

STANDARD REGISTER CO  
Form 10-Q  
August 14, 2002

**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 June 30, 2002

**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 1-1097

**THE STANDARD REGISTER COMPANY**

(Exact name of Registrant as specified in its charter)

**OHIO**

**31-0455440**

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(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

**600 ALBANY STREET, DAYTON OHIO**

**45408**

(Address of principal executive offices)

(Zip Code)

**(937) 221-1000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

| Class                           | Outstanding as of July 27, 2002 |
|---------------------------------|---------------------------------|
| Common stock, \$1.00 par value  | 23,410,091 shares               |
| Class A stock, \$1.00 par value | 4,725,000 shares                |

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended June 30, 2002**

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

|  | <i>13 Weeks Ended</i> | <i>13 Weeks Ended</i> | <i>26 Weeks Ended</i> | <i>26 Weeks Ended</i> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | <i>June 30</i>        | <i>July 01</i>        | <i>June 30</i>        | <i>July 01</i>        |
|  | <i>2002</i>           | <i>2001</i>           | <i>2002</i>           | <i>2001</i>           |
| <b>REVENUE</b>   |                       |                       |                       |                       |
| Products   | \$ 208,076            | \$ 256,762            | \$ 423,044            | \$ 522,000            |
| Services   | 45,709                | 58,209                | 94,520                | 110,000               |
| Total revenue  | 253,785               | 314,971               | 517,564               | 632,000               |
| <b>OPERATING EXPENSES</b>  |                       |                       |                       |                       |
| Cost of sales  | 152,816               | 214,712               | 311,009               | 418,000               |
| Engineering and research   | 4,161                 | 4,554                 | 8,321                 | 7,000                 |
| Selling and administrative   | 66,674                | 75,419                | 136,402               | 160,000               |
| Depreciation and amortization                                      | 10,904                | 12,513                | 21,869                | 26,000                |
| Asset impairments  | -                     | -                     | -                     | 41,000                |
| Restructuring charges  | -                     | 2,331                 | -                     | 73,000                |
| Total cost and expense   | 234,555               | 309,529               | 477,601               | 727,000               |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                               | 19,230                | 5,442                 | 39,963                | (94,800)              |
| <b>OTHER INCOME (EXPENSE)</b>                                      |                       |                       |                       |                       |
| Interest expense   | (3,165)               | (3,249)               | (6,512)               | (6,400)               |
| Investment income and other  | 957                   | 841                   | 1,715                 | 1,000                 |
| Total other expense  | (2,208)               | (2,408)               | (4,797)               | (4,800)               |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>                           | 17,022                | 3,034                 | 35,166                | (99,600)              |
| <b>INCOME TAXES (BENEFIT)</b>                                      | 6,080                 | 1,121                 | 13,307                | (40,400)              |
| <b>NET INCOME (LOSS)</b>   | \$ 10,942             | \$ 1,913              | \$ 21,859             | \$ (59,100)           |
| <b>EARNINGS (LOSS) PER SHARE</b>                                   |                       |                       |                       |                       |
| Basic  | \$ 0.39               | \$ 0.07               | \$ 0.79               | (2.00)                |
| Diluted  | \$ 0.38               | \$ 0.07               | \$ 0.77               | (2.00)                |
| Dividends Paid Per Share   | \$ 0.23               | \$ 0.23               | \$ 0.46               | \$ 0.00               |
| <b>NET INCOME (LOSS)</b>   | \$ 10,942             | \$ 1,913              | \$ 21,859             | \$ (59,100)           |
| Cumulative effect of FASB 133 adoption, net of deferred income tax | -                     | 1,002                 | -                     | -                     |
| Interest rate swap, net of deferred income tax                     | 367                   | (3,765)               | 1,601                 | (3,200)               |
| Available-for-sale securities, net of deferred income tax          | (1,521)               | -                     | (1,521)               | -                     |

**COMPREHENSIVE INCOME (LOSS)**                    \$            9,788    \$            (850)    \$            21,939    \$            (62,4

See accompanying notes.

**THE STANDARD REGISTER COMPANY**

**CONSOLIDATED BALANCE SHEET**

(Dollars in thousands)

| <b>A S S E T S</b>  | <i>June 30</i><br><i>2002</i> | <i>December 30</i><br><i>2001</i> |
|---|-------------------------------|-----------------------------------|
| <b>CURRENT ASSETS</b>   |                               |                                   |
| Cash and cash equivalents   | \$ 214,838                    | \$ 163,502                        |
| Trading securities  | 941                           | 290                               |
| Accounts receivable, less allowance for doubtful<br>accounts of \$7,001 and \$9,150, respectively | 151,598                       | 182,494                           |
| Inventories   | 67,521                        | 74,042                            |
| Prepaid income taxes  | -                             | 28,199                            |
| Deferred income taxes   | 29,323                        | 28,309                            |
| Prepaid expense   | 15,169                        | 13,400                            |
| Total current assets  | 479,390                       | 490,236                           |
| <br><b>PLANT AND EQUIPMENT</b>  |                               |                                   |
| Buildings and improvements  | 82,905                        | 86,577                            |
| Machinery and equipment   | 245,695                       | 245,573                           |
| Office equipment  | 154,693                       | 152,734                           |
| Total   | 483,293                       | 484,884                           |
| Less accumulated depreciation   | 289,501                       | 274,003                           |
| Depreciated cost  | 193,792                       | 210,881                           |
| Plant and equipment under construction  | 9,512                         | 6,196                             |
| Land  | 4,665                         | 8,139                             |
| Total plant and equipment   | 207,969                       | 225,216                           |

**OTHER ASSETS**

|                               |            |            |
|-------------------------------|------------|------------|
| Prepaid pension expense       | 112,992    | 107,677    |
| Available-for-sale securities | 2,465      | -          |
| Other                         | 16,534     | 14,654     |
| Total other assets            | 131,991    | 122,331    |
| <br>                          |            |            |
| Total assets                  | \$ 819,350 | \$ 837,783 |

See accompanying notes.

**THE STANDARD REGISTER COMPANY****CONSOLIDATED BALANCE SHEET**

(Dollars in thousands)

| <b>LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b> | <i>June 30<br/>2002</i> | <i>December 30<br/>2001</i> |
|---|-------------------------|-----------------------------|
| <b>CURRENT LIABILITIES</b>                      |                         |                             |
| Current portion of long-term debt               | \$ 2,300                | \$ 630                      |
| Accounts payable                                | 25,787                  | 32,652                      |
| Accrued compensation                            | 27,239                  | 42,895                      |
| Deferred service contract income                | 6,168                   | 4,876                       |
| Accrued restructuring                           | 8,096                   | 15,307                      |
| Other current liabilities                       | 28,136                  | 30,959                      |
| Total current liabilities                       | 97,726                  | 127,319                     |

**LONG-TERM LIABILITIES**

|                                     |         |         |
|-------------------------------------|---------|---------|
| Long-term debt                      | 200,000 | 202,300 |
| Retiree health care obligation      | 50,862  | 50,862  |
| Deferred compensation               | 12,744  | 12,544  |
| Deferred income taxes               | 22,042  | 20,975  |
| Deferred cost of interest rate swap | 5,824   | 8,493   |
| Total long-term liabilities         | 291,472 | 295,174 |

**SHAREHOLDERS' EQUITY**

|  |            |            |
|--|------------|------------|
| Common stock, \$1.00 par value:              |            |            |
| Authorized 101,000,000 shares                |            |            |
| Issued 2002 - 25,238,824; 2001 - 24,825,553  | 25,239     | 24,826     |
| 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               | 47,596     | 39,854     |
| Accumulated other comprehensive losses       | (6,126)    | (6,206)    |
| Retained earnings                            | 412,056    | 403,009    |
| Treasury stock at cost:                      |            |            |
| 1,797,150 shares                             | (46,124)   | (46,124)   |
| Unearned compensation - restricted stock     | (4,100)    | (1,735)    |
| Common stock held in grantor trust, at cost: |            |            |
| 2002 - 120,473 shares; 2001 - 118,539 shares | (3,114)    | (3,059)    |
| Total shareholders' equity                   | 430,152    | 415,290    |
| <br>   |            |            |
| Total liabilities and shareholders' equity   | \$ 819,350 | \$ 837,783 |

See accompanying notes.

**THE STANDARD REGISTER COMPANY****CONSOLIDATED STATEMENT OF CASH FLOWS**

(Dollars in thousands)

*26 Weeks Ended*

*June 30* *July 1*



|  | <b>2002</b> | <b>2001</b> |
|--|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |             |             |
| Net income (loss)  | \$ 21,859   | \$ (59,181) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |             |             |
| Depreciation and amortization  | 21,869      | 26,275      |
| Asset impairments  | -           | 41,721      |
| Restructuring charges  | -           | 69,934      |
| (Gain) loss on sale of assets  | (1,682)     | 1,038       |
| Deferred income taxes  | (769)       | (45,150)    |
| Restructuring spending   | (7,211)     | (24,998)    |
| Changes in operating assets and liabilities, net of effects from disposition:            |             |             |
| Trading securities   | 35          | -           |
| Accounts receivable  | 29,696      | 34,607      |
| Inventories  | 6,521       | 36,647      |
| Income taxes   | 29,118      | 9,965       |
| Other assets   | (7,807)     | (13,677)    |
| Accounts payable and accrued expenses  | (26,331)    | (9,476)     |
| Deferred income  | 1,292       | (274)       |
| Other liabilities  | (1,386)     | 752         |
| Net cash provided by operating activities  | 65,204      | 68,183      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |             |             |
| Additions to plant and equipment   | (10,662)    | (12,104)    |
| Proceeds from sale of plant and equipment  | 7,722       | 460         |
| Purchase of marketable securities  | (5,000)     | -           |
| Additions to other investments   | (642)       | (481)       |
| Net cash used in investing activities  | (8,582)     | (12,125)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |             |             |
| Principal payments on long-term debt   | (630)       | (590)       |
| Proceeds from issuance of common stock   | 8,156       | 1,250       |
| Purchase of treasury stock   | -           | (760)       |
| Dividends paid   | (12,812)    | (12,683)    |
| Net cash used in financing activities  | (5,286)     | (12,783)    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |             |             |
| Cash and cash equivalents at beginning of period   | 163,502     | 56,381      |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  |             |             |
|  | \$ 214,838  | \$ 99,656   |

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 December 30, 2001 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.

**NOTE 2 ACCOUNTING CHANGES**

Effective December 31, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized, but rather tested at least annually for impairment using a fair-value-based test, and intangible assets that have finite useful lives be amortized over their useful lives. At December 31, 2001, the Company did not have any goodwill or intangible assets on the consolidated balance sheet. The adoption of this standard did not have an effect on the Company's consolidated results of operations, financial position, or cash flows.

Effective December 31, 2001, the Company also adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which establishes an accounting model for long-lived assets, including discontinued operations, to be disposed of by sale. This statement requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting of discontinued operations to include components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of this standard did not have an effect on the Company's consolidated results of operations, financial position, or cash flows.

### NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2002, the Financial Accounting Standards Board (FASB) issued SFAS 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections. Among other things, the new standard rescinds various pronouncements regarding early extinguishment of debt and amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications. The provisions of SFAS No. 145 are generally effective for fiscal years beginning after May 15, 2002. The Company has not evaluated the potential effect, if any, of this standard; however, it is anticipated that SFAS No. 145 will not have a material effect on the financial position, cash flows, or results of operations of the Company.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities which addresses the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. This statement requires that liabilities for costs associated with an exit or disposal activity be recognized in the period in which the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. SFAS No. 146 nullifies Emerging Issues Task Force (EITF) 94-3 which permitted recognition of a liability for such costs at the date of a Company's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit and disposal activities initiated after December 31, 2002. The provisions of EITF 94-3 will continue to apply for liabilities previously recorded. The impact on the Company's financial position or results of operations from adopting this standard has not been determined.

## NOTE 4 ACQUISITIONS

Subsequent to the end of the second quarter, on July 2, 2002, the Company acquired all of the outstanding stock of InSystems Technologies, Inc. (InSystems), a privately owned company based in Toronto, Canada. InSystems extended relationship management and document automation solutions are intended to complement the Company's existing e-business, document management and fulfillment services offerings. InSystems is a leading provider of e-business solutions for financial services organizations. With InSystems strong position in insurance and the Company's significant presence in banking, healthcare and other markets, the Company expects the acquisition to enhance its long-term growth while further positioning the Company as a leading information solutions provider.

The acquisition was accounted for by the purchase method of accounting under recent guidelines for business combinations. The purchase price for the acquisition, net of cash received, totaled \$88,712 and was allocated to assets acquired and liabilities assumed based on estimated fair values at the date of acquisition as determined by an independent third party valuation. In conjunction with the acquisition of InSystems, the Company recorded approximately \$48,980 of goodwill, \$17,084 of purchased intangibles, and \$21,011 of capitalized software costs. In accordance with SFAS No. 142, goodwill will not be amortized but will be reviewed periodically for impairment.

Approximately \$47,000 of the goodwill is expected to be deductible for tax purposes. Of the purchased intangibles, \$16,048 was assigned to software maintenance contracts that are not subject to amortization and \$1,036 to professional services backlog that have a one-year useful life. Capitalized software costs will be amortized to cost of sales on a straight-line basis over the estimated product life of the related software, which ranges from one to 10 years. The purchase price allocation is preliminary and subject to further refinement upon completion of the asset valuation.

The preliminary purchase allocation is as follows:

|                            |    |        |
|----------------------------|----|--------|
| Current assets             | \$ | 7,782  |
| Plant and equipment        |    | 4,440  |
| Software development costs |    | 21,011 |
| Goodwill                   |    | 48,980 |

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|                           |           |
|---------------------------|-----------|
| Intangible assets         | 17,084    |
| Other assets              | 300       |
| Total assets acquired     | 99,597    |
| Current liabilities       | 9,224     |
| Long-term liabilities     | 1,661     |
| Total liabilities assumed | 10,885    |
| Net assets acquired       | \$ 88,712 |

Results of operations for InSystems will be included in the Company's consolidated financial statements prospectively from the date of acquisition beginning with the third quarter of 2002. InSystems will be a separate reporting segment and all of the goodwill has been assigned to this segment. The following table summarizes selected unaudited pro forma financial information for the three- and six-month periods ended June 30, 2002 and July 1, 2001, as if InSystems had been acquired at the beginning of 2002 and 2001. The unaudited pro forma financial information includes adjustments for income taxes, interest income, depreciation and amortization.

The pro forma financial information does not necessarily reflect the results that would have occurred if the acquisition had been in effect for the periods presented. In addition, they are not intended to be a projection of future results and do not reflect any synergies that might be achieved from combining the operations.

|                             | 13 Weeks<br>Ended<br>June 30, 2002 | 13 Weeks<br>Ended<br>July 1, 2001 | 26 Weeks<br>Ended<br>June 30, 2002 | 26 Weeks<br>Ended<br>July 1, 2001 |
|-----------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| Revenue                     | \$ 259,118                         | \$ 321,330                        | \$ 529,009                         | \$ 644,777                        |
| Net Income (Loss)           | \$ 10,306                          | \$ 1,216                          | \$ 21,091                          | \$ (61,777)                       |
| Net Income (Loss) Per Share |                                    |                                   |                                    |                                   |
| Basic                       | \$ 0.37                            | \$ 0.04                           | \$ 0.76                            | \$ (2.24)                         |
| Diluted                     | \$ 0.38                            | \$ 0.04                           | \$ 0.74                            | \$ (2.24)                         |

On July 12, 2002, the Company acquired consulting and software services operations and a print-on-demand operation from PlanetPrint, a business services company headquartered in Minneapolis, Minnesota, for approximately \$10,000.

In conjunction with the acquisition, the Company recorded approximately \$5,709 of goodwill and \$1,000 of purchased intangibles. Results of operations will be included in the Company's consolidated financial statements prospectively from the date of acquisition, beginning with the third quarter of 2002. Pro forma financial information and other related disclosures have not been presented because the acquisition is not material.

#### NOTE 5 INVESTMENTS

Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Securities are classified as trading when held for short-term periods in anticipation of market gains and are recorded at fair market value, with unrealized gains and losses included in income.

Available-for-sale securities are recorded at fair market value, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income (loss) in shareholders' equity. At June 30, 2002, the Company had gross unrealized losses from available-for-sale securities of \$2,535.

#### NOTE 6 RESTRUCTURING

The Company periodically reviews the restructuring accrual to determine its adequacy. No adjustments have been necessary to the accrual during 2002. Pre-tax components of the 2001 restructuring activity in fiscal 2002 are as follows:

|   | Balance<br>Accrued at<br>30-Dec-01 | Incurred<br>in 2002 | Balance<br>Accrued at<br>30-Jun-02 |
|---|------------------------------------|---------------------|------------------------------------|
| Severance and employer related costs    | \$ 3,173                           | \$ 1,585            | \$ 1,588                           |
| Contract exit and termination costs     | 11,702                             | 5,558               | 6,144                              |
| Inventories and other asset write-downs | 138                                | -                   | 138                                |
| Total                                   | \$ 15,013                          | \$ 7,143            | \$ 7,870                           |

## NOTE 7 SEGMENT REPORTING

The Company has four reporting segments, recognized internally as Strategic Business Units, which have organized along product lines: *Document Management* (which consists of six business units that have been aggregated for segment reporting purposes), *Fulfillment Services*, *Label Solutions*, and *SMARTworks LLC*. The segments are managed and reported internally primarily by the type of products they produce and the markets they serve. The Company evaluates segment performance based on operating income. At June 30, 2002, there were no significant changes in identifiable assets of reportable segments from those amounts disclosed at December 30, 2001, nor were there any changes in the reportable segments, or in the measurement of segment operating results.

Information about the Company's operations by segment for the 13 weeks ended June 30, 2002 and July 1, 2001 is as follows:

|                                    |      | Document<br>Management | Fulfillment<br>Services | Label<br>Solutions | SMART-<br>works LLC | Total      |
|------------------------------------|------|------------------------|-------------------------|--------------------|---------------------|------------|
| Revenue from external<br>customers | 2002 | \$ 193,056             | \$ 29,180               | \$ 31,508          | \$ 41               | \$ 253,785 |
|                                    | 2001 | 235,810                | 33,347                  | 36,969             | 7                   | 306,133    |
| Intersegment revenues              | 2002 | -                      | -                       | -                  | \$ 1,865            | \$ 1,865   |
|                                    | 2001 | -                      | -                       | -                  | 2,158               | 2,158      |
| Operating income<br>(loss)         | 2002 | \$ 20,091              | \$ (169)                | \$ 2,024           | \$ (3,121)          | \$ 18,825  |
|                                    | 2001 | 12,928                 | 538                     | 1,815              | (2,245)             | 13,036     |

Information about the Company's operations by segment for the 26 weeks ended June 30, 2002 and July 1, 2001 is as follows:

|                       |      | Document<br>Management | Fulfillment<br>Services | Label<br>Solutions | SMART-<br>works LLC | Total      |
|-----------------------|------|------------------------|-------------------------|--------------------|---------------------|------------|
| Revenue from external | 2002 | \$ 397,918             | \$ 58,718               | \$ 60,764          | \$ 164              | \$ 517,564 |

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|                       |      |           |          |          |            |           |
|-----------------------|------|-----------|----------|----------|------------|-----------|
| customers             | 2001 | 485,942   | 61,969   | 75,811   | 7          | 623,729   |
| Intersegment revenues | 2002 | -         | -        | -        | \$ 3,623   | \$ 3,263  |
|                       | 2001 | -         | -        | -        | 4,033      | 4,033     |
| Operating income      | 2002 | \$ 42,622 | \$ (762) | \$ 4,072 | \$ (6,266) | \$ 39,666 |
| (loss)                | 2001 | 27,310    | 437      | 2,277    | (4,922)    | 25,102    |

Reconciling information between reportable segments and the Company's consolidated financial statements for the three and six months ended June 30, 2002 and July 1, 2002 is as follows:

|                                      | Three Months<br>Ended<br>June 30, 2002 | Three Months<br>Ended<br>July 1, 2001 | Six Months<br>Ended<br>June 30, 2002 | Six Months<br>Ended<br>July 1, 2001 |
|--------------------------------------|--|---------------------------------------|--------------------------------------|-------------------------------------|
| OPERATING INCOME                     | \$ 18,825                              | \$ 13,036                             | \$ 39,666                            | \$ 25,102                           |
| Eliminations and other<br>deductions | 148                                    | (4,223)                               | 297                                  | (3,894)                             |
| LIFO adjustment                      | 257                                    | (1,040)                               | -                                    | (1,040)                             |
| Restructuring charges                | -                                      | (2,331)                               | -                                    | (73,495)                            |
| Asset impairments                    | -                                      | -                                     | -                                    | (41,512)                            |
| Interest expense and other<br>income | (2,208)                                | (2,408)                               | (4,797)                              | (4,826)                             |
| Income (loss) before taxes           | \$ 17,022                              | \$ 3,034                              | \$ 35,166                            | \$ (99,665)                         |

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Dollars in millions, except per share amounts)

*Safe Harbor Statement*

*This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. Because such statements deal with future events, they are subject to various risks and uncertainties and actual results for fiscal year 2002 and beyond could differ materially from the Company's current expectations. Forward-looking statements are identified by words such as anticipates, projects, expects, plans, intends, believes,*



*estimates, targets, and other similar expressions that indicate trends and future events. Factors that could cause the Company's results to differ materially from those expressed in forward-looking statements include, without limitation, variation in demand and acceptance of the Company's products and services, the frequency, magnitude and timing of paper and other raw-material-price changes, general business and economic conditions beyond the Company's control, timing of the completion and integration of acquisitions, the consequences of competitive factors in the marketplace, cost-containment strategies, and the Company's success in attracting and retaining key personnel. 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.*

*The following discussion and analysis provides information which management believes is relevant to an understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.*

## **THE RENEWAL PLAN**

As more fully discussed in the Company's Form 10-K for the year ended December 30, 2001, in January 2001, the Company announced a Renewal Plan comprised of four components: restructuring, reorganization, performance improvement, and early stage investments for future growth. Most of the emphasis in 2001 was directed to restructuring and reorganization; however, several key investments were also initiated in the year to lay the groundwork for operational improvement and growth in 2002 and beyond.

The restructuring actions took place over the first three quarters of 2001, beginning with the elimination of approximately \$250 million of low-margin business. Since cost reductions could not proceed until after the business was eliminated, profitability in each of the first three quarters of 2001 was well below previous period results. In addition, the significant amount of production equipment relocated from closed facilities created high training and conversion costs at receiving plants, further reducing profitability during this nine-month restructuring period.

These restructuring efforts have a significant effect on the comparison of financial results for the second quarter and first half of 2002 with the second quarter and first half of 2001. Financial results for the fourth quarter of 2001 and first quarter of 2002 are also presented to provide a comparison with the two quarters since the Company's restructuring period that substantially ended in September 2001.

## **OVERVIEW**

Net income for the second quarter of 2002 was \$10.9 million or \$0.38 per diluted share, compared with \$1.9 million or \$0.07 per diluted share for the comparable quarter of 2001. Second-quarter results for 2001 included restructuring and other nonrecurring charges that reduced net income by \$4.1 million or \$0.15 per diluted share; excluding these charges, net income in the second quarter of 2002 increased 81.6% over 2001 second-quarter net income of \$6.0 million. Net income in the second quarter of 2002 was aided by gains on the sale of assets, research and development tax credits received, and lower incentive pay accruals; together these items increased earnings per diluted share by approximately \$0.10.

## **RESULTS OF OPERATIONS**

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The first table below presents an analysis of the results of operations for the second quarter and first half of 2002, compared with the second quarter and first half of 2001. The second table below presents a quarterly analysis of the second quarter of 2002 compared with the fourth quarter of 2001 and the first quarter of 2002. Both tables segregate restructuring, impairment, and other non-operating expense from the underlying operations of the Company.

|  | 2Q02     | 2Q01     | YTD02    | YTD01     |
|--|----------|----------|----------|-----------|
| <b>OPERATIONS</b>                        |          |          |          |           |
| Revenue                                  | \$ 253.8 | \$ 306.1 | \$ 517.6 | \$ 623.7  |
| Gross Margin                             | 101.0    | 104.7    | 206.6    | 218.4     |
| <i>% Revenue</i>                         | 39.8%    | 34.2%    | 39.9%    | 35.0%     |
| SG&A Expense                             | 70.8     | 80.0     | 144.7    | 167.5     |
| EBITDA                                   | 30.2     | 24.7     | 61.9     | 50.9      |
| <i>% Revenue</i>                         | 11.9%    | 8.1%     | 12.0%    | 8.2%      |
| Depreciation & Amortization              | 11.0     | 12.5     | 22.0     | 26.3      |
| Income From Operations                   | 19.2     | 12.2     | 39.9     | 24.6      |
| Interest Expense                         | (3.2)    | (3.2)    | (6.5)    | (6.4)     |
| Investment Income                        | 1.0      | 0.8      | 1.8      | 1.6       |
| Pretax Income                            | 17.0     | 9.8      | 35.2     | 19.8      |
| Net Income Before                        |          |          |          |           |
| Non-Operating Items                      | 10.9     | 6.0      | 21.8     | 11.9      |
| <i>Earnings Per Diluted Share</i>        | 0.38     | 0.22     | 0.77     | 0.44      |
| <b>NON-OPERATING ITEMS</b>               |          |          |          |           |
| Restructuring                            | -        | (2.3)    | -        | (73.5)    |
| Write-Offs/Adjustments                   | -        | (4.5)    | -        | (4.5)     |
| Asset Impairment                         | -        | -        | -        | (41.5)    |
| Pretax Effect                            | -        | (6.8)    | -        | (119.5)   |
| Net Income Effect                        | -        | (4.1)    | -        | (71.1)    |
| <b>TOTAL NET INCOME (LOSS)</b>           | \$ 10.9  | \$ 1.9   | \$ 21.8  | \$ (59.2) |
| <i>Earnings (Loss) Per Diluted Share</i> | 0.38     | 0.07     | 0.77     | (2.15)    |

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|  | 4Q01           | 1Q02           | 2Q02           |
|--|----------------|----------------|----------------|
| <b>OPERATIONS</b>                        |                |                |                |
| Revenue                                  | \$ 285.7       | \$ 263.8       | \$ 253.8       |
| Gross Margin                             | 111.5          | 105.6          | 101.0          |
| <i>% Revenue</i>                         | <i>39.0%</i>   | <i>40.0%</i>   | <i>39.8%</i>   |
| SG&A Expense                             | 76.0           | 73.9           | 70.8           |
| EBITDA                                   | 35.5           | 31.7           | 30.2           |
| <i>% Revenue</i>                         | <i>12.4%</i>   | <i>12.0%</i>   | <i>11.9%</i>   |
| Depreciation & Amortization              | 8.7            | 11.0           | 11.0           |
| Income From Operations                   | 26.8           | 20.7           | 19.2           |
| Interest Expense                         | (2.9)          | (3.3)          | (3.2)          |
| Investment Income                        | 1.0            | 0.8            | 1.0            |
| Pretax Income                            | 24.9           | 18.2           | 17.0           |
| Net Income Before<br>Non-Operating Items | 14.3           | 10.9           | 10.9           |
| <i>Earnings Per Diluted Share</i>        | <i>0.51</i>    | <i>0.39</i>    | <i>0.38</i>    |
| <b>NON-OPERATING ITEMS</b>               |                |                |                |
| Restructuring                            | (5.3)          | -              | -              |
| Asset Impairment                         | -              | -              | -              |
| Pretax Effect                            | (5.3)          | -              | -              |
| Net Income Effect                        | (3.0)          | -              | -              |
| <b>TOTAL NET INCOME (LOSS)</b>           | <b>\$ 11.3</b> | <b>\$ 10.9</b> | <b>\$ 10.9</b> |
| <i>Earnings (Loss) Per Diluted Share</i> | <i>0.41</i>    | <i>0.39</i>    | <i>0.38</i>    |

Consolidated revenue decreased by 17.1% to \$253.8 million in the second quarter of 2002 compared with \$306.1 million for the same period of 2001. For the first half of 2002, consolidated revenue decreased by 17.0% to 517.9 million, compared with \$623.7 million for the same period of 2001. The revenue decline in 2002 was primarily volume driven, the result of the Company's 2001 Renewal Plan that included the elimination of approximately \$250 million (annualized) of low-margin and nonstrategic business. In the second quarter of 2002 the Company did experience some softness in revenue due to overall economic conditions and industry dynamics, as well as internal factors. Fourth quarter 2001 signaled the end of the restructuring period and also reflected typical seasonality (higher revenue and income from operations). Had revenue followed a normal seasonal pattern, second quarter 2002 revenue should have exceeded first quarter 2002; however, revenue decreased approximately \$10.0 million. Management believes that the Company underestimated the challenge of ramping up revenue following the restructuring and reorganization. Since the restructuring, new business generation was delayed while sales representatives focused on establishing relationships with customer accounts they inherited and the Company focused on profitability. In addition, the Company did not ramp up the specialized sales forces for each business segment at the rate originally planned. Third, a portion of the marginally profitable business that was held-over from the restructuring period was lost during the quarter. Excluding the effect of the acquisitions discussed below, the Company currently expects revenue for the second half of 2002 to slightly exceed the first half of 2002. Actions to increase revenue will include a

new key account management program and coordinated cross selling. There are also increased opportunities for revenue growth if economic conditions improve in the Company's markets.

Second quarter 2002 gross margin was 39.8% and first half 2002 gross margin was 39.9%, compared with 31.8% and 33.8% for the same periods of 2001, respectively. The improvement reflects an improved mix of business and the benefit of cost reductions from the restructuring. During the restructuring, 25 plants and print centers were closed. Some production capacity was relocated to other locations, but overall capacity was reduced by about 30%. In addition, 29 warehouses were closed and their operations were consolidated into other locations. The combination of these changes produced significant improvements in profitability beginning in the fourth quarter of 2001.

The Company has been able to maintain the good cost structure since fourth quarter of 2001 even while making incremental investments in strategic initiatives such as Six Sigma and e-business initiatives. Selling, engineering, and administrative (SG&A) expense of \$70.8 and \$144.7 million for second quarter and first half of 2002 was \$9.2 and \$22.8 million below the comparable periods of 2001. SG&A expense in second quarter 2002 was also lower than fourth quarter 2001 and first quarter 2002. The decline from 2001 reflects restructuring efforts that eliminated positions at the Company's headquarters and field selling organizations, closed 149 sales offices and consolidated their operations into 43 regional locations and adopted virtual offices for selected markets. The lower second quarter 2002 SG&A expense also includes approximately \$2.5 million of lower incentive pay resulting from adjustments to incentive compensation accruals and approximately \$1.5 million from gains on the sale of several assets. The Company sold one plant that was idled during the restructuring, several presses, and two buildings that had been vacated several years ago.

Depreciation and amortization of \$11.0 million and \$21.9 million for first quarter and first half 2002 declined from \$12.5 and \$26.3 million for the same periods of 2001, reflecting a reduction in assets from the restructuring. The increase in 2002 depreciation and amortization over fourth quarter expense results from anticipated capital spending in 2002.

Interest expense was essentially unchanged, reflecting stable debt balances and an interest rate swap that fixed the interest rate at 5.84% over the LIBOR spread and fees paid to banks under a revolving credit facility agreement. The interest rate swap matures in January 2003.

The effective tax rate for the second quarter and first half of 2002 was slightly lower than the comparable periods of 2001. In second quarter 2002, the Company received a refund for research and development tax credits and also had a higher balance of tax-exempt investments.

### **Restructuring, Impairment, and Non-Operating Charges**

There have been no restructuring charges in 2002. In the first quarter of 2001, the Company recorded expenses for restructuring and asset impairment of \$71.2 million and \$41.5 million, respectively, and an additional \$2.3 million in the second quarter of 2001. Restructuring costs were primarily for severance and other employer-related costs, contract exit and termination costs, and inventory and other asset write-downs. Restructuring expense in the second quarter of 2001 represents costs not chargeable to the first quarter restructuring accrual, such as the cost of moving manufacturing equipment from closed facilities to plants remaining open. The impairment charges resulted from facilities and equipment to be removed from operation.

In addition, the Company recorded net charges of \$4.5 million in the second quarter of 2001 comprised of three items. First, a cutoff error at the end of the prior year resulted in an \$8.8 million understatement of revenue. Second, the value of unfinished goods was reduced by \$21.4 million as a result of the accumulation of many individually small transactional errors that were traced as far back as January 1998 when a new cost system was installed. Third, the Company changed an accounting procedure to provide for the proper matching of cost to revenue for warehousing. Previously, cost was reported up front, as incurred, instead of being matched to revenue as the stored product was shipped from the warehouse and invoiced. The effect of these three adjustments was to increase revenue by \$8.8 million and increase cost of sales by \$13.3 million.

### **Recent Acquisitions**

Subsequent to the end of the second quarter, on July 2, 2002, the Company acquired all of the outstanding stock of InSystems Technologies, Inc. (InSystems), a privately owned company based in Toronto, Canada. InSystems extended relationship management and document automation solutions are intended to complement the Company's existing e-business, document management and fulfillment services offerings. InSystems is a leading provider of e-business solutions for financial services organizations. With InSystems strong position in insurance and the Company's significant presence in banking, healthcare and other markets, the Company expects the acquisition to enhance its long-term growth while further positioning the Company as a leading information solutions provider.

The acquisition was accounted for by the purchase method of accounting under recent guidelines for business combinations. The purchase price for the acquisition, net of cash received, totaled \$88.7 million and was allocated to assets acquired and liabilities assumed based on estimated fair values at the date of acquisition as determined by an independent third party valuation. In conjunction with the acquisition of InSystems, the Company recorded approximately \$49.0 million of goodwill, \$17.1 million of purchased intangibles, and \$21.0 million of capitalized software costs. In accordance with SFAS No. 142, goodwill will not be amortized but will be reviewed periodically for impairment. Of the purchased intangibles, \$16.1 million was assigned to software maintenance contracts that are not subject to amortization and \$1.0 million to professional services backlog that have a one-year useful life. Capitalized software costs will be amortized to cost of sales on a straight-line basis over the estimated product life of the related software, which ranges from one to 10 years. Results of operations for InSystems, which will be a separate reporting segment, will be included in the Company's consolidated financial statements prospectively from the date of acquisition beginning with the third quarter of 2002. In connection with the acquisition, the Company paid a former director of the Company a consulting fee of \$0.6 million for his work in securing the agreement.

On July 12, 2002, the Company acquired consulting and software services operations and a print-on-demand operation from PlanetPrint, a business services company headquartered in Minneapolis, Minnesota, for approximately \$10.0 million. In conjunction with the acquisition, the Company recorded approximately \$5.7 million of goodwill and \$1.0 million of purchased intangibles. Results of operations will be included in the Company's consolidated financial statements prospectively from the date of acquisition, beginning with the third quarter of 2002. Combined revenues of the two acquisitions were approximately \$43.0 million for their most recent fiscal years.

## **Outlook**

As previously mentioned, the Company currently expects revenue from existing business (excluding acquisitions) for the second half of 2002 to slightly exceed the first half of 2002. Third quarter 2002 revenue is expected to be less than fourth quarter 2002 or second quarter 2002, which is the normal seasonal pattern. The recent acquisitions are expected to add revenue of approximately \$23 million in the last half of 2002, while having a neutral impact on net income. Gross margins are expected to improve slightly; however, SG&A expense will be higher without the favorable items previously discussed and the added amortization expense from the acquisitions. Based on the Company's financial results for the first half of 2002 and expectations about the industry and economy for the remainder of the year, the Company is adjusting its earnings target for the year to a range of \$1.40 to \$1.50 per diluted share.

## **BUSINESS SEGMENTS**

An important element in the Renewal Plan was the 2001 change from a functional organizational structure to one with a small Corporate Center and four Strategic Business Units (SBU). The segment discussions that follow include quarterly operating results, excluding expenses for restructuring, impairment, and LIFO inventory adjustments, all of which are not allocated to the business segment.

### *Document Management*

This SBU provides custom printed documents, workflow consulting, integrated system solutions, and storage and distribution services. It primarily serves Fortune 2000 companies in the healthcare, financial, and manufacturing markets.

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|                          | 4Q01     | 1Q02     | 2Q02     | 2Q01     | YTD02    | YTD01    |
|--------------------------|----------|----------|----------|----------|----------|----------|
| Revenue                  | \$ 224.6 | \$ 204.8 | \$ 193.1 | \$ 235.8 | \$ 397.9 | \$ 485.9 |
| <i>% Change 02 vs 01</i> |          |          | -18.1%   |          | -18.1%   |          |
| Operating Income         | \$ 23.8  | \$ 22.5  | \$ 20.1  | \$ 12.9  | \$ 42.6  | \$ 27.3  |
| <i>% Revenue</i>         | 10.6%    | 11.0%    | 10.4%    | 5.5%     | 10.7%    | 5.6%     |

The industry demand for several categories of traditional business forms, which represent about two-thirds of this SBU's total revenue, has been flat or in modest decline in recent years as a result of inroads made by competing technologies. A significant portion of the low-margin business that was eliminated in the restructuring occurred in this SBU, which accounted for most of the 18.1% decline in revenue in both periods.

Second quarter and first half 2002 operating income improvement over 2001 reflects restructuring efforts described earlier, as this SBU had the most extensive restructuring activities. By taking out capacity and improving the mix of business, operating margins have increased significantly, in spite of the lower revenues. Second quarter 2002 operating income for this SBU also includes a significant portion of the favorable SG&A adjustments for lower incentive pay and gains on the sale of several assets.

*Fulfillment Services*

This SBU helps its clients communicate effectively with their customers, providing information or marketing materials customized for each recipient. This may take the form of monthly billing statements, customized information kits, or one-to-one marketing communications. Its major markets are financial services, healthcare, and membership.

|                          | 4Q01    | 1Q02     | 2Q02     | 2Q01    | YTD 02   | YTD 01  |
|--------------------------|---------|----------|----------|---------|----------|---------|
| Revenue                  | \$ 29.4 | \$ 29.5  | \$ 29.2  | \$ 33.3 | \$ 58.7  | \$ 62.0 |
| <i>% Change 02 vs 01</i> |         |          | -12.3%   |         | -5.3%    |         |
| Operating Income (Loss)  | \$ 1.1  | \$ (0.6) | \$ (0.2) | \$ 0.5  | \$ (0.8) | \$ 0.4  |
| <i>% Revenue</i>         | 3.7%    | -2.0%    | -0.7%    | 1.5%    | -1.4%    | 0.6%    |

Revenue in second quarter 2002 decreased 12.3% over the same period of 2001. For the first half of 2002, revenue decreased 5.3% from 2001. In both the first and second quarter of 2002, revenue volume declined due to the elimination of low-margin business in the restructuring. While this SBU is seeing a reduction in traditional imprinting business, this decline is being offset by increases in outsourced services.

The restructuring improved the mix of business, eliminated some overcapacity, and pushed operating margin percentages modestly higher by fourth quarter 2001. Gross margin has continued to improve significantly; however, operating income is being impacted by higher than usual selling and marketing expense in 2002 as this SBU establishes its own dedicated sales force. This SBU has a longer sell cycle. As the new sales force establishes customer relationships and generates additional revenue, the Company expects selling and marketing expense, as a percentage of revenue, to decline and operating margins to improve.

### *Label Solutions*

This SBU provides custom and stock labels on both a stand-alone basis and as part of an integrated labeling system. Applications are sold primarily into manufacturing, healthcare, and distribution markets.

|                          | 4Q01    | 1Q02    | 2Q02    | 2Q01    | YTD 02  | YTD 01  |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Revenue                  | \$ 31.7 | \$ 29.3 | \$ 31.5 | \$ 37.0 | \$ 60.8 | \$ 75.8 |
| <i>% Change 02 vs 01</i> |         |         | -14.9%  |         | -19.8%  |         |
| Operating Income         | \$ 3.1  | \$ 2.0  | \$ 2.0  | \$ 1.8  | \$ 4.0  | \$ 2.3  |
| <i>% Revenue</i>         | 9.8%    | 6.8%    | 6.3%    | 4.9%    | 6.6%    | 3.0%    |

Revenue in second quarter 2002 decreased 14.9% over the same period of 2001. For the first half of 2002, revenue decreased 19.8% from 2001. The revenue decline was primarily volume driven, the result of low-margin business that was eliminated by the Renewal Plan. Revenue also declined due to the loss of two large accounts during 2001. These accounts generated significant revenue, but low gross margins, and the Company chose not to participate in further price reductions. The SBU has been successful in securing new business to offset the lost revenue. The investment in a dedicated sales channel targeting Manufacturing and Logistics market segments is beginning to show results. The focus for this SBU will be on selling integrated solutions and increasing revenue volume.

Despite the lower revenues, gross margins have improved consistently during the restructuring, reflecting a better business mix and lower manufacturing costs brought on by improved utilization. Additionally, as in Fulfillment



Services, operating income is being impacted by higher than usual selling and marketing expense in 2002 as this SBU also establishes its own dedicated sales force. This SBU has a longer sell cycle and specialty applications. As the new sales force establishes customer relationships and generates additional revenue, the Company expects selling and marketing expense, as a percentage of revenue, to decline and operating margins to improve.

### *SMARTworks LLC*

This SBU, a wholly owned subsidiary established in July 2000, enables sellers and buyers of print and other office supplies to transact business efficiently over the Internet. In addition, its solutions enable its users to manage purchases to minimize errors, missed deadlines, and obsolescence, which can be significant for printed materials.

SMARTworks also provides services to other Strategic Business Units, principally Document Management.

Document Management's sales representatives and customers use SMARTworks' application to manage the ordering and control of printed documents. SMARTworks also markets its services through other third-party channels and directly to its customers.

|                         | 4Q 01    | 1Q 02    | 2Q 02    | 2Q 01    | YTD 02   | YTD 01   |
|-------------------------|----------|----------|----------|----------|----------|----------|
| Revenue                 | \$ 1.9   | \$ 1.9   | \$ 1.9   | \$ 2.2   | \$ 3.8   | \$ 4.1   |
| Operating Income (Loss) | \$ (3.3) | \$ (3.1) | \$ (3.1) | \$ (2.2) | \$ (6.2) | \$ (4.9) |

This start-up operation has invested heavily in the development of its application, internal infrastructure, and more recently its marketing and direct sales. SMARTworks grew out of an internal support function where it was a very effective tool in support of the sale of documents, which accounts for its high usage but low external revenue. The focus for this SBU is to broaden its application and increase sales to third-party customers. Operating expenses are expected to level off in 2002.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents increased during the first six months of the year by \$51.3 million to \$214.8 million at June 30, 2002. Operations provided \$65.2 million of cash in the first half of 2002, primarily from net income plus the non-cash benefits of depreciation, and a decrease in working capital requirements. Additionally, in the second quarter of 2002, the Company received \$24.6 million of income tax refunds and research and development tax credits. Restructuring spending for the first half totaled \$7.2 million. The remaining restructuring liability balance of \$8.1 million consists of severance and employer related costs that are expected to be paid in 2002 and contract exit and termination costs that are expected to be paid through 2006.

Net investing activities used \$8.6 million in the first half of 2002. Proceeds from the sale of assets provided \$7.7 million in the quarter, primarily from the sale of a facility in Pennsylvania that was targeted for closure and sale as part of the restructuring, two previously abandoned buildings, and several presses. Capital spending totaled \$10.7 million. In addition, \$5.0 million was used to purchase marketable securities considered held-for-sale. The Company expects capital spending to be in the \$25 to \$35 million range for the year, excluding acquisitions. The Company is actively seeking acquisitions that will add talent, technology and capabilities that align with the growth strategies of each SBU. The expectation is that the acquisition targets would be more moderate in size, having annual revenue of \$25 to \$100 million.

Net financing activities used \$5.3 million in the first half of 2002. Approximately \$12.8 million was used to pay dividends and \$0.6 million was used for principal payments on industrial revenue bonds, offset in part by \$8.1 million received from the exercise of stock options.

At June 30, 2002, the Company had \$202.3 million of total debt and \$214.8 million of cash, providing a net cash position of \$12.5 million. The Company used approximately \$100.0 million for its two acquisitions in early July, which will be reflected in the third quarter. On a pro-forma basis, the acquisitions would result in a net debt to capital ratio of 16.9% which reflects a very strong financial condition.

|                                       | Post June<br>Acquisitions |          |          |
|---------------------------------------|---------------------------|----------|----------|
|                                       | Pro-Forma                 | June-02  | Dec-01   |
| Total Debt                            | \$ 202.3                  | \$ 202.3 | \$ 202.9 |
| Less Cash                             | (114.8)                   | (214.8)  | (163.8)  |
| Net (Cash) Debt                       | 87.5                      | (12.5)   | 39.1     |
| Equity                                | 430.2                     | 430.2    | 415.3    |
| Total                                 | \$ 517.7                  | \$ 417.7 | \$ 454.4 |
| <i>Net Debt (Cash): Total Capital</i> | 16.9%                     | -3.0%    | 8.6%     |

The Company has a \$250 million unsecured revolving credit facility with ten banks. The agreement, as amended on May 10, 2002, provides a four-year commitment of up to \$170 million, maturing May 2005 and a one-year commitment plus a one-year term loan extension at the Company's option, maturing May 2004, of up to \$80 million. At June 30, 2002, the Company had borrowings outstanding under the agreement of \$200 million.

Management believes that the combination of internally generated funds, available cash reserves, and the existing credit facility are sufficient to fund the Company's operation over the next year. In management's judgment, the

Company's strong balance sheet could support additional debt financing, if necessary, to pursue additional acquisitions.

## **ENVIRONMENTAL MATTERS**

The Company has been named as one of a number of potentially responsible parties at several waste disposal sites, none of which has ever been Company owned. The Company's 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 the operating results, financial condition, or cash flows of the Company.

## **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

Effective December 31, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, which addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized, but rather tested at least annually for impairment using a fair-value-based test, and intangible assets that have finite useful lives be amortized over their useful lives. At December 31, 2001, the Company did not have any goodwill or intangible assets on the consolidated balance sheet. The adoption of this standard did not have an effect on the Company's consolidated results of operations, financial position, or cash flows.

Effective December 31, 2001, the Company also adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* which establishes an accounting model for long-lived assets, including discontinued operations, to be disposed of by sale. This statement requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting of discontinued operations to include components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of this standard did not have an effect on the Company's consolidated results of operations, financial position, or cash flows.

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In May 2002, the Financial Accounting Standards Board (FASB) issued SFAS 145, *Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections*. Among other things, the new standard rescinds various pronouncements regarding early extinguishment of debt and amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications. The provisions of SFAS No. 145 are generally effective for fiscal years beginning after May 15, 2002. The Company has not evaluated the potential effect, if any, of this standard; however, it is anticipated that SFAS No. 145 will not have a material effect on the financial position, cash flows, or results of

operations of the Company.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities which addresses the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. This statement requires that liabilities for costs associated with an exit or disposal activity be recognized in the period in which the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. SFAS No. 146 nullifies Emerging Issues Task Force (EITF) 94-3 which permitted recognition of a liability for such costs at the date of a Company's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit and disposal activities initiated after December 31, 2002. The provisions of EITF 94-3 will continue to apply for liabilities previously recorded. The impact on the Company's financial position, cash flows, or results of operations from adopting this standard has not been determined.

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended March 31, 2002**

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

The Company is exposed to interest rate risk on its borrowings under a revolving credit facility and the Company's short-term investments as outlined in the 2001 Form 10K. 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 December 30, 2001.

**PART II - OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company's Annual Meeting of Shareholders was held April 17, 2002.

As a result of voting of the Shareholders, the following were elected to the Company's Board of Directors to hold office for the ensuing year:

NOMINEE

IN FAVOR

WITHHELD

Roy W. Begley, Jr.

44,011,212

1,515,116

F. David Clarke, III

44,007,460

1,518,868

Paul H. Granzow

43,161,038

2,365,290

Graeme G. Keeping

44,436,750

1,089,578

Dennis L. Rediker

43,154,526

2,371,802

Ann Scavullo

44,003,242

1,523,086

John J. Schiff, Jr.

44,014,344

1,511,984

John Q. Sherman, II

43,999,082

1,527,246

Following is the result of voting by the Shareholders regarding selection of Battelle & Battelle LLP as the Company's Auditors for the year 2002:

IN FAVOR

OPPOSED

ABSTAINED

45,007,089

497,073

22,167

Following is the result of voting by the Shareholders regarding the adoption of the Standard Register 2002 Equity Incentive Plan:

IN FAVOR

OPPOSED

ABSTAINED

37,230,284

6,804,981

315,564

Following is the result of voting by the Shareholders regarding amending The Management Incentive Compensation Plan:

IN FAVOR

OPPOSED

ABSTAINED

44,930,869

266,722

328,734

ITEM 5. OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8K

a)

Exhibits

| Exhibit # | Description |
|-----------|-------------|
|-----------|-------------|

|   |  |
|---|--|
| 1 |  |
|---|--|

|  |  |
|--|--|
|  | Plan of acquisition, reorganization, arrangement |
|--|--|

|  |                           |
|--|---------------------------|
|  | Liquidation or succession |
|--|---------------------------|

|  |                |
|--|----------------|
|  | Not applicable |
|--|----------------|

|   |  |
|---|--|
| 3 |  |
|---|--|



Articles of incorporation and bylaws

Not applicable

1.1

First Amendment Agreement to The Credit Agreement between

Standard Register and the following banking institutions

0.1

Asset Purchase Agreement between The Standard Register Company

and PlanetPrint.com, Inc., dated July 10, 2002

0.2

Share Purchase Agreement between The Standard Register Company

and InSystems Technologies Inc., dated June 25, 2002.

11

Statement re: computation of per share earnings

Not applicable

0.1

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

1

Published reports regarding matters submitted

to vote of security holders

Not applicable

1.1

Consent of Independent Auditor

24

Power of attorney

Not applicable

0.1

Financial Statement certification letter

0.2

Review report of Independent Auditor

b) Reports on Form 8K

A report on Form 8K related to the resignation of Director Graeme G. Keeping was filed by the Company on July 02, 2002.

A report on Form 8K related to the purchase of InSystems Technologies Inc. was filed by the Company on July 10, 2002.

**THE STANDARD REGISTER COMPANY**

**FORM 10-Q**

**For the Quarter Ended June 30, 2002**

SIGNATURE

Pursuant to the requirements 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.

August 13, 2002

/s/ C. J. Brown

By C. J. Brown, Sr. Vice President, Treasurer  
Chief Financial Officer, and Chief Accounting Officer