STANDARD REGISTER CO
Form 10-Q
November 10, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2011

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)	45417 (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 checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 2, 2011
Common stock, $1.00 par value	24,363,671 shares
Class A stock, $1.00 par value	4,725,000 shares

THE STANDARD REGISTER COMPANY
FORM 10-Q
For the Quarter Ended October 2, 2011

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PART I - FINANCIAL INFORMATION
ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS
THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollars in thousands, except per share amounts)

	13 Weeks Ended		39 Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
REVENUE				
Products	$ 135,638	$ 139,834	$419,296	$424,025
Services	21,905	23,754	67,421	71,668
Total revenue	157,543	163,588	486,717	495,693
COST OF SALES				
Products	97,302	97,258	294,306	292,775
Services	13,982	14,553	41,616	45,814
Total cost of sales	111,284	111,811	335,922	338,589
GROSS MARGIN	46,259	51,777	150,795	157,104
OPERATING EXPENSES				
Selling, general, and administrative	51,071	49,276	155,404	153,929
Pension settlements and postretirement plan amendment	(20,239)	-	(19,786)	-
Environmental remediation	69	(803)	69	(803)
Restructuring and other exit costs	112	32	(65)	1,490
Total operating expenses	31,013	48,505	135,622	154,616
INCOME FROM OPERATIONS	15,246	3,272	15,173	2,488
OTHER INCOME (EXPENSE)				
Interest expense	(630)	(626)	(1,774)	(1,617)
Other income	60	11	558	203
Total other expense	(570)	(615)	(1,216)	(1,414)
INCOME BEFORE INCOME TAXES	14,676	2,657	13,957	1,074
INCOME TAX EXPENSE	6,257	1,276	5,913	616
NET INCOME	$ 8,419	$ 1,381	$8,044	$458
BASIC AND DILUTED INCOME PER SHARE	$ 0.29	$ 0.05	$0.28	$0.02
Dividends per share declared for the period	$ 0.05	$ 0.05	$0.15	$0.15
NET INCOME	$ 8,419	$ 1,381	$8,044	$458
Net actuarial loss reclassification, net of ($3,956), ($1,903), ($8,945), and ($5,706) deferred income tax benefit	6,006	2,888	13,581	8,663
Net prior service credit reclassification, net of $10,024, $398 and $10,998, $1,193 deferred income tax expense	(15,218)	(604)	(16,697)	(1,811)

Prior service credit, net of ($2,015) deferred income tax benefit	3,059	-	3,059	-
Net actuarial gains, net of $48 and $11 deferred income tax expense	74	-	17	-
Cumulative translation adjustment	(136)	(14)	(137)	(45)
COMPREHENSIVE INCOME	$ 2,204	$ 3,651	$7,867	$7,265

See accompanying notes.

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

A S S E T S	October 2, 2011	January 2, 2011
CURRENT ASSETS		
Cash and cash equivalents	$514	$531
Accounts and notes receivable, less allowance for doubtful accounts of $3,018 and $2,816	109,811	122,308
Inventories	29,814	29,253
Deferred income taxes	11,991	11,991
Prepaid expense	10,926	8,962
Total current assets	163,056	173,045
PLANT AND EQUIPMENT		
Land	1,919	2,221
Buildings and improvements	65,058	65,111
Machinery and equipment	180,079	181,808
Office equipment	167,549	165,600
Construction in progress	2,799	1,431
Total	417,404	416,171
Less accumulated depreciation	347,197	342,022
Plant and equipment, net	70,207	74,149
Net assets held for sale	324	-
Total plant and equipment, net	70,531	74,149
OTHER ASSETS		
Goodwill	7,456	6,557
Intangible assets, net	7,295	2,265
Deferred tax asset	97,482	102,996
Other	8,296	10,819
Total other assets	120,529	122,637
Total assets	$354,116	$369,831

See accompanying notes.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	October 2, 2011	January 2, 2011
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,304	$ 1,467
Accounts payable	34,940	34,110
Accrued compensation	14,929	15,056
Accrued restructuring and other exit costs	521	1,689
Deferred revenue	5,844	2,225
Other current liabilities	22,805	24,216
Total current liabilities	80,343	78,763
LONG-TERM LIABILITIES		
Long-term debt	47,769	42,926
Pension benefit obligation	161,703	185,174
Retiree healthcare obligation	-	4,931
Deferred compensation	5,514	6,306
Environmental liabilities	3,661	3,823
Other long-term liabilities	3,684	3,060
Total long-term liabilities	222,331	246,220
COMMITMENTS AND CONTINGENCIES - see Note 12		
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value:		
Authorized 101,000,000 shares		
Issued 26,377,991 and 26,227,199 shares	26,378	26,227
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	65,032	63,401
Accumulated other comprehensive losses	(143,077)	(142,900)
Retained earnings	148,609	143,562
Treasury stock at cost:		
2,014,320 and 1,996,952 shares	(50,225)	(50,167)
Total shareholders' equity	51,442	44,848
Total liabilities and shareholders' equity	$ 354,116	$ 369,831

See accompanying notes.

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

	39 Weeks Ended October 2, 2011	39 Weeks Ended October 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$8,044	$458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,884	17,840
Restructuring charges	(65)	1,490
Pension and postretirement benefit (income) expense	(5,948)	10,563
Share-based compensation	1,647	1,292
Deferred tax expense	5,546	139
Other	793	563
Changes in operating assets and liabilities, net of acquisition:		
Accounts and notes receivable	12,561	(1,340)
Inventories	(561)	3,602
Restructuring spending	(1,103)	(4,361)
Accounts payable and accrued expenses	(57)	1,438
Pension and postretirement benefit obligations	(23,207)	(20,420)
Deferred compensation payments	(438)	(1,793)
Other assets and liabilities	3,514	1,456
Net cash provided by operating activities	16,610	10,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to plant and equipment	(12,022)	(6,458)
Acquisition, net of cash received	(4,905)	(2,460)
Proceeds from sale of plant and equipment	40	164
Net cash used in investing activities	(16,887)	(8,754)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in borrowings under revolving credit facility	5,772	1,291
Principal payments on long-term debt	(1,091)	(1,124)
Proceeds from issuance of common stock	136	144
Dividends paid	(4,380)	(4,356)
Purchase of treasury stock	(58)	(34)
Net cash provided by (used in) financing activities	379	(4,079)
Effect of exchange rate changes on cash	(119)	(22)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17)	(1,928)
Cash and cash equivalents at beginning of period	531	2,404
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$514	$476

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Capital lease recorded for equipment	$-	$4,384
Loan payable recorded for professional services	-	1,598

See accompanying notes.

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THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 – BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly-owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended January 2, 2011 (Annual Report).

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

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

NOTE 2 – RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

In 2011, we adopted Accounting Standards Update (ASU) 2009-13 which amended the revenue recognition standards related to non-software multiple-element revenue arrangements. The standard requires the allocation of the overall consideration to each deliverable based on its estimated selling price in the absence of other objective evidence of selling prices and expands the required disclosures for multiple-element arrangements. The standard permitted retrospective or prospective adoption, and we elected prospective adoption for revenue arrangements entered into or materially modified beginning in fiscal 2011. Adoption of this standard did not have a material impact on our consolidated results of operation, financial position, or cash flows.

NOTE 3 – REVENUE RECOGNITION

When a customer arrangement involves multiple deliverables, we evaluate all deliverables to determine whether they represent separate units of accounting, allocate the arrangement consideration to the separate units, and recognize revenue in accordance with generally accepted accounting principles for revenue recognition. We have one type of non-software multiple-element arrangement which consists of three deliverables: custom-printed products, warehousing services, and custom-delivery services. Under this type of an arrangement, we provide warehousing and custom-delivery services for customers who want just-in-time delivery of custom-printed products.

For the majority of our contractual arrangements, at the customer's request we print and store custom-printed products that remain in our inventory until the customer's specified future delivery. For these arrangements, title and risk of ownership for these products remains with us until the product is shipped to the customer. Therefore, the product is considered to be delivered last, and the customer is invoiced when the product is delivered to the customer.

Under certain other contractual arrangements, at the customer's request we print and store the custom-printed products for the customer's specified future delivery. Such products are stored in our warehouses and are not used to fill other customers' orders. For these products, manufacturing is complete, the finished product is not included in our inventory, and title and risk of loss have transferred to the customer. In these transactions, the customer is invoiced under normal billing and credit terms when the product is placed in the warehouse for storage. As such, the product is considered to be delivered first and warehousing and custom-delivery services are delivered last.

Fees for warehousing and custom-delivery services are often bundled into the price of the products and are therefore invoiced when the product is considered delivered. However, if requested by the customer, these fees may also be invoiced separately as the services are performed.

Multiple-element arrangements entered into or materially modified beginning in 2011

For arrangements entered into or materially modified beginning in fiscal 2011, we determine whether each deliverable in the arrangement represents a separate unit of accounting based on the following criteria:

- Whether the delivered item has value to the customer on a standalone basis; and
- If the arrangement includes a general right of return relative to the delivered item, whether delivery or performance of the undelivered item is considered probable and is substantially in our control.

We then allocate the consideration received to each deliverable in the arrangement based on the relative selling prices of each deliverable.

Determination of selling prices

Selling prices are determined based on the following hierarchy: vendor-specific objective evidence of fair value (VSOE), third-party evidence of selling price (TPE), or best estimate of selling price (ESP). For each deliverable, we review historical sales data to determine if we have sufficient stand-alone sales that are within an acceptable range to establish VSOE. VSOE is considered established if 80% of stand-alone sales are within +/-15% of the median sales price. Available third-party evidence is evaluated to determine if TPE can be established for items where VSOE does not exist. In absence of VSOE and TPE, ESP is used. Determining ESP requires significant judgment due to the nature of factors that must be considered and the subjectivity involved in determining the impact each of these factors should have on ESP.

Custom-printed products

Due to the variances in pricing for available stand-alone sales and custom nature of our products, VSOE or TPE cannot be established. To develop ESP, we consider numerous internal and external factors including: internal cost experience for materials, labor, manufacturing and administrative costs; external pricing for similar products; level of market competition and potential for market share gain; stage in the product life cycle; industry served; profit margins; current market conditions; length of typical agreements; and anticipated volume.

Warehousing services

VSOE cannot be established for warehousing services, as we generally do not sell these services separately. Although some third-party evidence is readily available for certain aspects of our warehousing services, an adequate amount of data for services similar to our offering is not available to establish TPE. ESP is developed by utilizing a pricing process which considers the following internal and external factors: cost driver activity such as full versus partial carton shipments, storage space utilized, type of product stored, and shipping frequency; internal cost experience; profit margins; volume-related discounts; current market conditions; and to a lesser degree, pricing from third-party providers when available.

Custom-delivery services

For custom-delivery services, no stand-alone sales are available as we do not sell these services separately; therefore, VSOE cannot be established. TPE is developed by utilizing individual pricing templates for each customer. The pricing templates consider profit margins, volume, and expected shipping addresses for the customer applied to a freight rate table that is developed from negotiated rates with our third-party logistics partners.

Timing of revenue recognition

For arrangements where warehousing and custom-delivery services are delivered last, revenue allocated to the product is recognized when it is placed in the warehouse for storage. Revenue allocated to warehousing and custom-delivery services is recognized as the services are performed.

For arrangements where the product is delivered last, revenue allocated to the product is recognized when shipped from the warehouse to the customer. Revenue allocated to warehousing and distribution services is recognized as the services are performed.

Multiple-element arrangements entered into prior to 2011

Arrangements entered into prior to 2011 continue to be accounted for in accordance with the revenue recognition standards effective prior to 2011. Under previous revenue recognition guidance, deliverables represent separate units of accounting if the following criteria are met:

- The delivered item has value to the customer on a standalone basis;
- Objective and reliable evidence exists for the fair value of the undelivered item; and
- If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and is substantially in our control.

We previously determined that objective and reliable evidence of fair value exists for the warehousing and custom-delivery services but not for the products due to the custom nature of our printed products and lack of consistent pricing in stand-alone sales. Accordingly, in customer arrangements where warehousing and delivery services are delivered last, we utilize the residual method to allocate arrangement consideration to the products based on the fair value of the warehousing and delivery services and recognize revenue for the product when placed in the warehouse. Revenue allocated to warehousing and delivery services is recognized as the services are performed.

In arrangements where the products are delivered last, we are unable to allocate arrangement consideration to the deliverables due to the lack of objective evidence of fair value for the products. Therefore, the arrangement is recognized as a single unit of accounting, and all revenue is recognized when the products are delivered to the customer.

Changes in revenue recognition as a result of adopting ASU 2009-13

For arrangements entered into or materially modified in 2011, we continue to recognize custom-printed products, warehousing services, and custom-delivery services as separate units of accounting for arrangements where warehousing and delivery services are delivered last. For arrangements where custom-printed products are delivered last, we previously accounted for these arrangements as one unit of accounting and recognized the arrangement consideration as product revenue. Due to the establishment of ESP for the custom-printed products, we now recognize the products, warehousing services, and custom-delivery services as separate units of accounting. This change resulted in an increase in reported services revenue in the accompanying Consolidated Statements of Income.

The pattern and timing of revenue recognition did not change for our arrangements where warehousing and delivery services are delivered last. For arrangements where products are delivered last, we now recognize warehousing services as performed rather than as the product is delivered. However, this change did not materially impact the timing of revenue recognition and is not expected to have a material effect in the near term.

NOTE 4 – ACQUISITIONS

On July 6, 2011, we acquired 100% of the ownership interest in iMedConsent, LLC (dba Dialog Medical). Dialog Medical provides solutions for managing the patient informed consent process and will be operated as a wholly-owned subsidiary reporting through our Healthcare segment. We believe this acquisition strengthens and broadens our leadership in the healthcare market and will enable us to help our customers advance their reputations by improving patient safety, compliance, critical patient communications and operational performance.

The total purchase price was $6,217 which includes $4,941 paid in cash, a $650 note payable to be paid over two years, and $626 of contingent consideration expected to be paid that is based upon achievement of certain revenue targets by Dialog Medical through July 6, 2013. The maximum payout under the contingent arrangement is $2,000.

The acquisition was accounted for as a business combination; therefore, the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. Except for the working capital adjustment required by the agreement, all values recorded for the acquisition are final. The purchase price allocation consisted of: $5,389 for identifiable intangibles; $899 for goodwill; and ($71) in net working capital accounts.

Identifiable intangibles included: acquired software technology of $2,650, customer relationships of $2,610, and a trademark of $129. The acquired software technology and trademark are being amortized on a straight-line basis over an estimated useful life of 7 years. Customer relationships are being amortized on an accelerated basis over 8 years. Goodwill, which was allocated to our Healthcare segment, primarily represents the value of the assembled workforce and expected synergies and other benefits that we believe will result from the acquisition.

Pro forma financial information and other disclosures have not been presented because the acquisition is not considered material to our consolidated financial position or results of operations.

NOTE 5 – RESTRUCTURING, OTHER EXIT COSTS, AND ASSETS HELD FOR SALE

The 2009 and 2008 restructuring plans and other exit activities are described in Note 4 to the Consolidated Financial Statements included in our Annual Report. All related costs are included in restructuring and other exit costs in the accompanying Consolidated Statements of Income.

2009 Plans

Restructuring and other exit costs of $260 in 2011 and $1,409 in 2010 relate to costs required to be expensed as incurred, primarily for the termination of contracts and the relocation of equipment. In addition, in 2011, we reversed $325 of involuntary termination costs primarily as result of lower than expected employee severance costs .

Components of 2009 restructuring and other exit costs consist of the following:

	Total Expected Costs	Total Q3 2011 Expense	Cumulative To-Date Expense
Involuntary termination costs	$3,150	$-	$3,077
Contract termination costs	2,600	107	1,570
Other associated exit costs	8,600	5	8,147
Total	$14,350	$112	$12,794

A summary of the 2009 restructuring accrual activity is as follows:

	Balance 2010	Accrued in 2011	Incurred in 2011	Reversed in 2011	Balance 2011
Involuntary termination costs	$878	$-	$(358)	$(324)	$196
Contract termination costs	811	108	(594)	-	325
Total	$1,689	$108	$(952)	$(324)	$521

2008 Plans

Restructuring and other exit costs of $81 in 2010 primarily relate to contract termination costs that were required to be expensed as incurred.

Assets Held for Sale

As of October 2, 2011, the carrying value of a previous print facility in Houston, Texas met the criteria to be classified as held for sale; accordingly, we have classified it as Net Assets Held for Sale in the accompanying Consolidated Balance Sheets.

NOTE 6 – INCOME TAXES

The effective tax rates for the 13 and 39-week periods ending October 2, 2011 were 42.7% and 42.4% compared to 48.0% and 57.4% for the 13 and 39-week periods ending October 3, 2010. The rates in 2010 were higher primarily

due to the following factors: permanent differences related to the deductibility of executive compensation and higher state taxes related to gross margin-based taxes.

We review the potential future tax benefits of all deferred tax assets on an ongoing basis. Our review includes consideration of historical and projected future operating results, reversals of existing deferred tax liabilities, tax planning strategies, and the eligible carryforward period of each deferred tax asset to determine whether a valuation allowance is appropriate. Although realization is not assured, management believes it is more likely than not that all of the remaining deferred tax assets will be realized. The amount of the deferred tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income are reduced.

NOTE 7 – EARNINGS PER SHARE

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

	13 Weeks Ended		39 Weeks Ended	
(Shares in thousands)	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Weighted average shares outstanding - basic	29,080	28,933	29,035	28,906
Effect of potentially dilutive securities	124	1	164	34
Weighted average shares outstanding - diluted	29,204	28,934	29,199	28,940

No outstanding options were included in the computation of diluted EPS for the 13-week and 39-week periods ending October 2, 2011 and October 3, 2010 because the exercise prices of the options were greater than the average market price at the end of the period; therefore, the effect would be anti-dilutive.

NOTE 8 – SHARE BASED COMPENSATION

In 2011, we adopted the 2011 Equity Incentive Plan, which provides for the granting of a maximum of 5,780,000 shares. Awards in any form other than options or stock appreciation rights are counted as two shares for every one share actually issued. The 2011 plan permits the grant of incentive or nonqualified stock options, restricted stock awards, performance share awards, and stock appreciation rights. A committee of the Board of Directors (Committee) administers the plan and 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. Key employees, including any executive officer or employee-director, and non-employee directors are eligible to receive awards under the plan.

The contractual term and exercise price for stock options granted under the plan are determined by the Committee. However, the contractual term may not exceed 10 years, and the exercise price may not be lower than the fair market value of a share on the date of grant. Options vest over periods determined when granted, generally four years, and are exercisable until the term expires.

Under the 2011 plan, shares subject to restricted stock award may be issued when the award is granted or at a later date. The stock awards are subject to terms determined by the Committee, may have voting rights, and may include specified performance objectives. The sale or transfer of these shares is restricted during the vesting period. Recipients of restricted stock awards generally earn dividends during the vesting period that are paid only if the shares vest.

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

	13 Weeks Ended		39 Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Nonvested stock awards, service based	$124	$109	$373	$336
Nonvested stock awards, performance based	(9)	86	233	204
Stock options	371	240	1,041	752
Total share-based compensation expense	486	435	1,647	1,292

Income tax benefit	193	173	654	513
Net expense	$			