

STANDARD REGISTER CO  
Form 10-Q  
November 01, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended October 1, 2006

**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 [ ]

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 October 1, 2006 |
|---------------------------------|-----------------------------------|
| Common stock, \$1.00 par value  | 24,204,980 shares                 |
| Class A stock, \$1.00 par value | 4,725,000 shares                  |

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended October 1, 2006**

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**PART I - FINANCIAL INFORMATION**  
**THE STANDARD REGISTER COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(Dollars in thousands, except per share amounts)

|   | <i>13 Weeks Ended</i> |                   | <i>39 Weeks Ended</i> |                   |
|---|-----------------------|-------------------|-----------------------|-------------------|
|   | <i>October 1,</i>     | <i>October 2,</i> | <i>October 1,</i>     | <i>October 2,</i> |
|   | <i>2006</i>           | <i>2005</i>       | <i>2006</i>           | <i>2005</i>       |
| <b>REVENUE</b>  |                       |                   |                       |                   |
| Products  | \$ 196,872            | \$ 199,390        | \$ 604,764            | \$ 611,633        |
| Services  | 18,455                | 19,253            | 62,018                | 58,881            |
| Total revenue   | 215,327               | 218,643           | 666,782               | 670,514           |
| <b>COST OF SALES</b>  |                       |                   |                       |                   |
| Products  | 130,975               | 131,703           | 394,754               | 404,663           |
| Services  | 13,764                | 12,538            | 41,622                | 37,198            |
| Total cost of sales   | 144,739               | 144,241           | 436,376               | 441,861           |
| <b>GROSS MARGIN</b>   | <b>70,588</b>         | 74,402            | <b>230,406</b>        | 228,653           |
| <b>OPERATING EXPENSES</b>   |                       |                   |                       |                   |
| Selling, general and administrative                               | 66,518                | 62,405            | 200,270               | 188,044           |
| Depreciation and amortization                                     | 7,276                 | 7,733             | 22,251                | 25,927            |
| Asset impairments   | 53                    | 157               | 1,592                 | 157               |
| Restructuring charges   | 533                   | (76)              | 2,397                 | 790               |
| Total operating expenses  | 74,380                | 70,219            | 226,510               | 214,918           |
| <b>(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE</b> |                       |                   |                       |                   |
| <b>EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>                 | <b>(3,792)</b>        | 4,183             | <b>3,896</b>          | 13,735            |
| <b>OTHER INCOME (EXPENSE)</b>                                     |                       |                   |                       |                   |
| Interest expense  | (555)                 | (583)             | (1,592)               | (1,875)           |
| Other income (expense)  | 40                    | (69)              | 174                   | (20)              |
| Total other expense   | (515)                 | (652)             | (1,418)               | (1,895)           |
| <b>(LOSS) INCOME FROM CONTINUING OPERATIONS</b>                   |                       |                   |                       |                   |
| <b>BEFORE</b>   |                       |                   |                       |                   |
| <b>INCOME TAXES AND CUMULATIVE EFFECT OF A</b>                    |                       |                   |                       |                   |
| <b>CHANGE IN ACCOUNTING PRINCIPLE</b>                             | <b>(4,307)</b>        | 3,531             | <b>2,478</b>          | 11,840            |
| <b>INCOME TAX EXPENSE (BENEFIT)</b>                               | <b>(651)</b>          | 1,392             | <b>2,135</b>          | 7,785             |

|   |                   |          |                    |          |
|---|-------------------|----------|--------------------|----------|
| <b>NET(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b> | <b>(3,656)</b>    | 2,139    | <b>343</b>         | 4,055    |
| <b>DISCONTINUED OPERATIONS</b>  |                   |          |                    |          |
| Loss from discontinued operations, net of taxes   | <b>(482)</b>      | (757)    | <b>(2,405)</b>     | (3,179)  |
| Gain (loss) on sale of discontinued operations, net of taxes  | <b>(1,587)</b>    | -        | <b>(10,755)</b>    | 552      |
| <b>NET (LOSS) INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>                           | <b>(5,725)</b>    | 1,382    | <b>(12,817)</b>    | 1,428    |
| Cumulative effect of a change in accounting principle, net of taxes   | -                 | -        | <b>78</b>          | -        |
| <b>NET (LOSS) INCOME</b>  | <b>\$ (5,725)</b> | \$ 1,382 | <b>\$ (12,739)</b> | \$ 1,428 |
| <b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE</b>  |                   |          |                    |          |
| Income (loss) from continuing operations  | <b>\$ (0.13)</b>  | \$ 0.08  | <b>\$ 0.01</b>     | \$ 0.14  |
| Loss from discontinued operations   | <b>(0.02)</b>     | (0.03)   | <b>(0.08)</b>      | (0.11)   |
| Gain (loss) on sale of discontinued operations, net of taxes  | <b>(0.05)</b>     | -        | <b>(0.37)</b>      | 0.02     |
| Net (loss) income per share   | <b>\$ (0.20)</b>  | \$ 0.05  | <b>\$ (0.44)</b>   | \$ 0.05  |
| Dividends Paid Per Share  | <b>\$ 0.23</b>    | \$ 0.23  | <b>\$ 0.69</b>     | \$ 0.69  |
| <b>NET (LOSS) INCOME</b>  | <b>\$ (5,725)</b> | \$ 1,382 | <b>\$ (12,739)</b> | \$ 1,428 |
| Deferred (cost) income on forward contract, net   | -                 | (66)     | -                  | (5)      |
| Minimum pension liability adjustment, net   | <b>(1,674)</b>    | -        | <b>(1,674)</b>     | -        |
| Foreign currency translation adjustment, net  | <b>10</b>         | 158      | <b>(2,278)</b>     | 2        |
| <b>COMPREHENSIVE (LOSS) INCOME</b>  | <b>\$ (7,389)</b> | \$ 1,474 | <b>\$ (16,691)</b> | \$ 1,425 |

See accompanying notes.

**THE STANDARD REGISTER COMPANY****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

| <b>A S S E T S</b>   | <i>October 1,<br/>2006</i> | <i>January 1,<br/>2006</i> |
|--|----------------------------|----------------------------|
| <b>CURRENT ASSETS</b>  |                            |                            |
| Cash and cash equivalents  | \$ 3,129                   | \$ 13,609                  |
| Accounts and notes receivable, less allowance for doubtful accounts of \$2,478 and \$2,346, respectively | 120,571                    | 123,006                    |
| Inventories  | 48,566                     | 47,033                     |
| Deferred income taxes  | 14,937                     | 15,946                     |
| Prepaid expense  | 16,112                     | 14,309                     |
| Total current assets   | 203,315                    | 213,903                    |
| <b>PLANT AND EQUIPMENT</b>   |                            |                            |
| Land   | 2,265                      | 2,473                      |
| Buildings and improvements   | 65,178                     | 68,760                     |
| Machinery and equipment  | 212,855                    | 219,511                    |
| Office equipment   | 164,575                    | 166,804                    |
| Net assets held for sale   | 1,200                      | -                          |
| Construction in progress   | 12,210                     | 5,625                      |
| Total  | 458,283                    | 463,173                    |
| Less accumulated depreciation  | 338,389                    | 333,184                    |
| Total plant and equipment, net   | 119,894                    | 129,989                    |
| <b>OTHER ASSETS</b>  |                            |                            |
| Goodwill   | 6,557                      | 6,557                      |

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|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| Intangible assets, net          | <b>1,731</b>      | 10,309            |
| Deferred tax asset              | <b>80,276</b>     | 83,937            |
| Software development costs, net | <b>118</b>        | 8,468             |
| Restricted cash                 | <b>66</b>         | 1,188             |
| Other                           | <b>22,099</b>     | 21,561            |
| Total other assets              | <b>110,847</b>    | 132,020           |
| <br>                            |                   |                   |
| Total assets                    | <b>\$ 434,056</b> | <b>\$ 475,912</b> |

See accompanying notes.



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

| <b>LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b> | <i>October 1,</i><br><br><i>2006</i> | <i>January 1,</i><br><br><i>2006</i> |
|---|--------------------------------------|--------------------------------------|
| <b>CURRENT LIABILITIES</b>                      |                                      |                                      |
| Current portion of long-term debt               | \$ 499                               | \$ 611                               |
| Accounts payable                                | 35,370                               | 33,037                               |
| Accrued compensation                            | 21,431                               | 28,120                               |
| Deferred revenue                                | 1,490                                | 3,736                                |
| Accrued restructuring                           | 189                                  | 1,829                                |
| Other current liabilities                       | 26,453                               | 32,715                               |
| Total current liabilities                       | 85,432                               | 100,048                              |
| <b>LONG-TERM LIABILITIES</b>                    |                                      |                                      |
| Long-term debt                                  | 38,833                               | 34,379                               |
| Pension benefit obligation                      | 106,557                              | 107,236                              |
| Retiree health care obligation                  | 41,049                               | 43,885                               |
| Deferred compensation                           | 16,606                               | 16,357                               |
| Other long-term liabilities                     | 65                                   | 555                                  |
| Total long-term liabilities                     | 203,110                              | 202,412                              |
| <b>SHAREHOLDERS' EQUITY</b>                     |                                      |                                      |
| Common stock, \$1.00 par value:                 |                                      |                                      |
| Authorized 101,000,000 shares                   |                                      |                                      |
| Issued 2006 - 26,154,180; 2005 - 26,032,701     | 26,154                               | 26,033                               |
| 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                  | 59,279                               | 60,223                               |

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|  |                   |            |
|--|-------------------|------------|
| Accumulated other comprehensive losses     | <b>(125,513)</b>  | (121,561)  |
| Retained earnings                          | <b>230,570</b>    | 256,576    |
| Treasury stock at cost:                    |                   |            |
| Issued 2006 - 1,949,200; 2005 - 1,923,762  |                   |            |
| shares                                     | <b>(49,701)</b>   | (49,351)   |
| Unearned compensation - restricted stock   | -                 | (3,193)    |
| Total shareholders' equity                 | <b>145,514</b>    | 173,452    |
| <br>                                       |                   |            |
| Total liabilities and shareholders' equity | <b>\$ 434,056</b> | \$ 475,912 |

See accompanying notes.

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

|  | <i>39 Weeks Ended</i><br><i>October 1,</i><br><i>2006</i> | <i>39 Weeks Ended</i><br><i>October 2,</i><br><i>2005</i> |
|--|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |   |
| Net (loss) income  | \$ (12,739)   | \$ 1,428  |
| Cumulative effect of a change in accounting principle                                    | (78)  | -   |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |   |   |
| Depreciation and amortization  | 24,488  | 29,976  |
| Restructuring charges  | 2,397   | 2,042   |
| Asset impairment   | 1,592   | 157   |
| (Gain) loss on sale of discontinued operations   | 13,569  | (552)   |
| Pension and postretirement benefit expense   | 24,412  | 18,132  |
| Share-based compensation   | 1,935   | 1,662   |
| Deferred income taxes  | (872)   | 6,047   |
| Other  | 344   | 1,412   |
| Changes in operating assets and liabilities:   |   |   |
| Accounts and notes receivable  | 879   | 7,494   |
| Inventories  | (1,533)   | 3,772   |
| Income taxes   | 738   | (836)   |
| Other assets   | (3,376)   | 538   |
| Restructuring spending   | (3,050)   | (4,281)   |
| Accounts payable and accrued expenses  | (8,844)   | (20,907)  |
| Pension and postretirement obligation  | (29,157)  | (14,125)  |
| Other liabilities  | 280   | (1,627)   |
| Net cash provided by operating activities  | <b>10,985</b>   | <b>30,332</b>   |

**CASH FLOWS FROM INVESTING  
ACTIVITIES**

|   |                 |          |
|---|-----------------|----------|
| Additions to plant and equipment              | <b>(15,435)</b> | (15,612) |
| Proceeds from sale of discontinued operations | <b>8,925</b>    | -        |
| Proceeds from sale of investment              | -               | 1,096    |
| Proceeds from sale of plant and equipment     | <b>426</b>      | 614      |
| Net cash used in investing activities         | <b>(6,084)</b>  | (13,902) |

**CASH FLOWS FROM FINANCING  
ACTIVITIES**

|  |                 |          |
|--|-----------------|----------|
| Net change in borrowings under revolving credit facility | <b>4,799</b>    | (39,900) |
| Principal payments on long-term debt                     | <b>(457)</b>    | (410)    |
| Proceeds from issuance of common stock                   | <b>565</b>      | 1,771    |
| Purchase of treasury stock                               | <b>(350)</b>    | -        |
| Dividends paid   | <b>(19,900)</b> | (19,796) |
| Debt issuance costs                                      | -               | (769)    |
| Net cash used in financing activities                    | <b>(15,343)</b> | (59,104) |
| Effect of exchange rate changes on cash                  | <b>(38)</b>     | (62)     |

**NET DECREASE IN CASH AND CASH  
EQUIVALENTS****(10,480)** (42,736)

|  |               |        |
|--|---------------|--------|
| Cash and cash equivalents at beginning of period | <b>13,609</b> | 44,088 |
|--|---------------|--------|

**CASH AND CASH EQUIVALENTS****AT END OF PERIOD** \$ **3,129** \$ 1,352

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 for the year ended January 1, 2006 included in the Company's Annual Report on

Form 10-K.

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

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

**NOTE 2 RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Effective January 2, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share Based Payment (Revised 2004), which requires that compensation costs relating to share-based payment transactions be recognized in the financial statements based on estimated fair values. The Company adopted SFAS 123(R) using the modified prospective transition method. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect the impact of SFAS 123 (R). Incremental compensation expense recognized under SFAS No. 123(R) in 2006 is not material. The Company also recognized a \$78 reduction of expense net of taxes to record the cumulative effect of a change in accounting principle as of January 2, 2006 (see Note 8).

Effective January 2, 2006, the Company adopted SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 Inventory Pricing. SFAS No. 151 requires idle facility costs, abnormal freight, handling costs, and amounts of wasted materials (spoilage) be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or defects, the difference would be charged to current-period expense, not included in inventory costs. SFAS No. 151 also requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

Effective January 2, 2006, the Company adopted SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 requires, unless impracticable, retrospective application to prior periods financial statements of changes in accounting principle where transition is not specified by a new accounting pronouncement. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

In June 2006, the Financial Accounting Standards Board (FASB) issued 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 establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact this new standard will have on the consolidated results of operations, financial position, or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which applies under most other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 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. The new standard also provides guidance on the methods used to measure fair value and requires

expanded disclosures related to fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this statement for fiscal year 2008 and is currently assessing the impact that this standard will have on its consolidated results of operations, financial position, or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires a Company with a defined benefit plan to: recognize the funded status of a benefit plan measured as the difference between plan assets at fair value and the benefit obligation- in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation, for other postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation. The new standard also requires the benefit obligations be measured as of the same date of the consolidated financial statements and requires additional disclosures related to the effects of delayed recognition of gains or losses, prior service costs or credits, and transition assets or obligations on net periodic benefit cost. SFAS 158 is effective for financial statements issued for fiscal years ending after December 15, 2006. The Company will adopt this statement in the fourth quarter of 2006 and is currently assessing the impact that this standard will have on its consolidated results of operations, financial position, and cash flows.

### **NOTE 3 DISCONTINUED OPERATIONS**

#### **InSystems**

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. In the third quarter of 2006, the Company increased its estimate of deferred taxes to be written off as a result of this sale. The transaction resulted in a loss of approximately \$10,815, net of taxes, which includes a charge of \$2,980 for contractual obligations to Whitehill Technologies, Inc. related to the leased facility. In conjunction with the recording of this contractual obligation, the Company reversed a restructuring liability of \$1,111 to discontinued operations.

The Company made the decision to sell this business primarily because it no longer fit with the Company's future strategic direction. Revenue for InSystems included in discontinued operations was \$2,805 for the third quarter of 2005 and \$4,897 and \$8,371 for the first nine months of 2006 and 2005, respectively. No interest expense was allocated to discontinued operations.

The sale of InSystems, a reportable segment since its acquisition in 2002, met the criteria to be accounted for as discontinued operations under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and the results of operations have been excluded from continuing operations in the accompanying Consolidated Statements of Operations. Cash flows related to discontinued operations are not separately disclosed in the Consolidated Statements of Cash Flows.

The Company's consolidated balance sheet at January 1, 2006 included the following assets and liabilities related to InSystems:

*January 1,  
2006*

Assets

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|                             |    |        |
|-----------------------------|----|--------|
| Accounts receivable         | \$ | 2,515  |
| Deferred tax assets         |    | 4,545  |
| Prepaid expenses            |    | 356    |
| Property and equipment, net |    | 1,388  |
| Intangible and other assets |    | 16,902 |
| Total assets                | \$ | 25,706 |

Liabilities

|                             |    |       |
|-----------------------------|----|-------|
| Accounts payable            | \$ | 267   |
| Accrued liabilities         |    | 3,733 |
| Other long-term liabilities |    | 555   |
| Total liabilities           | \$ | 4,555 |



## Equipment Service

In December 2004, the Company sold selected assets and transferred selected liabilities of its equipment service business to Pitney Bowes. The transaction was completed on December 31, 2004 and resulted in a gain of \$12,820, net of income taxes of \$8,550. In the second quarter of 2005, the Company finalized the working capital adjustment with Pitney Bowes related to the sale of the service business and in 2006, adjusted related reserves. The net impact of these adjustments resulted in a \$552 and \$60 net increase in the gain on sale in 2005 and 2006, respectively. In 2006, the Company also recorded net charges of \$682 to establish a liability for its estimate of a litigation settlement.

## NOTE 4 RESTRUCTURING AND IMPAIRMENT CHARGES

The Company has undertaken restructuring actions as part of an ongoing effort to improve its utilization and profitability. These restructuring plans are more fully described in Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 1, 2006.

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

Pre-tax components of restructuring expense are as follows:

|                                      | <i>13 Weeks Ended</i>      |                            | <i>39 Weeks Ended</i>      |                            |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                                      | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> |
| <b>2006 Restructuring Actions</b>    |                            |                            |                            |                            |
| Severance and employer related costs | \$ -                       | \$ -                       | \$ 700                     | \$ -                       |
| Associated costs                     | 369                        | -                          | 1,237                      | -                          |
| Total 2006                           | 369                        | -                          | 1,937                      | -                          |
| <b>2005 Restructuring Actions</b>    |                            |                            |                            |                            |
| Severance and employer related costs | 62                         | 382                        | 62                         | 382                        |
| Associated costs                     | -                          | -                          | 6                          | -                          |
| Total 2005                           | 62                         | 382                        | 68                         | 382                        |
| <b>2004 Restructuring Actions</b>    |                            |                            |                            |                            |

|                                      |   |       |   |       |
|--------------------------------------|---|-------|---|-------|
| Severance and employer related costs | - | (778) | - | (724) |
| Contract exit and termination costs  | - | 10    | 9 | 31    |
| Total 2004                           | - | (768) | 9 | (693) |

**2003 Restructuring Actions**

|                                     |    |    |     |     |
|-------------------------------------|----|----|-----|-----|
| Contract exit and termination costs | 88 | 48 | 194 | 199 |
| Total 2003                          | 88 | 48 | 194 | 199 |

**2001 Restructuring Actions**

|                                     |    |     |     |     |
|-------------------------------------|----|-----|-----|-----|
| Contract exit and termination costs | 14 | 262 | 189 | 902 |
| Total 2001                          | 14 | 262 | 189 | 902 |

|                             |        |         |          |        |
|-----------------------------|--------|---------|----------|--------|
| Total restructuring expense | \$ 533 | \$ (76) | \$ 2,397 | \$ 790 |
|-----------------------------|--------|---------|----------|--------|

**2006 Restructuring**

Within the Document and Label Solutions (DLS) segment, the Company closed its Terre Haute, Indiana label production plant. The plant's productive capacity will be transferred to three other plants in the United States to improve overall efficiency and lower operating costs. Restructuring costs to be incurred include severance and employer related costs and other associated costs directly related to the restructuring, primarily equipment removal and relocation.

Pre-tax components of 2006 restructuring expense are as follows:

|                                      | <i>Total Costs<br/>Expected<br/>to be<br/>Incurred</i> |    | <i>Total<br/>Q3 2006<br/>Restructuring<br/>Expense</i> |    | <i>Cumulative-<br/>To-Date<br/>Restructuring<br/>Expense</i> |
|--------------------------------------|--|----|--|----|--|
| Severance and employer related costs | \$ 840   | \$ | -  | \$ | 700  |
| Associated costs                     | 1,430  |    | 369  |    | 1,237  |
| Total                                | \$ 2,270   | \$ | 369  | \$ | 1,937  |

A summary of the 2006 restructuring accrual activity is as follows:

|                                      | <i>Charged to<br/>Accrual</i> |    | <i>Incurred<br/>in 2006</i> |    | <i>Balance<br/>2006</i> |
|--------------------------------------|-------------------------------|----|-----------------------------|----|-------------------------|
| Severance and employer related costs | \$ 694                        | \$ | (561)                       | \$ | 133                     |
| Total                                | \$ 694                        | \$ | (561)                       | \$ | 133                     |

### **2005 Restructuring**

Within the Print on Demand (POD) Services segment, the Company closed one printing center, selling the building at a small gain. The Company moved production to other facilities, outsourced envelope production, and opened a new digital-only facility in 2006. The Company also closed a warehouse in the DLS segment. Costs incurred primarily related to severance and employer-related costs.

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

|                                      | <i>Balance<br/>2005</i> |    | <i>Incurred<br/>in 2006</i> |    | <i>Balance<br/>2006</i> |
|--------------------------------------|-------------------------|----|-----------------------------|----|-------------------------|
| Severance and employer related costs | \$ 336                  | \$ | (316)                       | \$ | 20                      |
| Total                                | \$ 336                  | \$ | (316)                       | \$ | 20                      |

**2004, 2003, and 2001 Restructuring**

All of the 2004, 2003, and 2001 restructuring actions are completed. Any restructuring expense recorded in 2006 for these actions is primarily related to vacated facilities, as the amount accrued is net of any expected sub-lease income and the Company has been unable to sublease the remaining facilities.

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

|                            | <i>Balance</i><br>2005 | <i>Reversed</i><br><i>in 2006</i> | <i>Incurred</i><br><i>in 2006</i> | <i>Balance</i><br>2006 |
|----------------------------|------------------------|-----------------------------------|-----------------------------------|------------------------|
| Contract termination costs | \$ 26                  | \$ (4)                            | \$ (22)                           | \$ -                   |
| Total                      | \$ 26                  | \$ (4)                            | \$ (22)                           | \$ -                   |

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

|                            | <i>Balance</i><br>2005 | <i>Incurred</i><br><i>in 2006</i> | <i>Balance</i><br>2006 |
|----------------------------|------------------------|-----------------------------------|------------------------|
| Contract termination costs | \$ 266                 | \$ (230)                          | \$ 36                  |
| Total                      | \$ 266                 | \$ (230)                          | \$ 36                  |

**2006 Asset Impairments**

In conjunction with the 2006 DLS restructuring actions, the Company recorded \$1,565 of asset impairments. As of October 1, 2006, assets held for sale related to the DLS segment included buildings and equipment with a net book value of \$1,200. The carrying value of the Terre Haute building and equipment was adjusted to its 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. In addition, impairment charges of \$27 were recorded in the International Segment. Impairment charges are included in Asset Impairments in the accompanying Consolidated Statements of Income.

**NOTE 5 INVENTORIES**

The components of inventories are as follows:

|                        | <i>October 1,<br/>2006</i> | <i>January 1,<br/>2006</i> |
|------------------------|----------------------------|----------------------------|
| Finished products      | \$ 41,479                  | \$ 39,019                  |
| Jobs in process        | 3,022                      | 3,442                      |
| Materials and supplies | 4,065                      | 4,572                      |
| Total                  | \$ 48,566                  | \$ 47,033                  |

**NOTE 6 GOODWILL AND INTANGIBLE ASSETS**

Identifiable intangible assets consist of the following:

|   | <i>October 1, 2006</i>               |                                     | <i>January 1, 2006</i>               |                                     |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|   | <i>Gross<br/>Carrying<br/>Amount</i> | <i>Accumulated<br/>Amortization</i> | <i>Gross<br/>Carrying<br/>Amount</i> | <i>Accumulated<br/>Amortization</i> |
| Intangible Assets with Determinable Lives |                                      |                                     |                                      |                                     |
| Service Relationships                     | \$ -                                 | \$ -                                | \$ 16,048                            | \$ (7,297)                          |
| Patents                                   | 650                                  | (522)                               | 650                                  | (487)                               |
| Customer contracts                        | 303                                  | (281)                               | 303                                  | (214)                               |
| Professional services backlog             | 735                                  | (612)                               | 1,770                                | (1,464)                             |
| Software rights                           | 500                                  | (42)                                | -                                    | -                                   |
|   | <b>2,188</b>                         | <b>(1,457)</b>                      | <b>18,771</b>                        | <b>(9,462)</b>                      |

Intangible Assets with  
Indefinite Lives

|           |                 |                   |           |            |
|-----------|-----------------|-------------------|-----------|------------|
| Trademark | <b>1,000</b>    | -                 | 1,000     | -          |
|           | <b>1,000</b>    | -                 | 1,000     | -          |
| Total     | <b>\$ 3,188</b> | <b>\$ (1,457)</b> | \$ 19,771 | \$ (9,462) |

Amortization expense for intangible assets was \$136 and \$95 for the third quarter of 2006 and 2005, respectively and \$327 and \$285 for the year-to-date periods of 2006 and 2005, respectively. Estimated amortization expense for the remainder of 2006 is \$120. Estimated amortization expense for the next five years is as follows: 2007-\$208; 2008-\$146; 2009-\$123; 2010-\$100; and 2011-\$34.

During the second quarter of 2006, the Company performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are calculated using discounted expected future cash flows, using a risk-adjusted discount rate. Based upon the test results, the Company determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

**NOTE 7 EARNINGS PER SHARE**

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

| (Shares in thousands)                         | <i>13 Weeks Ended</i>            |                                  | <i>39 Weeks Ended</i>            |                                  |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|   | <i>October 1,</i><br><i>2006</i> | <i>October 2,</i><br><i>2005</i> | <i>October 1,</i><br><i>2006</i> | <i>October 2,</i><br><i>2005</i> |
| Weighted average shares outstanding - basic   | <b>28,938</b>                    | 28,806                           | <b>28,918</b>                    | 28,707                           |
| Dilutive effect of stock options              | -                                | 91                               | <b>42</b>                        | 51                               |
| Weighted average shares outstanding - diluted | <b>28,938</b>                    | 28,897                           | <b>28,960</b>                    | 28,758                           |

The effects of stock options on diluted EPS are reflected through the application of the treasury stock method. Under this method, proceeds received by the Company, based on assumed exercise, are hypothetically used to repurchase the Company's shares at the average market price for the period. Outstanding options to purchase approximately 1,840,365 and 1,880,322 shares for the three and nine month periods ended October 2, 2005 and approximately 1,903,446 shares for the nine month period ended October 1, 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 incurred in the third quarter of 2006, no outstanding options were included in the EPS computation because they would automatically result in anti-dilution.

**NOTE 8 SHARE BASED COMPENSATION**

The Company has one plan under which share-based awards may currently be granted to officers and key employees.

The 2002 Equity Incentive Plan (2002 Plan) provides for the granting of a maximum of 3,500,000 shares. The 2002 Plan permits the grant of incentive or non-qualified stock options, restricted stock grants, and stock appreciation rights. A committee of the Board of Directors (Committee) administers the Company's stock incentive plan. The Committee has the authority to determine the employees to whom awards will be made, the amount of the awards, and the other terms and conditions of the awards. Non-employee directors are also eligible to receive stock incentives under the 2002 Plan.

Stock options granted under the 2002 Plan have terms that range from five to ten years and the exercise price per share may not be less than the fair market value on the grant date. The options vest over periods determined when granted, generally one to four years and are exercisable until the term expires. Stock options granted under a previous plan had a maximum term of ten years and the exercise price per share was not less than the fair market value on the grant date. The remaining options outstanding under this plan vest over one to four years.

Under the 2002 Plan, shares subject to restricted stock award may be issued when the award is granted or at a later date, with or without dividend rights. The stock awards are subject to terms determined by the Committee, and may include specified performance objectives. In 2004, as part of an acquisition agreement, the Company's Board of Directors also approved restricted stock awards to one individual not to exceed an aggregate dollar amount of \$1,750.

*Prior to the adoption of SFAS 123 (R)*

Prior to January 2, 2006, the Company accounted for share-based compensation using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. As permitted, no share-based compensation cost was recognized for stock options in the consolidated financial statements for 2005, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 2, 2006, the Company adopted SFAS No. 123(R) using the modified prospective transition method. Under that transition method, compensation cost recognized in 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 2, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all share-based payments granted on or after January 2, 2006, based on the grant date fair value estimated in accordance with the provision of SFAS No. 123(R). In accordance with the modified prospective transition method, results for prior periods have not been restated.

The following table illustrates the effect on net income and earnings per share from continuing operations as if the Company had determined compensation expense for all awards granted under the Company's share-based compensation plans under the provisions of SFAS No. 123, prior to the adoption of SFAS No. 123(R). For purposes of this pro forma disclosure, the fair value of stock options was estimated using a Black-Scholes option-pricing model and amortized on a straight-line basis over the options' vesting periods.



|   | <i>13 Weeks Ended</i><br><i>October 2, 2005</i> | <i>39 Weeks Ended</i><br><i>October 2, 2005</i> |
|---|---|---|
| Net income from continuing operations, before cumulative effect of a change in accounting principle                                 | \$ 2,139  | \$ 4,055  |
| Add: share-based employee compensation expense included in reported net income, net of related tax effects                          | 378   | 1,010   |
| Less: share-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects | (426)   | (1,140)   |
| Proforma net income from continuing operations  | \$ 2,091  | \$ 3,925  |
| Basic and diluted earnings per share from continuing operations   |   |   |
| As reported   | \$ 0.08   | \$ 0.14   |
| Proforma  | \$ 0.07   | \$ 0.14   |

When recognizing compensation cost for restricted stock awards under APB Opinion No. 25, the Company was required to recognize compensation cost assuming all awards would vest and to reverse recognized compensation cost for forfeited awards only when the awards were actually forfeited. SFAS No. 123(R) requires the Company to estimate the number of share-based compensation awards that ultimately will be forfeited when recognizing compensation cost and to reevaluate this estimate each reporting period.

An estimate of forfeitures was required related to the unvested awards outstanding as of the adoption of SFAS No. 123(R) for which expense has been recognized in the Consolidated Statements of Income. The adjustment related to this estimate of forfeitures for compensation cost that would not have been recognized in prior periods had forfeitures been estimated during those periods was \$78, net of \$51 of tax, and is recorded as a cumulative effect of a change in accounting principle in the accompanying Consolidated Statement of Income.

#### ***Adoption of SFAS 123 (R)***

The following table illustrates the effect of adoption of SFAS No. 123(R) on 2006 third quarter and year-to-date results of operations.

|  | <i>13 Weeks Ended</i><br><i>October 1, 2006</i> | <i>39 Weeks Ended</i><br><i>October 1, 2006</i> |
|--|---|---|
| Decrease to income from continuing operations before cumulative effect of a change in accounting principle | \$ (205)  | \$ (200)  |
| Decrease to income from continuing operations before income taxes  |   |   |

|   |    |       |    |       |
|---|----|-------|----|-------|
| and cumulative effect of a change in accounting principle | \$ | (205) | \$ | (200) |
| Decrease to net income                                    | \$ | (124) | \$ | (42)  |
| Effect on basic and diluted earnings per share            | \$ | -     | \$ | -     |

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

|   | <i>13 Weeks Ended</i>      |                            | <i>39 Weeks Ended</i>      |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> |
| Restricted stock awards, service based          | \$ 411                     | \$ 400                     | \$ 931                     | \$ 1,127                   |
| Restricted stock awards, performance based      | 379                        | 221                        | 718                        | 535                        |
| Stock options                                   | 109                        | -                          | 286                        | -                          |
| Total share-based compensation expense          | 899                        | 621                        | 1,935                      | 1,662                      |
| Tax effect on share-based compensation expense  | 357                        | 243                        | 768                        | 652                        |
| Net effect on income from continuing operations | \$ 542                     | \$ 378                     | \$ 1,167                   | \$ 1,010                   |
| Effect on basic and diluted earnings per share  | \$ 0.02                    | \$ 0.01                    | \$ 0.04                    | \$ 0.04                    |

***Stock Options***

The weighted average fair value of stock options granted in 2006 and 2005 was estimated at \$3.26 and \$2.18 per share, respectively, using the Black-Scholes option-pricing model based on the following assumptions. Assumptions used in the model for prior year grants are described in the Company's Annual Report on Form 10-K for the year ended January 1, 2006.

*Expected Term:* The Company's expected term represents the period that the Company's share-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the share-based awards and vesting schedules.

*Expected Volatility:* The fair value of share based payments were valued using the Black-Scholes Model with a volatility factor based on the Company's historical stock prices.

*Expected Dividend:* The Black-Scholes Model requires a single expected dividend yield as an input. The Company calculates an expected dividend yield based on the quarter-end stock price and dividends paid per share.

*Risk-Free Interest Rate:* The Company bases the risk-free interest rate used in the Black-Scholes Model on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected remaining term of the options being valued.

*Estimated Pre-vesting Forfeitures:* When estimating forfeitures, the Company considers historical rates of forfeitures adjusted for known anomalies such as restructuring actions taken in the past by the Company.

The weighted average of significant assumptions used to estimate the fair value of options granted in 2006 are as follows:

|                         | <b>2006</b>    |
|-------------------------|----------------|
| Risk-free interest rate | <b>4.6%</b>    |
| Dividend yield          | <b>6.1%</b>    |
| Expected life           | <b>4 years</b> |
| Expected volatility     | <b>34.2%</b>   |

A summary of the Company's stock option activity and related information for year-to-date period of fiscal 2006 is as follows:

| <b>39 Weeks Ended October 1, 2006</b>  |   |
|--|---|
| <b><i>Number<br/>of<br/>Shares</i></b> | <b><i>Weighted<br/>Average<br/>Exercise<br/>Price</i></b> |

|                                       |                      |                     |
|---------------------------------------|----------------------|---------------------|
| Outstanding at January 1,<br>2006     | <b>2,391,626</b>     | <b>\$ 20.31</b>     |
| Granted                               | <b>310,214</b>       | <b>16.84</b>        |
| Exercised                             | <b>(28,767)</b>      | <b>12.53</b>        |
| Forfeited/Cancelled                   | <b>(271,118)</b>     | <b>21.64</b>        |
| <br>Outstanding at October 1,<br>2006 | <br><b>2,401,955</b> | <br><b>\$ 19.81</b> |
| <br>Exercisable at October 1, 2006    | <br><b>1,879,134</b> | <br><b>\$ 21.10</b> |

The aggregate intrinsic value of options exercised during the first nine months of fiscal 2006 and fiscal 2005 were \$75 and \$175, respectively.

Following is a summary of the status of stock options outstanding at October 1, 2006 which are fully vested or are expected to ultimately vest. The share amounts presented below have been reduced to reflect estimated forfeitures.

| <i>Options Outstanding</i> |                              |                              |                  | <i>Options Exercisable</i> |                              |                              |                  |
|----------------------------|------------------------------|------------------------------|------------------|----------------------------|------------------------------|------------------------------|------------------|
| <i>Number</i>              | <i>Weighted-<br/>Average</i> | <i>Weighted-<br/>Average</i> | <i>Aggregate</i> | <i>Number</i>              | <i>Weighted-<br/>Average</i> | <i>Weighted-<br/>Average</i> | <i>Aggregate</i> |
| <i>of</i>                  | <i>Remaining</i>             | <i>Exercise</i>              | <i>Intrinsic</i> | <i>of</i>                  | <i>Remaining</i>             | <i>Exercise</i>              | <i>Intrinsic</i> |
| <i>Shares</i>              | <i>Contractual<br/>Life</i>  | <i>Price</i>                 | <i>Value</i>     | <i>Shares</i>              | <i>Contractual<br/>Life</i>  | <i>Price</i>                 | <i>Value</i>     |
| 2,359,590                  | 5.5 years                    | \$ 19.89                     | \$ 295           | 1,879,134                  | 4.5 years                    | \$ 21.10                     | \$ 216           |

### *Restricted Stock Awards*

The Company has awarded restricted stock to certain of its employees that vest based on service requirements. The fair value of the service-based restricted stock awards is based on the closing market price of the Company's common stock on the day prior to the date of award and is being amortized to expense over vesting periods of three, four, and five years. The weighted-average grant date fair value of service-based restricted stock issued in 2006 and 2005 was \$16.35 and \$12.94 per share, respectively. The share-based compensation recognized in 2006 is based on the number of awards ultimately expected to vest and therefore has been reduced for estimated forfeitures. The total fair value of restricted stock that vested during 2006 was \$2,052. As of October 1, 2006 there was a total of \$1,505 of share-based compensation related to service-based restricted stock that will be amortized to expense over a weighted-average remaining service period of two years.

In fiscal 2005, the Company awarded 148,000 restricted stock grants at a weighted-average grant date fair value of \$12.89 per share which vest subject to attainment of the performance goal by the Company by fiscal year-end 2007.

If the performance goal is attained prior to 2007, vesting will accelerate. If, however, the performance goal is not attained by fiscal year-end 2007, these restricted stock awards will be forfeited and cancelled. In fiscal 2005, 5,700 of the performance-based restricted stock grants were forfeited. The Company expects the full amount of the remaining outstanding performance-based restricted stock awards to vest prior to fiscal year-end 2007 and therefore has not reduced compensation expense for estimated forfeitures. Under SFAS 123 (R), the fair value of the performance-based restricted stock awards is based on the closing market price of the Company's common stock on the day prior to the date of award. As of October 1, 2006, there was a total of \$1,345 of share-based compensation related to performance-based restricted stock that will be amortized to expense over the remaining expected vesting period of approximately 15 months.

All restricted stock program participants are entitled to receive cash dividends and to vote their shares. However, the sale or transfer of these shares is restricted during the vesting period. A summary of the Company's restricted stock activity and related information for 2006 is as follows.

*39 Weeks Ended  
October 1, 2006*

*Weighted*

|                                | <i>Number<br/>of<br/>Shares</i> | <i>Average<br/>Grant Date<br/>Fair Value</i> |
|--------------------------------|---------------------------------|--|
| Nonvested at January 1, 2006   | <b>380,739</b>                  | <b>\$ 15.09</b>                              |
| Granted                        | <b>90,101</b>                   | <b>16.35</b>                                 |
| Vested                         | <b>(148,758)</b>                | <b>18.94</b>                                 |
| Forfeited/Canceled             | <b>(4,700)</b>                  | <b>17.52</b>                                 |
| Nonvested at October 1, 2006   | <b>317,382</b>                  | <b>\$ 14.25</b>                              |
| <i>Statement of Cash Flows</i> |                                 |  |

Prior to adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The Company has not recorded any excess tax benefits in 2006.

**NOTE 9 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 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 1, 2006.

Net periodic benefit cost includes the following components:

|   | <i>13 Weeks Ended</i> |                   | <i>39 Weeks Ended</i> |                   |
|---|-----------------------|-------------------|-----------------------|-------------------|
|   | <i>October 1,</i>     | <i>October 2,</i> | <i>October 1,</i>     | <i>October 2,</i> |
|   | <i>2006</i>           | <i>2005</i>       | <i>2006</i>           | <i>2005</i>       |
| Service cost of benefits earned               | \$ 2,022              | \$ 1,939          | \$ 6,067              | \$ 5,817          |
| Interest cost on projected benefit obligation | 6,831                 | 6,653             | 20,493                | 19,959            |
| Expected return on plan assets                | (7,284)               | (7,670)           | (21,852)              | (23,011)          |
| Amortization of prior service costs           | 90                    | 280               | 269                   | 840               |
| Amortization of net loss from prior periods   | 6,369                 | 4,747             | 19,106                | 14,241            |
| Settlement loss                               | 1,627                 | -                 | 1,627                 | -                 |
| Total   | \$ 9,655              | \$ 5,949          | \$ 25,710             | \$ 17,846         |

The Company does not have a minimum funding requirement in 2006. The Company made voluntary contributions of \$25,000 to the qualified pension plan in the first nine months of 2006 and \$12,800 in the same period of 2005.

The settlement loss is related to associates retiring in 2006 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 to record a pro-rata portion of unrecognized net losses from prior periods.

**NOTE 10 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 16 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended January 1, 2006.

Postretirement benefit cost includes the following components:

|   | <i>13 Weeks Ended</i>      |                            | <i>39 Weeks Ended</i>      |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> | <i>October 1,<br/>2006</i> | <i>October 2,<br/>2005</i> |
| Service cost                                | \$ -                       | \$ -                       | \$ -                       | \$ -                       |
| Interest cost                               | <b>298</b>                 | 516                        | <b>893</b>                 | 1,547                      |
| Amortization of prior service cost          | <b>(884)</b>               | (551)                      | <b>(2,653)</b>             | (1,654)                    |
| Amortization of net loss from prior periods | <b>154</b>                 | 131                        | <b>462</b>                 | 393                        |
| Total                                       | \$ <b>(432)</b>            | \$ 96                      | \$ <b>(1,298)</b>          | \$ 286                     |

The funding policy is to pay claims as they occur. Payments for postretirement health benefits, net of retiree contributions, were approximately \$269 and \$793 for the 13-week periods ended October 1, 2006 and October 2, 2005, respectively and \$1,206 and \$2,405 for the 39-week periods ended October 1, 2006 and October 2, 2005, respectively.



**NOTE 11 SEGMENT REPORTING**

In fiscal 2006, the Company reclassified the Document Systems business unit that was previously part of Document and Label Solutions to a separate operating segment included in Other. This change is in response to changes made in the organizational structure of the Company and a reevaluation of the aggregation criteria. After the sale of InSystems, the Company's three reportable segments are DLS, Print on Demand (POD) Services, and Digital Solutions. Segment profit and loss information for 2005 has been revised from previously reported amounts to reflect the current presentation. The Company did not revise assets by segments for 2005 and prior because it is not practicable to do so. Accordingly, 2005 realigned asset and asset related amounts have not been presented.

As a result of a review of the allocation of corporate SG&A expense to our operating units, we have also made certain modifications that affect the expense allocation to our segments. In general, POD Services will show a decrease in expense and DLS will show an increase. This change was made in 2006; amounts for 2005 were reclassified for comparative purposes.

Information about the Company's operations by segment for the 13-week periods ended October 1, 2006 and October 2, 2005 is as follows:

|                    |                 |    | <i>Document<br/>and Label<br/>Solutions</i> | <i>POD<br/>Services</i> | <i>Digital<br/>Solutions</i> | <i>Other</i>  | <i>Total</i>     |
|--------------------|-----------------|----|---|-------------------------|------------------------------|---------------|------------------|
| Revenue from       | <b>2006</b>     | \$ | <b>141,263</b>                              | <b>59,048</b>           | <b>233</b>                   | <b>14,783</b> | <b>\$215,327</b> |
| external customers | 2005            |    | 145,774                                     | 60,010                  | 79                           | 12,780        | 218,643          |
| Operating income   | (a) <b>2006</b> | \$ | <b>4,493</b>                                | <b>(802)</b>            | <b>(1,128)</b>               | <b>(40)</b>   | <b>\$ 2,523</b>  |
| (loss)             | (b) 2005        |    | 10,069                                      | (1,203)                 | (1,380)                      | (88)          | 7,398            |

(a) 2006 operating income (loss) includes the following charges (reversals)

|               |    |     |    |     |    |   |    |   |    |     |
|---------------|----|-----|----|-----|----|---|----|---|----|-----|
| Restructuring | \$ | 374 | \$ | 150 | \$ | - | \$ | - | \$ | 524 |
| Impairment    |    | 53  |    | -   |    | - |    | - |    | 53  |

(b) 2005 operating income (loss) includes the following charges (reversals)

|               |    |     |    |     |    |   |    |   |    |     |
|---------------|----|-----|----|-----|----|---|----|---|----|-----|
| Restructuring | \$ | 78  | \$ | 361 | \$ | - | \$ | - | \$ | 439 |
| Impairment    |    | 157 |    | -   |    | - |    | - |    | 157 |

Information about the Company's operations by segment for the 39-week periods ended October 1, 2006 and October 2, 2005 is as follows:

***Document***

|                                 |                 | <i>and Label<br/>Solutions</i> | <i>POD<br/>Services</i> | <i>Digital<br/>Solutions</i> | <i>Other</i>     | <i>Total</i>     |
|---------------------------------|-----------------|--------------------------------|-------------------------|------------------------------|------------------|------------------|
| Revenue from external customers | <b>2006</b>     | <b>\$ 433,921</b>              | <b>\$ 189,639</b>       | <b>\$ 503</b>                | <b>\$ 42,719</b> | <b>\$666,782</b> |
|                                 | 2005            | 447,576                        | 181,852                 | 167                          | 40,919           | 670,514          |
| Operating income (loss)         | (a) <b>2006</b> | <b>\$ 18,443</b>               | <b>\$ 7,858</b>         | <b>\$ (3,793)</b>            | <b>\$ 696</b>    | <b>\$ 23,204</b> |
|                                 | (b) 2005        | 29,874                         | (1,091)                 | (4,394)                      | 1,429            | 25,818           |
| Total assets                    | <b>2006</b>     | <b>\$ 222,485</b>              | <b>\$ 73,578</b>        | <b>\$ 1,198</b>              | <b>\$ 13,645</b> | <b>\$310,906</b> |

(a) 2006 operating income (loss) includes the following charges

|               |                 |               |             |             |                 |
|---------------|-----------------|---------------|-------------|-------------|-----------------|
| Restructuring | <b>\$ 1,946</b> | <b>\$ 262</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 2,208</b> |
| Impairment    | <b>1,565</b>    | <b>-</b>      | <b>-</b>    | <b>27</b>   | <b>1,592</b>    |

(b) 2005 operating income (loss) includes the following charges (reversals)

|               |               |               |             |                |               |
|---------------|---------------|---------------|-------------|----------------|---------------|
| Restructuring | <b>\$ 196</b> | <b>\$ 477</b> | <b>\$ -</b> | <b>\$ (18)</b> | <b>\$ 655</b> |
| Impairment    | <b>157</b>    | <b>-</b>      | <b>-</b>    | <b>-</b>       | <b>157</b>    |

Reconciling information between reportable segments and the Company's consolidated financial statements for the 13-week and 39-week periods ended October 1, 2006 and October 2, 2005 is as follows:

|  | <i>13 Weeks Ended</i> |                   | <i>39 Weeks Ended</i> |                   |
|--|-----------------------|-------------------|-----------------------|-------------------|
|  | <i>October 1,</i>     | <i>October 2,</i> | <i>October 1,</i>     | <i>October 2,</i> |
|  | <i>2006</i>           | <i>2005</i>       | <i>2006</i>           | <i>2005</i>       |
|  |                       |                   | \$                    | \$                |
| Operating income   | \$ 2,523              | 7,398             | \$ 23,204             | 25,818            |
| Corporate restructuring charges  | (9)                   | 515               | (189)                 | (133)             |
| LIFO Adjustment  | (382)                 | -                 | (1,329)               | (511)             |
| Other unallocated corporate expense  | (5,924)               | (3,730)           | (17,790)              | (11,439)          |
| Total other expense  | (515)                 | (652)             | (1,418)               | (1,895)           |
| (Loss )Income from continuing operations<br>before income taxes and a cumulative effect of |                       |                   |                       |                   |
|  | \$ (4,307)            | \$ 3,531          | \$ 2,478              | \$ 11,840         |
| a change in accounting principle   |                       |                   |                       |                   |
| Total Assets   |                       |                   | \$ 310,906            |                   |
| Corporate and unallocated  |                       |                   | 123,150               |                   |
| Total consolidated assets  |                       |                   | \$ 434,056            |                   |

**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 *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 2006 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 January 1, 2006.

**OVERVIEW**

*The Company*

The Standard Register Company (referred to in this report as the *Company, we, us, our, or Standard Register*) is a leading document services provider that helps our customers manage, control, and source their document and print-related spending. As a strategic partner in migrating companies from paper-based to digital processes, our strategy is to provide a full spectrum of solutions including printing solutions, label and tag solutions, print-on-demand services, document and marketing automation, outsourcing and managed services, and professional services.

Our Enterprise Document Management approach includes analysis of where, how and even if documents are printed. This document study includes everything from forms, stationery, and reports to four-color marketing collateral and also addresses what is printed internally, as well as externally. By improving the efficiency of these processes and applying appropriate sourcing strategies, customers are able to save on their entire document-related supply chain.

Our solutions give customers the tools to manage the entire lifecycle of their documents from concept to delivery. We make a measurable difference for our customers by helping them achieve their desired business outcomes by assisting them with reducing costs; transitioning to more efficient, digital processes; effectively managing their risks and meeting their regulatory and industry requirements; driving their business growth; supporting their global operations; and surviving in a dynamic, competitive climate.

*Business Challenges*

The market for many of our traditional printed products is very price competitive. In order to maintain or improve our margins in these segments, we must execute our plans to gain market share, improve productivity, and increase the sale of related value-added software and services.

Paper prices rose in 2005 and early 2006, reflecting higher energy costs, lower pipeline inventories, and high paper mill operating rates achieved in part as a result of lowered capacity. These industry conditions are expected to continue through 2006, which may support additional paper price increases. We have raised our target selling prices to recover the most recent round of paper cost increases and will likely do so again should paper prices increase further in 2006. Given our price-competitive marketplace and the custom nature of our product, the recovery of paper cost increases requires individual customer negotiation and is challenging, often taking several quarters to achieve and reducing margins in the interim.

We fully expect the increasing use of reverse auctions and other bidding tools will gain in popularity and will most likely lower the prices for our printed products.

Our pension plan became underfunded in late 2002, primarily as a result of weak stock market returns in 2001 and 2002 and lower interest rates. The accounting for these and other actuarial losses has resulted in significant pension loss amortization expense in subsequent years equivalent to \$0.40 per share in 2005 and \$0.53 per share expected for 2006. We have continued to make voluntary cash contributions to our qualified pension plan, averaging approximately \$15 million annually over the last four years. We contributed \$25 million to the qualified pension plan in the first nine months of 2006.

Our Digital Solutions segment has produced operating losses in recent periods, reflecting software development and other investments made to bring our digital pen and paper technology and services solution to market. Over the last several years, we have built a core technology that has been adopted faster outside North America where we have sold systems in Australia and South Africa. We are exploring options to best monetize our investment.

### ***Our Focus***

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

We plan to address the large and growing market to provide for digital print-on-demand output, including color and variable print. Services that provide the customer with added convenience, design capability and control over the process are expected to be a strong differentiator. We plan to step up the level of investment in our POD Services business in order to ensure that we catch the building market momentum in this important growth segment. This will translate into higher capital expenditures and selling, general and administrative expenses in the coming quarters.

We intend to continue to bring our customers products and services that improve their ability to capture, manage and move information in their business processes. We also offer a portfolio of Standard Register managed services that help our customers reduce costs and improve their business processes allowing them to concentrate on their core competencies. Over time, services will become an increasing source of our revenue stream. Our strategy is beginning to resonate with customers and we have successfully completed implementation of these offerings.

We expect to continue to focus on maintaining our current strong financial condition.

### **CRITICAL ACCOUNTING POLICIES**

In preparing these unaudited financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended January 1, 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 related assumptions are in the areas of pension and postretirement healthcare benefits, impairment of long-lived assets, deferred taxes, inventories, and contingent liabilities. For a detailed discussion of these critical accounting estimates, see the Management Discussion and Analysis included in our Annual Report on Form 10-K for the year ended January 1, 2006.

*Pension Benefit Plans* - Included in our financial results are significant pension obligations and benefit costs which are measured using actuarial valuations. The use of actuarial models requires us to make certain assumptions concerning future events that will determine the amount and timing of the benefit payments.

Our qualified and nonqualified defined benefit pension plans permits retirees to receive a lump sum payment upon retirement. When the total lump sum payments for a year exceed total service and interest costs recognized for that year, we are required to record a non-cash charge referred to as a pension settlement. Based on information currently

available to us, we are unable to determine for certain, whether or not we will be required to record a non-cash pension settlement charge in 2006 for our qualified defined benefit pension plan. However, as a result of associates retiring in 2006 and electing a lump-sum payment of their pension benefit from the nonqualified supplementary benefit plan, we recorded a non-cash settlement charge of \$1.6 million to record a pro-rata portion of unrecognized net losses from prior periods.

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

During the second quarter of 2006, we performed the annual impairment test for goodwill related to the PlanetPrint acquisition. The test was performed at the reporting unit level using a fair-value-based test that compares the fair value of the asset to its carrying value. Based upon the test results, we determined that the discounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

In performing the test for impairment, we made assumptions about future sales and profitability that required significant judgment. In estimating expected future cash flows for the 2006 test, we used internal forecasts that were based upon actual results, assuming slightly increasing revenue and gross margin improvement. At the time of the impairment test, the carrying value of net assets for PlanetPrint was \$9.3 million. The most critical estimates used in determining the

expected future cash flows were the revenue and cost assumptions and the terminal value assumed. If our estimate of expected future cash flows had been 10% lower, or if either of these two assumptions changed by 10%, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

### ***Contingent Liabilities***

Accruals for contingent liabilities are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. At January 1, 2006, our total liability for unclaimed funds was \$4.2 million, including an estimate of the liability for the results of an ongoing audit related to numerous states for years prior to 2002. We believed this was a critical accounting estimate because of the considerable uncertainty surrounding estimation, including the outcome of the ongoing audit. The calculation was based upon the evaluation of information available to us at that time, prior experience in settling state audits, an estimate for any interest and penalties, as well as any liability for states not involved in the audit. In the second quarter of 2006, we reached a favorable settlement to that audit and reversed \$2.5 million of the reserve to income.

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

## **DISCONTINUED OPERATIONS**

### **InSystems**

In June 2006 we sold 100% of the outstanding capital stock of InSystems Corporation (InSystems) to Whitehill Technologies, Inc. for approximately \$8.5 million in cash, plus the return of certain cash deposits. In the third quarter of 2006, we increased our estimate of deferred taxes to be written off as a result of this sale. The transaction resulted in a loss of approximately \$10.8 million, net of taxes, which includes a charge of \$3.0 million for contractual obligations to Whitehill Technologies, Inc. related to the leased facility. In conjunction with the recording of this contractual obligation, the Company reversed a restructuring liability of \$1.1 million to discontinued operations.

The sale of InSystems, a reportable segment since its acquisition in 2002, met the criteria to be accounted for as discontinued operations under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and the results of operations have been excluded from continuing operations. Revenue for InSystems included in discontinued operations was \$2.8 million for the third quarter of 2005 and \$4.9 million and \$8.3 million for the first nine months of 2006 and 2005, respectively. No interest expense was allocated to discontinued operations. No interest expense was allocated to discontinued operations. The following discussion will focus on the results of continuing operations.

### **Equipment Service**

In December 2004, the Company sold selected assets and transferred selected liabilities of its equipment service business to Pitney Bowes. In 2005, the Company finalized the working capital adjustment with Pitney Bowes related to the sale of the service business and in 2006, adjusted related reserves. The net impact of these adjustments resulted in a \$552 and \$60 net increase in the gain on sale in 2005 and 2006, respectively. In 2006, the Company also recorded net charges of \$682 to establish a liability for its estimate of a litigation settlement.

## **RESULTS OF OPERATIONS**



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

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

In 2006 we reclassified the Document Systems group that was previously part of Document and Label Solutions to Other. This change is in response to changes made in the organizational structure of the Company. After the sale of InSystems, our three reportable segments are Document and Label Solutions, Print on Demand (POD) Services, and Digital Solutions. Segment profit and loss information for 2005 has been revised from previously reported amounts to reflect the

current organizational structure and modifications that effect the expense allocation to our segments. Please refer to Note 11 for additional information related to our segment results and reconciliation of segment results to consolidated amounts.

Unless otherwise noted, references to 2006 and 2005 refer to the thirteen- and thirty-nine-week periods ended October 1, 2006 and October 2, 2005.

The following table presents an analysis of operations for the respective periods.

|   | <i>Third Quarter</i> |             | <i>Year-to-Date</i> |             |
|---|----------------------|-------------|---------------------|-------------|
|   | <i>2006</i>          | <i>2005</i> | <i>2006</i>         | <i>2005</i> |
| Revenue   | \$ <b>215.3</b>      | \$ 218.6    | \$ <b>666.8</b>     | \$ 670.5    |
| <i>% Change</i>                                       | <b>-1.5%</b>         | 3.9%        | <b>-0.6%</b>        | 3.9%        |
| Gross Margin  | <b>70.6</b>          | 74.4        | <b>230.4</b>        | 228.7       |
| <i>% Revenue</i>                                      | <b>32.8%</b>         | 34.0%       | <b>34.6%</b>        | 34.1%       |
| Selling, General, and Administrative Expense          | <b>66.5</b>          | 62.4        | <b>200.3</b>        | 188.0       |
| Depreciation and Amortization                         | <b>7.3</b>           | 7.7         | <b>22.2</b>         | 25.9        |
| Asset Impairments                                     | <b>0.1</b>           | 0.2         | <b>1.6</b>          | 0.2         |
| Restructuring Expense                                 | <b>0.5</b>           | (0.1)       | <b>2.4</b>          | 0.8         |
| Income (Loss) from Continuing Operations              | <b>(3.8)</b>         | 4.2         | <b>3.9</b>          | 13.8        |
| Interest Expense                                      | <b>(0.5)</b>         | (0.6)       | <b>(1.6)</b>        | (1.9)       |
| Investment and Other Income                           | -                    | (0.1)       | <b>0.2</b>          | -           |
| Pretax Income (Loss) from Continuing Operations       | <b>(4.3)</b>         | 3.5         | <b>2.5</b>          | 11.9        |
| Tax Adjustments                                       | <b>1.0</b>           | -           | <b>1.0</b>          | 2.9         |
| Income Tax Expense (Benefit)                          | <b>(1.7)</b>         | 1.4         | <b>1.2</b>          | 5.0         |
| Net Income (Loss) from Continuing Operations          | <b>(3.6)</b>         | 2.1         | <b>0.3</b>          | 4.0         |
| Loss from Discontinued Operations                     | \$ <b>(0.5)</b>      | \$ (0.8)    | \$ <b>(2.4)</b>     | \$ (3.2)    |
| Gain (Loss) on Sale of Discontinued Operations        | <b>(1.6)</b>         | -           | <b>(10.7)</b>       | 0.6         |
| Cumulative Effect of a Change in Accounting Principle | -                    | -           | <b>0.1</b>          | -           |
| <b>Net Income (Loss)</b>                              | \$ <b>(5.7)</b>      | \$ 1.4      | \$ <b>(12.7)</b>    | \$ 1.4      |

|  |    |               |    |      |    |               |    |      |
|--|----|---------------|----|------|----|---------------|----|------|
| <i>Income (Loss) Per Diluted Share</i> | \$ | <b>(0.20)</b> | \$ | 0.05 | \$ | <b>(0.44)</b> | \$ | 0.05 |
|--|----|---------------|----|------|----|---------------|----|------|

***Effects to Earnings (Loss) Per Share*****Continuing Operations**

|                                     |    |               |    |        |    |               |    |        |
|-------------------------------------|----|---------------|----|--------|----|---------------|----|--------|
|                                     |    |               | \$ | -      |    |               |    |        |
| Restructuring and Asset Impairments | \$ | <b>(0.01)</b> |    |        | \$ | <b>(0.08)</b> | \$ | (0.02) |
| Pension Loss Amortization           |    | <b>(0.13)</b> |    | (0.10) |    | <b>(0.40)</b> |    | (0.30) |
| Pension Settlement Loss             |    | <b>(0.03)</b> |    | -      |    | <b>(0.03)</b> |    | -      |
| Tax Adjustments                     |    | <b>(0.04)</b> |    | -      |    | <b>(0.04)</b> |    | (0.10) |
| Other                               |    | <b>0.08</b>   |    | 0.18   |    | <b>0.56</b>   |    | 0.56   |
| Net Income (Loss) Per Share         | \$ | <b>(0.13)</b> | \$ | 0.08   | \$ | <b>0.01</b>   | \$ | 0.14   |

**Discontinued Operations**

|                     |    |               |    |        |    |               |    |        |
|---------------------|----|---------------|----|--------|----|---------------|----|--------|
| Operating loss      | \$ | <b>(0.02)</b> | \$ | (0.03) | \$ | <b>(0.08)</b> | \$ | (0.11) |
| (Loss) Gain on Sale |    | <b>(0.05)</b> |    | -      |    | <b>(0.37)</b> |    | 0.02   |
| Total               | \$ | <b>(0.07)</b> | \$ | (0.03) | \$ | <b>(0.45)</b> | \$ | (0.09) |

**Revenue**

Consolidated revenue for the third quarter and first nine months of 2006 declined slightly from the same periods of 2005. Paper companies announced additional price increases in the first quarter of 2006 and we, in turn, have raised our target selling prices in an effort to recover these increases. We continue to expect to recover the majority of the raw material price increases from earlier in the year. However, aggressive bidding activity among a few large accounts and a customer's involvement in an acquisition has resulted in lower revenue. Although we expect fourth quarter revenue to rebound from the third quarter level, the third quarter's result alters our view for the total year. We now anticipate revenue for fiscal 2006 to be relatively close to 2005.

The table below presents revenue by reportable segment.

|                              | <i>Third Quarter</i> |             |                 | <i>Year-to-Date</i> |             |                 |
|------------------------------|----------------------|-------------|-----------------|---------------------|-------------|-----------------|
|                              | <i>2006</i>          | <i>2005</i> | <i>% Change</i> | <i>2006</i>         | <i>2005</i> | <i>% Change</i> |
| Document and Label Solutions | \$ 141.2             | \$ 145.7    | -3.1%           | \$ 433.9            | \$ 447.5    | -3.0%           |
| POD Services                 | 59.1                 | 60.0        | -1.5%           | 189.7               | 181.9       | 4.3%            |
| Digital Solutions            | 0.2                  | 0.1         | 100.0%          | 0.5                 | 0.2         | 150.0%          |
| Other                        | 14.8                 | 12.8        | 15.6%           | 42.7                | 40.9        | 4.4%            |
| Total                        | \$ 215.3             | \$ 218.6    | -1.5%           | \$ 666.8            | \$ 670.5    | -0.6%           |

In third quarter 2006 and over the first nine months of the year, our DLS segment experienced unit volume declines in certain core products and distribution services, mitigated by the recovery of higher paper costs.

Our POD Services segment revenue decreased slightly in the third quarter of 2006 compared with 2005; but was up \$7.8 million or 4.3% on a year-to-date basis, primarily related to unit volume increases from a state prescription pad program that ramped up earlier this year during the initial ordering phase.

Digital Solutions is a start-up venture based on the application of digital writing technology. Marketed primarily through third party channels, applications have been deployed in pharmaceutical, healthcare, field service, transportation, and other markets, both in the U.S and abroad. First customer installations occurred in the fourth quarter 2005.

Other includes our Commercial Print, PathForward, Document Systems, and International business units. The increase in revenue for both the third quarter and year-to-date was primarily a result of unit volume increases in our Commercial Print business unit.

### *Gross Margin*

Gross margin dollars decreased \$3.8 million -1.2 percentage points in relation to revenue - in the third quarter of 2006 versus the same period in 2005. The reduction primarily results from the reduced revenue mitigated by cost reductions.

On a year-to-date basis, gross margin dollars increased by \$1.7 million versus the same period of 2005, as growth in the POD Services segment and cost reductions more than offset the impact of lower DLS revenue.

Pricing is expected to continue to be difficult in selected accounts for the fourth quarter, which will likely lower gross margin percentage below our first half of 2006 rate.

As part of an overall effort to charge for a wide array of services we provide our customers, we began recently to bill for document design services. We have reclassified costs associated with these design services from SG&A expense to cost of sales in 2006; amounts for 2005 were reclassified for comparative purposes.

### *Selling, General, and Administrative (SG&A) Expense*

SG&A expense increased \$4.1 million and \$12.3 million in the third quarter and the first nine months of 2006 as compared to the same prior year periods, reflecting increased expense for information technology projects, higher pension amortization, and a non-cash pension settlement charge. The settlement charge is related to associates retiring in 2006 and electing a lump-sum payment of their pension benefit from the non-qualified supplementary benefit plan.

As a result of the pension obligation settlement, we recorded a non-cash charge to record a pro-rata portion of unrecognized net losses from prior periods. As previously mentioned, in the second quarter of 2006, we reached a favorable settlement to an audit for unclaimed funds and reversed \$2.5 million of the reserve to SG&A expense. The effect of adoption of Statement of Financial Accounting Standards No. 123(R) as of the beginning of fiscal 2006 did not have a material effect on SG&A Expense.

### ***Depreciation & Amortization***

Depreciation and amortization expense decreased in 2006 due in part to major software systems becoming fully depreciated during 2005.

### ***Income Taxes***

The State of Ohio enacted new tax legislation in June 2005 that had a significant unfavorable effect on income taxes in 2005. As required by SFAS No. 109, Accounting for Income Taxes, we recorded the impact of the change in Ohio tax legislation in the second quarter of 2005. This resulted in a net charge of \$2.9 million, or \$0.10 per share, reflected in income tax expense.

In the third quarter of 2006, we recorded valuation allowances for capital loss and charitable contribution carryforwards that are more likely than not to be realized and other tax adjustments. In addition, we recorded tax adjustments for

restricted stock that vested during the third quarter at a price less than the fair value when granted. This resulted in a net charge of \$1.0 million, or \$0.4 per share, reflected in income tax expense.

### *Net Income from Continuing Operations*

As the table below indicates, excluding pension loss amortization, settlement loss, restructuring, and asset impairments, pre-tax income from continuing operations decreased slightly, from \$29.0 million in the first nine months of 2005 to \$28.6 million for the same period of the current year.

|   | <i>Effect on Third Quarter Income</i> |             |               | <i>Effect on Year-to-Date Income</i> |             |               |
|---|---------------------------------------|-------------|---------------|--------------------------------------|-------------|---------------|
|   | <i>2006</i>                           | <i>2005</i> | <i>Change</i> | <i>2006</i>                          | <i>2005</i> | <i>Change</i> |
| <b>Continuing Operations</b>  |                                       |             |               |                                      |             |               |
| Operations before Restructuring, Impairment,<br>and Pension Loss Amortization | \$ 4.8                                | \$ 9.0      | \$ (4.2)      | \$28.6                               | \$29.0      | \$ (0.4)      |
| Pension Loss Amortization   | (6.4)                                 | (4.7)       | (1.7)         | (19.1)                               | (14.2)      | (4.9)         |
| Pension Settlement Loss   | (1.6)                                 | -           | (1.6)         | (1.6)                                | -           | (1.6)         |
| Restructuring   | (0.5)                                 | 0.1         | (0.6)         | (2.4)                                | (0.8)       | (1.6)         |
| Asset Impairments   | (0.1)                                 | (0.2)       | 0.1           | (1.6)                                | (0.2)       | (1.4)         |
| Income (Loss) from Operations   | (3.8)                                 | 4.2         | (8.0)         | 3.9                                  | 13.8        | (9.9)         |
| Interest & Other Income (Expense)   | (0.5)                                 | (0.7)       | 0.2           | (1.4)                                | (1.9)       | 0.5           |
| Pretax (Loss) Income from Continuing<br>Operations                            | (4.3)                                 | 3.5         | (7.8)         | 2.5                                  | 11.9        | (9.4)         |
| Income Tax Adjustments  | 1.0                                   | -           | 1.0           | 1.0                                  | 2.9         | (1.9)         |
| Income Tax Expense (Benefit)  | (1.7)                                 | 1.4         | (3.1)         | 1.2                                  | 5.0         | (3.8)         |
| Net Income (Loss) from Continuing<br>Operations                               |                                       |             |               |                                      |             |               |
| Before Cumulative Effect of a<br>Change in Accounting Principle               | \$ (3.6)                              | \$ 2.1      | \$ (5.7)      | \$ 0.3                               | \$ 4.0      | \$ (3.7)      |

The table below presents income (loss) from continuing operations for each reportable segment.

| <i>Third Quarter</i> |                |             |                | <i>Year-to-Date</i> |                |             |                |
|----------------------|----------------|-------------|----------------|---------------------|----------------|-------------|----------------|
| <i>2006</i>          |                | <i>2005</i> |                | <i>2006</i>         |                | <i>2005</i> |                |
|                      | <i>%</i>       |             | <i>%</i>       |                     | <i>%</i>       |             | <i>%</i>       |
| \$                   | <i>Revenue</i> | \$          | <i>Revenue</i> | \$                  | <i>Revenue</i> | \$          | <i>Revenue</i> |

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|                              |        |       |         |       |         |      |         |       |
|------------------------------|--------|-------|---------|-------|---------|------|---------|-------|
| Document and Label Solutions | \$ 4.5 | 3.2%  | \$ 10.1 | 6.9%  | \$ 18.4 | 4.3% | \$ 29.9 | 6.7%  |
| POD Services                 | (0.8)  | -1.4% | (1.2)   | -2.0% | 7.9     | 4.1% | (1.1)   | -0.6% |
| Digital Solutions            | (1.1)  | 0.0%  | (1.3)   | 0.0%  | (3.8)   | 0.0% | (4.4)   | 0.0%  |
| Other                        | (0.1)  | -0.3% | (0.2)   | -0.7% | 0.7     | 1.6% | 1.4     | 3.5%  |
| Total                        | \$ 2.5 | 1.1%  | \$ 7.4  | 3.4%  | \$ 23.2 | 3.5% | \$ 25.8 | 3.9%  |

The table below presents income (loss) from continuing operations for each reportable segment excluding restructuring and asset impairment.

|                              | <i>Third Quarter</i> |                   |                   |                   | <i>Year-to-Date</i> |                   |                   |                   |
|------------------------------|----------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|                              | <i>2006</i>          |                   | <i>2005</i>       |                   | <i>2006</i>         |                   | <i>2005</i>       |                   |
|                              | <i>%</i>             |                   | <i>%</i>          | <i>%</i>          |                     | <i>%</i>          |                   | <i>%</i>          |
|                              | <i>\$ Revenue</i>    | <i>\$ Revenue</i> | <i>\$ Revenue</i> | <i>\$ Revenue</i> | <i>\$ Revenue</i>   | <i>\$ Revenue</i> | <i>\$ Revenue</i> | <i>\$ Revenue</i> |
| Document and Label Solutions | \$ 4.9               | 3.5%              | \$ 10.3           | 7.1%              | \$ 21.9             | 5.0%              | \$ 30.2           | 6.8%              |
| POD Services                 | (0.7)                | -1.1%             | (0.8)             | -1.4%             | 8.1                 | 4.3%              | (0.6)             | -0.3%             |
| Digital Solutions            | (1.1)                | 0.0%              | (1.4)             | 0.0%              | (3.8)               | 0.0%              | (4.4)             | 0.0%              |
| Other                        | (0.0)                | -0.3%             | (0.1)             | -0.8%             | 0.7                 | 1.7%              | 1.4               | 3.4%              |
| Total                        | \$ 3.1               | 1.4%              | \$ 8.0            | 3.7%              | \$ 27.0             | 4.0%              | \$ 26.6           | 4.0%              |

The decrease in our DLS segment operating income compared to 2005 reflects the restructuring and asset impairment recognized in 2006, the result of closing a label plant in Indiana. Excluding these charges, DLS operating income is down \$8.3 million year-to-date. Progress made in recovering higher paper costs and cost reductions resulting from previous restructuring actions and productivity improvements were offset by the lower unit volume in 2006.

POD Services' operating income for the year-to-date periods of 2006 improved primarily as a result of the prescription pad rollout revenue previously discussed.

Our Digital Solutions segment's operating results reflect expenses to develop and market their new digital writing products and services.

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

We have undertaken restructuring actions as part of an on-going effort to improve our utilization and profitability. These restructuring plans are more fully described in Note 4 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended January 1, 2006.

Liabilities for costs associated with a restructuring cannot be recorded until the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. Therefore, certain restructuring costs, primarily sublease payments and the associated taxes, utilities and maintenance costs, and remaining relocation costs are expensed as incurred. Restructuring charges totaled \$0.5 million and \$2.4 million for the third quarter and first nine months of 2006. Due to a reversal of excess severance accrual in the third quarter of 2005, restructuring was a net credit of \$0.1 million for the quarter and restructuring charges totaled \$0.8 million for the 2005 year-to-date period.

All costs related to restructuring actions are included in restructuring charges in the accompanying Consolidated Statements of Income.

### ***2006 Restructuring***

Within the Document and Label Solutions (DLS) segment, we closed our Terre Haute, Indiana label production plant. The plant's productive capacity will be transferred to three other plants in the United States to improve overall efficiency and lower operating costs. Restructuring costs to be incurred include severance and employer related costs and other associated costs directly related to the restructuring, primarily equipment removal and relocation.

Pre-tax components of 2006 restructuring expense are as follows:

|                                      | <b><i>Total Costs<br/>Expected<br/>to be<br/>Incurred</i></b> | <b><i>Total<br/>Q3 2006<br/>Restructuring<br/>Expense</i></b> | <b><i>Cumulative-<br/>To-Date<br/>Restructuring<br/>Expense</i></b> |
|--------------------------------------|---|---|---|
| Severance and employer related costs | \$ 0.8  | \$ -  | \$ 0.7  |
| Associated costs                     | \$ 1.4  | \$ 0.4  | \$ 1.2  |



|       |    |     |    |     |    |     |
|-------|----|-----|----|-----|----|-----|
| Total | \$ | 2.2 | \$ | 0.4 | \$ | 1.9 |
|-------|----|-----|----|-----|----|-----|

A summary of the 2006 restructuring accrual activity is as follows:

|                                      | <i>Charged to<br/>Accrual</i> | <i>Incurred<br/>in 2006</i> | <i>Balance<br/>2006</i> |
|--------------------------------------|-------------------------------|-----------------------------|-------------------------|
| Severance and employer related costs | \$ 0.7                        | \$ (0.6)                    | \$ 0.1                  |
| Total                                | \$ 0.7                        | \$ (0.6)                    | \$ 0.1                  |

### ***2005 Restructuring***

Within the Print on Demand (POD) Services segment, we closed one printing center, selling the building at a small gain. We moved production to other facilities, outsourced envelope production, and opened a new digital-only facility in 2006. We also closed a warehouse in the Document and Label Solutions segment. Costs incurred primarily related to severance and employer-related costs.

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

|                                      | <i>Balance</i><br>2005 | <i>Incurred</i><br><i>in 2006</i> | <i>Balance</i><br>2006 |
|--------------------------------------|------------------------|-----------------------------------|------------------------|
| Severance and employer related costs | \$ 0.3                 | \$ (0.3)                          | \$ -                   |
| Total                                | \$ 0.3                 | \$ (0.3)                          | \$ -                   |

### ***2004, 2003, and 2001 Restructuring***

All of the 2004, 2003, and 2001 restructuring actions are completed. Any restructuring expense recorded in 2006 for these actions is primarily related to vacated facilities, as the amount accrued is net of any expected sub-lease income and we have been unable to sublease the remaining facilities.

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

|                            | <i>Balance</i><br>2005 | <i>Incurred</i><br><i>in 2006</i> | <i>Balance</i><br>2006 |
|----------------------------|------------------------|-----------------------------------|------------------------|
| Contract termination costs | \$ 0.3                 | \$ (0.3)                          | \$ -                   |
| Total                      | \$ 0.3                 | \$ (0.3)                          | \$ -                   |

### **2006 Asset Impairments**

In conjunction with the 2006 DLS restructuring actions, we recorded \$1.6 million of asset impairments. The Terre Haute building and certain pieces of equipment are classified as assets held for sale and their carrying values were adjusted to their 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 will be disposed of. In addition, the International segment had an immaterial amount of asset impairment charges. All Impairment charges are included in Asset Impairments in the accompanying Consolidated Statements of Income.

### **ENVIRONMENTAL MATTERS**

We have been named as one of a number of potentially responsible parties at several waste disposal sites, none of which has ever been Company owned. Our policy is to accrue for investigation and remediation at sites where costs

are probable and estimable. At this writing, there are no identified environmental liabilities that are expected to have a material adverse effect on our operating results, financial condition, or cash flows.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

|  | <b>Year-to-Date</b> |             |               |
|--|---------------------|-------------|---------------|
| <b>CASH INFLOW (OUTFLOW)</b>                           | <b>2006</b>         | <b>2005</b> | <b>Change</b> |
| Net cash provided by operating activities              | \$ <b>11.0</b>      | \$ 30.3     | \$ (19.3)     |
| Capital expenditures                                   | <b>(15.4)</b>       | (15.6)      | 0.2           |
| Proceeds from sale of discontinued operations          | <b>8.9</b>          | -           | 8.9           |
| Proceeds from sale of plant, equipment, and investment | <b>0.4</b>          | 1.7         | (1.3)         |
| Net cash used in investing activities                  | <b>(6.1)</b>        | (13.9)      | 7.8           |
| Net debt borrowings (payments)                         | <b>4.3</b>          | (40.3)      | 44.6          |
| Dividends paid   | <b>(19.9)</b>       | (19.8)      | (0.1)         |
| Proceeds from issuance of common stock                 | <b>0.6</b>          | 1.8         | (1.2)         |
| Purchase of treasury stock                             | <b>(0.4)</b>        | -           | (0.4)         |
| Debt issuance costs                                    | <b>-</b>            | (0.8)       | 0.8           |
| Net cash used in financing activities                  | <b>(15.4)</b>       | (59.1)      | 43.7          |
| Net cash flow  | \$ <b>(10.5)</b>    | \$ (42.7)   | \$ 32.2       |
| Memo:  |                     |             |               |
| Net cash flow before debt payments                     | <b>(14.8)</b>       | (2.4)       | (12.4)        |
| Contribution to defined pension plan                   | <b>(25.0)</b>       | (12.8)      | (12.2)        |
| Restructuring spending                                 | <b>(3.0)</b>        | (4.3)       | 1.3           |

Net debt, total debt less cash and cash equivalents, increased by \$14.8 million since year-end.

### ***Operating Activities***

While we did not currently have a mandatory pension-funding requirement in 2006, we contributed \$25 million to the defined benefit pension plan in the first nine months of 2006. This compares to contributions of \$12.8 million for the same period of 2005. Cash provided by operations remains strong. Before pension contributions, cash flow from operations was \$36 million for 2006 compared with \$43.1 million for 2005.

### ***Investing Activities***

Capital expenditures totaled \$15.4 million thus far in 2006, which is comparable to capital spending in the prior year. We expect our capital spending for the year to be about \$22 million, with an emphasis on investments in our POD Services offering.

### ***Financing Activities***

On a net basis, debt increased in the first nine months of 2006 by \$4.3 million. Dividend payments to shareholders in 2006 were \$19.9 million, which is in line with 2005. We have paid a \$.23 quarterly dividend in each quarter of the last six years.

*Capital Structure*

|                                      | <i>October 1,<br/>2006</i> | <i>January 1,<br/>2006</i> | <i>Change</i> |
|--------------------------------------|----------------------------|----------------------------|---------------|
| Total Debt                           | \$ 39.3                    | \$ 35.0                    | \$ 4.3        |
| Less Cash and Short-term Investments | 3.1                        | 13.6                       | (10.5)        |
| Net Debt                             | 36.2                       | 21.4                       | 14.8          |
| Equity                               | 145.5                      | 173.5                      | (28.0)        |
| Total                                | \$ 181.7                   | \$ 194.9                   | \$ (13.2)     |
| <i>Net Debt:Total Capital</i>        | <i>20%</i>                 | <i>11%</i>                 |               |

The net debt to capital ratio at quarter-end was 20% which continues to indicate a strong balance sheet.

### ***Contractual Obligations***

There have been no material changes outside the normal course of business in our contractual obligations since year-end 2005, except for the lease obligation incurred with the sale of InSystems discussed in Note 3 - Discontinued Operations.

Our near-term cash requirements are primarily related to funding our operations and capital expenditures. The remaining cash requirements of our restructuring programs, primarily for severance and lease obligations, are not material and should be substantially complete by the end of 2006.

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

### ***Recently Issued Adopted Accounting Pronouncements***

Effective January 2, 2006, we adopted SFAS No. 123(R), Share Based Payment (Revised 2004), which requires that compensation costs relating to share-based payment transactions be recognized in the financial statements based on estimated fair values. We adopted SFAS 123(R) using the modified prospective transition method. In accordance with the modified prospective transition method, our Consolidated Financial Statements for prior periods have not been restated to reflect the impact of SFAS 123 (R). Incremental compensation expense recognized under SFAS No. 123(R) in 2006 is not material. We also recognized a \$0.1 million reduction of expense net of taxes to record the cumulative effect of a change in accounting principle as of January 2, 2006 (see Note 8 to the Consolidated Financial Statements in Item 1).

Effective January 2, 2006, we adopted SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 Inventory Pricing. SFAS No. 151 requires idle facility costs, abnormal freight, handling costs, and amounts of wasted materials (spoilage) be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or defects, the difference would be charged to current-period expense, not included in inventory costs. SFAS No. 151 also requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this standard did not have a material effect on our consolidated results of operations, financial position, or cash flows.

Effective January 2, 2006, we adopted SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 requires, unless impracticable, retrospective application to prior periods financial statements of changes in accounting principle where transition is not specified by a new accounting pronouncement. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. The adoption of this standard did not have a material effect on our consolidated results of operations, financial position, or cash flows.

In June 2006, the Financial Accounting Standards Board (FASB) issued 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 establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact this new standard will have on our consolidated results of operations, financial position, or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which applies under most other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 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. The new standard also provides guidance on the methods used to measure fair value and requires expanded disclosures related to fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We will adopt this statement for fiscal year 2008 and are currently assessing the impact that this standard will have on our consolidated results of operations, financial position, and cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires a Company with a defined benefit plan to: recognize the funded status of a benefit plan measured as the difference between plan assets at fair value and the benefit obligation- in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation, for other postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation. The new standard also requires the benefit obligations be measured as of the same date of the consolidated financial statements and requires additional disclosures related to the effects of delayed recognition of gains or losses, prior service costs or credits, and transition

assets or obligations on net periodic benefit cost. . SFAS 158 is effective for financial statements issued for fiscal years ending after December 15, 2006. We will adopt this statement in the fourth quarter of 2006 and are currently assessing the impact that this standard will have on our 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 and the Company's short-term investments, as outlined in the 2005 Form 10-K. The Company is also exposed to market risk from changes in the cost of paper, the principal raw material used in the production of business forms. There have been no material changes in the Company's exposure to these items since the Company's disclosure in Item 7A, Part II of Form 10-K for the year ended January 1, 2006.



## **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 October 1, 2006. 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-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC's) 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, which are 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 10Q, 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 third quarter of fiscal 2006, there have been no significant changes to 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

None

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 January 1, 2006 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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit #   Description

2

Plan of acquisition, reorganization, arrangement,  
liquidation or succession

Not applicable

3

Articles of incorporation and bylaws

Not applicable

4

Instruments defining the rights of security holders,  
including indentures

Not applicable

10

Material contracts

Not applicable

11

Statement re: computation of per share earnings

Not applicable

15

Letter re: unaudited interim financial information

Not applicable

18

Letter re: change in accounting principles

Not applicable

19

Report furnished to security holders

Not applicable

22

Published reports regarding matters submitted

to vote of security holders

Not applicable

23.1

Consent of Independent Registered Public Accounting Firm

Included

24

Power of attorney

Not applicable

31.1

Certification of Chief Executive Officer pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

Included

31.2

Certification of Chief Financial Officer pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

Included

32

Certifications pursuant to 18 U.S.C Section 1350, as adopted

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Included

1.1

Report of Independent Registered Public Accounting Firm

Included

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended October 1, 2006**

**SIGNATURE**

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

November 1, 2006

**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)