determined using the residual method. Under this method, the product revenue equals the total amount of consideration received for the arrangement less the revenue allocated to the distribution services and continues to be recognized when the product is placed in storage.

The change in revenue recognition policy also affects the classification of revenue between product revenue and service revenue. Product revenue increased by and service revenue decreased by $1,044 and $1,533 for the 13 and 26-week periods ended July 2, 2006 and $422 for the 13-week period ended April 1, 2007

NOTE 2 RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 requires that the financial statement effects of a tax position taken or expected to be taken in a tax return to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The cumulative effect of applying FIN 48 was $1,144 and was recorded as an adjustment to the January 1, 2007 balance of retained earnings. See Note 7 Income Taxes.

Effective January 1, 2007, the Company adopted the additional disclosure provisions of Emerging Issues Task Force (EITF) Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. EITF No. 06-03 permits the presentation of these taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues). The Company classifies sales taxes on a net basis in the Consolidated Statements of Income. Adoption of this EITF did not have an effect on the Company s Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities which permits companies to voluntarily choose, at specified election dates, to measure specified financial instruments and other items at fair value on a contract-by-contract basis. Subsequent changes in fair value will be required to be reported in earnings each reporting period. The objective of this election, called the fair value option, is to improve financial reporting by providing companies with the means to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently, without using the complex hedge-accounting requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and therefore is effective for the Company in fiscal year 2008. The Company is currently assessing the effect of implementing this standard, which will be dependent upon the nature and extent of eligible items elected to be measured at fair value at the time of adoption.

In March 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue 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 will be available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 is effective for fiscal years beginning after December 15, 2007. The Company does not expect 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

On April 21, 2007, The Company sold selected assets, including inventory, equipment, and prepaid assets, to EXPED LLC, for $2,500 in cash and the assumption of certain liabilities. The transaction resulted in a net gain of approximately $797. The technology is used by customers in various business applications. Additional capital was required to continue to develop the product and market and the Company elected to direct its investments to its core document services businesses.

On June 5, 2006, the Company sold 100% of the outstanding capital stock of InSystems Corporation (InSystems) to Whitehill Technologies, Inc., for approximately $8,500 in cash, plus the return of certain cash deposits. The transaction resulted in a net loss of approximately $10,111, of which $9,214 was recognized in the second quarter of 2006.

The sale of Digital Solutions and InSystems, both reportable segments, met the criteria to be accounted for as discontinued operations under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The results of operations for Digital Solutions and InSystems have been excluded from continuing operations in the accompanying Consolidated Statements of Operations. Revenue for Digital Solutions included in discontinued operations was $114 and $167 for the 13-week periods ended July 1, 2007 and July 2, 2006, respectively, and $519 and $269 for the 26-week periods ended July 1, 2007 and July 2, 2006, respectively. Revenue for InSystems included in discontinued operations was $1,862 and $4,897 for the 13-week and 26-week period ended July 2, 2006, respectively. Cash flows related to discontinued operations are not separately disclosed in the Consolidated Statement of Cash Flows. No interest expense was allocated to discontinued operations.

In 2007, the Company recorded minor adjustments to the InSystems loss on sale and in 2006 to the Equipment Service loss on sale.

NOTE 4 RESTRUCTURING AND IMPAIRMENT CHARGES

The Company has undertaken restructuring actions as part of an on-going effort to improve its utilization and profitability. Previous restructuring plans are more fully described in Note 3 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. All costs related to restructuring actions are included in restructuring charges in the accompanying Consolidated Statements of Income.

Pre-tax components of restructuring charges are as follows:

	13 Weeks Ended		***26 Weeks Ended***	
	July 1, 2007	***July 2, 2006***	***July 1, 2007***	***July 2, 2006***
2007 Restructuring Actions				
Severance and employer related costs	**$ 45**	$ -	**$ 1,778**	$ -
Associated costs	**1,707**	-	**2,380**	-
Total 2007	**1,752**	-	**4,158**	-
2006 Restructuring Actions				
Severance and employer related costs	**-**	11	**-**	700
Associated costs	**-**	668	**-**	868
Total 2006	**-**	679	**-**	1,568
2005-2001 Restructuring Actions	**-**	95	**-**	296
Total restructuring expense	**$ 1,752**	$ 774	**$ 4,158**	$ 1,864

2007 Restructuring

In 2007, the Company took steps to consolidate its manufacturing and distribution capabilities to become more efficient in meeting customer needs. On January 25, 2007, the Company adopted a restructuring plan to accomplish these objectives. The actions associated with the plan are expected to be completed in 2007.

In connection with this plan, in June 2007, the Company ceased production and closed its facility in Middlebury, Vermont, at which time the equipment and production operations were transferred to three other existing plants. The Company expects to record approximately $4,900 of restructuring costs in the Document and Labels Solution (DLS) segment in 2007 related to the closing of the Middlebury plant. Restructuring costs will include $1,850 for employee related costs and $3,050 of other associated exit costs, primarily for equipment removal and relocation, employee relocation, and inventory write-offs. The Company projects estimated savings of approximately $5,000 on an annualized basis.

Pre-tax components of 2007 restructuring charges are as follows:

	Total Costs Expected to be Incurred	***Total Q2 2007 Restructuring Expense***	***Cumulative-To-Date Restructuring Expense***
Severance and employer related costs	$ 1,850	$ 45	$ 1,778
Associated costs	3,050	1,707	2,380
Total	$ 4,900	$ 1,752	$ 4,158

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

	Charged to Accrual	*Incurred in 2007*	*Balance 2007*
Severance and employer related costs	$ 1,778	$ (824)	$ 954
Total	$ 1,778	$ (824)	$ 954

2006 Restructuring

Within the DLS segment, the Company closed its Terre Haute, Indiana label production plant in 2006. The plant s productive capacity was transferred to three other plants to improve overall efficiency and lower operating costs. Costs incurred included severance and employer related costs and other associated costs directly related to the restructuring, primarily equipment removal and relocation. All of the actions were completed at the end of 2006.

2005, 2004, 2003, and 2001 Restructuring

All of the prior restructuring actions are completed. Any restructuring expense recorded in 2006 for these actions was primarily related to vacated facilities, as the amount accrued was net of any expected sub-lease income and the Company was unable to sublease the facilities.

Asset Impairment and Net Assets Held for Sale

At December 31, 2006, the Company had concluded that it was more likely than not that a plant would be closed in the DLS segment which caused the Company to perform an impairment test on the long-lived assets. This resulted in the Company recording an asset impairment charge in 2006 to adjust the carrying values to their fair value less costs to sell, considering the most recent information available including recent sales of similar properties. The market is more competitive than expected and the Company received several offers for the purchase of the Middlebury building that are higher than originally anticipated. As a result, in the first quarter of 2007, the Company reversed $409 of the impairment charge recorded in 2006 to adjust the building s carrying amount. At July 1, 2007, the Middlebury facility was classified as assets held for sale. The Company expects to complete the sale of the facility in the third quarter of 2007 at a gain. In the second quarter of 2007, the Company reversed $342 of the impairment charge recorded in 2006 related to the sale and disposal of the Middlebury equipment. The Company transferred more equipment to other existing plants than originally expected.

In conjunction with the closing of the Terre Haute plant, in 2006 the Company recorded $1,512 of asset impairments, primarily related to equipment. The carrying value of the Terre Haute building and equipment was adjusted to its estimated fair value less costs to sell, considering recent sales of similar properties and real estate valuations. Other equipment was determined to have no fair value and was disposed of. As of December 31, 2006, the Terre Haute building was classified as held for sale and was subsequently sold in January 2007. An additional $27 of impairment charges were recorded in the International Segment in 2006.

Subsequent Event

On July 20, 2007, the Company completed a restructuring action as part of an overall plan to reduce its annual operating costs. This action eliminated approximately 250 positions, primarily in management and overhead, representing $22,000 annually in compensation and related costs. Severance and employer related costs associated with the restructuring are estimated at $3,500, which will be recorded in the third quarter of 2007.

NOTE 5 INVENTORIES

The components of inventories are as follows:

	July 1, 2007	***December 31, 2006***
Finished Products	**$ 40,840**	$ 41,739
Jobs In Process	**1,908**	3,216
Materials and Supplies	**4,381**	4,287
Total	**$ 47,129**	$ 49,242

NOTE 6 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	July 1, 2007	*December 31, 2006*
Non-income taxes	**$ 6,485**	$ 7,062
Dividends payable	**-**	6,663
Current portion of pension and postretirement obligations	**3,954**	3,954
Other current liabilities	**16,862**	17,248
Total	**$ 27,301**	$ 34,927

NOTE 7 INCOME TAXES

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result, the Company recorded a liability of $1,144 for unrecognized tax benefits, including accrued interest, which was accounted for as a reduction to the beginning balance of retained earnings. The total amount represents unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and Canadian jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 1997. With few exceptions, the Company is no longer subject to state, and local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The Company s continuing policy is to recognize interest and penalties related to income tax matters in tax expense. The amount of interest and penalty expense recorded for the 13-week and 26-week periods ending July 1, 2007 and July 2, 2006 or accrued at July 1, 2007 was immaterial.

NOTE 8 EARNINGS PER SHARE

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

	13 Weeks Ended		*26 Weeks Ended*	
(Shares in thousands)	*July 1, 2007*	*July 2, 2006*	*July 1, 2007*	*July 2, 2006*
Weighted average shares outstanding - basic	**28,677**	28,934	**28,656**	28,907

Effect of potentially dilutive securities	**-**	18	**-**	63
Weighted average shares outstanding - diluted	**28,677**	28,952	**28,656**	28,970

The effects of stock options and unvested shares on diluted EPS are reflected through the application of the treasury stock method. Outstanding options to purchase approximately 2,226,000 and 2,202,000 shares for the 13-and 26-week periods ended July 2, 2006 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 loss from continuing operations for the 13-and 26-week periods ending July 1, 2007, no outstanding options were included in the diluted EPS computation because they would automatically result in anti-dilution.

NOTE 9 SHARE BASED COMPENSATION

The terms and conditions of outstanding awards previously granted are more fully described in Note 12 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

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

	13 Weeks Ended		*26 Weeks Ended*	
	July 1, 2007	***July 2, 2006***	***July 1, 2007***	***July 2, 2006***
Restricted stock awards, service based	**$ 347**	$ 154	**$ 692**	$ 520
Restricted stock awards, performance based	**329**	171	**659**	339
Stock options	**142**	104	**239**	177
Total share-based compensation expense	**818**	429	**1,590**	1,036
Tax effect on share-based compensation expense	**325**	170	**631**	408
Net share based compensation expense	$ 493	$ 259	$ 959	$ 628
Net effect included in continuing operations	**347**	251	**748**	555
Net effect included in discontinued operations	**146**	8	**211**	73
Total	$ 493	$ 259	$ 959	$ 628

NOTE 10 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 13 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Net periodic benefit cost includes the following components:

	13 Weeks Ended		*26 Weeks Ended*	
	July 1, 2007	***July 2, 2006***	***July 1, 2007***	***July 2, 2006***
Service cost of benefits earned	**$ 1,875**	$ 1,986	**$ 4,090**	$ 4,045

Interest cost on projected benefit obligation	**7,088**	6,805	**14,298**	13,662
Expected return on plan assets	**(7,117)**	(7,284)	**(14,233)**	(14,568)
Amortization of prior service costs	**90**	90	**180**	179
Amortization of net loss from prior periods	**7,113**	6,727	**14,139**	12,737
Settlement loss	**3,222**	-	**3,222**	-
Total	**$ 12,271**	$ 8,324	**$ 21,696**	$ 16,055

The Company does not have a minimum funding requirement in 2007. The Company made $11,000 of voluntary contributions to the qualified pension plan in the first six months of 2007 and $10,000 in the same period of 2006.

The settlement loss is related to associates retiring in 2007 and electing a lump-sum payment of their pension benefit from the nonqualified supplementary benefit plan. As a result of the pension obligation settlement, the Company recorded a non-cash charge for a pro-rata portion of unrecognized net losses from prior periods.

NOTE 11 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 14 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Postretirement benefit cost includes the following components:

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2007	***July 2, 2006***	***July 1, 2007***	***July 2, 2006***
Service cost	**$ -**	$ -	**$ -**	$ -
Interest cost	**307**	298	**614**	595
Amortization of prior service cost	**(884)**	(884)	**(1,768)**	(1,768)
Amortization of net loss from prior periods	**184**	154	**368**	308
Total	**$ (393)**	$ (432)	**$ (786)**	$ (865)

The funding policy is to pay claims as they occur. Payments for postretirement health benefits, net of retiree contributions, were approximately $285 and $431 for the 13-week periods ended July 1, 2007 and July 2, 2006 respectively, and $543 and $937 for the 26-week periods ended July 1, 2007 and July 2, 2006.

NOTE 12 SEGMENT REPORTING

The profitability measure used by the Company in assessing segment performance is segment operating income before restructuring and impairment, and excludes items listed in the reconciliation below that are not allocated to segment operating income. The segments are managed and reported internally primarily by the type of products they produce and the services they provide. The Document Systems operating segment previously included in Other now meets the quantitative thresholds for reportable segments. Segment information for 2006 has been revised from previously reported information to reflect the current presentation.

Document and Label Solutions

Document and Label Solutions offers custom-printed documents; document design; labels; secure document solutions; warehouse, freight, and distribution services; business supplies; and conversion management. Document and Label Solutions consists of five business units that have been aggregated for segment reporting purposes.

Print On Demand (POD) Services

The types of products and services POD Services offers include high-end digital color or black/white, short-run, quick print production (print-on-demand), billing and statement solutions, one-to-one marketing communications (variable print-on-demand), Web-based information request fulfillment, and customer information kits (cards, policies, statements, manuals, etc.). POD Services consists of two business units that have been aggregated for segment reporting purposes.

Document Systems

Document Systems generates revenue from licensing the rights to software products, revenue from maintenance and other customer support services, and revenue from professional services associated with the licensing of software. The software is widely used in check disbursement applications such as payroll and accounts payable where control and confidentiality are important and in hospitals where it is widely used in admissions. In additional Document Systems generates revenue from the sale of related hardware equipment such as printers.

Information about the Company s operations by segment for the 13-week periods ended July 1, 2007 and July 2, 2006 is as follows:

		Document and Label Solutions	*POD Services*	*Document Systems*	*Other*	*Total*
Revenue from external customers	**2007**	**$ 129,714**	**$ 65,312**	**$ 5,592**	**$ 10,547**	**$ 211,165**
	2006	143,878	65,379	4,555	8,853	222,665
Operating income (loss)	**2007**	**$ 2,477**	**$ 1,332**	**$ 903**	**$ (1,097)**	**$ 3,615**
	2006	7,943	4,494	736	(779)	12,394

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Information about the Company s operations by segment for the 26-week periods ended July 1, 2007 and July 2, 2006 is as follows:

		Document and Label Solutions	*POD Services*	*Document Systems*	*Other*	*Total*
Revenue from external customers	**2007**	**$ 270,502**	**$ 135,493**	**$ 11,741**	**$ 20,860**	**$ 438,596**
	2006	292,658	130,592	9,826	18,110	451,186
Operating income (loss)	**2007**	**$ 4,968**	**$ 8,843**	**$ 2,022**	**$ (2,618)**	**$ 13,215**
	2006	17,062	8,959	1,943	(1,205)	26,759
Total assets	**2007**	**$ 222,571**	**$ 74,117**	**$ 4,201**	**$ 8,186**	**$ 309,075**

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

	13 Weeks Ended		*26 Weeks Ended*	
	July 1, 2007	*July 2, 2006*	*July 1, 2007*	*July 2, 2006*
Operating income	**$ 3,615**	$ 12,394	**$ 13,215**	$ 26,759
Restructuring and asset impairment	**(1,410)**	(619)	**(3,407)**	(3,403)
Amortization of prior period pension losses	**(7,113)**	(6,727)	**(14,139)**	(12,737)
Pension settlement loss	**(3,222)**	-	**(3,222)**	-
Other unallocated pension	**(28)**	(479)	**66**	(906)
Corporate and other unallocated	**3**	682	**(258)**	1,534
LIFO adjustment	**(241)**	(397)	**(286)**	(947)
Total other expense, primarily interest	**(787)**	(426)	**(1,516)**	(903)
(Loss) income from continuing operations before income taxes	**$ (9,183)**	$ 4,428	**$ (9,547)**	$ 9,397
Total Assets			**$ 309,075**	
Corporate and unallocated			**119,729**	
Total consolidated assets			**$ 428,804**	

Item 2 -

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

FORWARD-LOOKING INFORMATION

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. All statements regarding our expected future financial condition, revenues or revenue growth, projected costs or cost savings, cash flows and future cash obligations, dividends, capital expenditures, business strategy, competitive positions, growth opportunities for existing products or products under development, and objectives of management are forward-looking statements that involve certain risks and uncertainties. In addition, forward-looking statements include statements in which we use words such as anticipates, projects, expects, plans, intends, believes, estimates, targets, and other similar expressions that indicate tre 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 2007 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 Form 10-K for the year ended December 31, 2006.

OVERVIEW

Our Company We are a leading document services provider that helps our customers manage, control and source their document and print-related spending. We primarily serve the healthcare, financial services, and manufacturing industries. Additional information related to our product and services is contained in our Annual Report on Form 10-K for the year ended December 31, 2006. Our operations include three reportable segments: Document and Label Solutions (DLS), Print On Demand (POD) Services, and Document Systems.

Our Business Challenges The market for many of our traditional printed products is very price competitive. It is likely that the increasing use of reverse auctions and other bidding tools will gain in popularity and may lower the prices of our printed products.

Our pension plan became underfunded in late 2002, primarily as a result of lower interest rates and weak stock market returns in 2001 and 2002. The amortization of these and other actuarial losses has resulted in significant expense in subsequent years equivalent to $0.54 per share in 2006 and $0.30 per share in the first half of 2007. We have continued to make voluntary cash contributions to our qualified pension plan, averaging approximately $17.4 million annually over the last five years; we plan to make voluntary contributions in 2007 of approximately $20 million.

We are engaged in an industry undergoing fundamental change. Digital technology is, as is almost always the case with any disruptive change, both friend and foe. Our traditional business documents are essential for the conduct of business, but many are being replaced or devalued by software. On the other hand, digital technology introduces new opportunities, such as print-on-demand services, for those willing to invest. Our Company s history is one of adapting to change and our goal is to persevere and grow in the digital age. The cost reduction program described below is a necessary step for the Company to achieve its long-term objectives.

On July 20, 2007, we completed a restructuring action as part of an overall plan to reduce our annual operating costs by $40 million. This action eliminated approximately 250 positions, primarily in management and overhead, representing $22 million annually in compensation and related costs. Severance and employer related costs associated with the restructuring action are estimated at $3.5 million, which will be recorded in the third quarter of 2007.

Earlier this year, we consolidated our manufacturing and warehousing operations in a move expected to save approximately $5 million annually. Other new initiatives that target purchasing costs and other non-compensation expenditures are expected to lower costs by an additional $13 million annually. All of these actions are expected to reduce second half 2007 costs by approximately $15 million versus the levels incurred in the first six months of the year. The remaining balance of the $40 million in annual savings is expected next year.

2007 Highlights

Setting aside the effect of three significant accounts discussed later, several trends are apparent in our first half results that serve to reinforce our strategy.

- Our traditional DLS print business is under pressure brought about by advancing digital technology and an oversupplied industry. The annual rate of decline for this business is approximately 5 percent which mirrors industry trends. We believe we can gain market share in select vertical markets where we have expertise and focus, but we must continue to improve cost and productivity to remain competitive and produce sustaining cash flows.

- Our label business is growing, but not at the general pace of the market. Labels are an opportunity for us and we are investing for growth, as illustrated by our recent venture into Mexico.

- Our newer digital print and service initiatives are gaining traction. Through the first half of the year, revenue from digital print was up 18 percent, services rose 11 percent, Document Systems increased 19 percent, and Commercial Print was 11 percent ahead of last year.

CRITICAL ACCOUNTING POLICIES

In preparing these unaudited financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2006. 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 rel