STANDARD REGISTER CO
Form 10-Q
May 02, 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 April 3, 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	**31-0455440**

(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
600 ALBANY STREET, DAYTON OHIO	**45417**
(Address of principal executive offices)	(Zip Code)

(937) 221-1000

(Registrant s telephone number, including area code)

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

Indicate by 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 [ ] 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 April 3, 2011
Common stock, $1.00 par value	24,278,954 shares
Class A stock, $1.00 par value	4,725,000 shares

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended April 3, 2011

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PART I - FINANCIAL INFORMATION

THE STANDARD REGISTER COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	13 Weeks Ended	
	April 3, 2011	*April 4, 2010*
REVENUE		
Products	**$ 139,376**	$ 145,354
Services	**25,513**	22,069
Total revenue	**164,889**	167,423
COST OF SALES		
Products	**94,544**	99,380
Services	**16,713**	14,434
Total cost of sales	**111,257**	113,814
GROSS MARGIN	**53,632**	53,609
OPERATING EXPENSES		
Selling, general and administrative	**52,303**	54,145
Restructuring and other exit costs	**74**	432
Total operating expenses	**52,377**	54,577
INCOME (LOSS) FROM OPERATIONS	**1,255**	(968)
OTHER INCOME (EXPENSE)		
Interest expense	**(572)**	(390)
Other income	**5**	2
Total other expense	**(567)**	(388)
INCOME (LOSS) BEFORE INCOME TAXES	**688**	(1,356)
INCOME TAX EXPENSE (BENEFIT)	**153**	(543)
NET INCOME (LOSS)	**$ 535**	$ (813)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	**$ 0.02**	$ (0.03)
Dividends per share declared for the period	**$ 0.05**	$ 0.05
NET INCOME (LOSS)	**$ 535**	$ (813)
Actuarial loss reclassification, net of $(2,457) and $(1,902) deferred income tax benefit	**3,730**	2,888

Prior service credit reclassification, net of $487 and $397 deferred income tax expense		**(739)**		(604)
Cumulative translation adjustment		**21**		13
COMPREHENSIVE INCOME	**$**	**3,547**	$	1,484

See accompanying notes.

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

A S S E T S	*April 3, 2011*	*January 2, 2011*
CURRENT ASSETS		
Cash and cash equivalents	**$ 557**	$ 531
Accounts and notes receivable, less allowance for doubtful		
accounts of $2,909 and $2,816	**110,612**	122,308
Inventories	**29,455**	29,253
Deferred income taxes	**11,991**	11,991
Prepaid expense	**8,648**	8,962
Total current assets	**161,263**	173,045
PLANT AND EQUIPMENT		
Land	**2,221**	2,221
Buildings and improvements	**65,130**	65,111
Machinery and equipment	**181,522**	181,808
Office equipment	**165,555**	165,600
Construction in progress	**2,581**	1,431
Total	**417,009**	416,171
Less accumulated depreciation	**346,315**	342,022
Total plant and equipment, net	**70,694**	74,149
OTHER ASSETS		
Goodwill	**6,557**	6,557
Intangible assets, net	**2,222**	2,265
Deferred tax asset	**100,820**	102,996

Other	**11,086**	10,819
Total other assets	**120,685**	122,637
Total assets	**$ 352,642**	$ 369,831

See accompanying notes.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	*April 3, 2011*	*January 2, 2011*
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 1,490**	$ 1,467
Accounts payable	**31,464**	34,110
Accrued compensation	**15,606**	15,056
Accrued restructuring and other exit costs	**1,080**	1,689
Deferred revenue	**2,055**	2,225
Other current liabilities	**22,365**	24,216
Total current liabilities	**74,060**	78,763
LONG-TERM LIABILITIES		
Long-term debt	**36,817**	42,926
Pension benefit obligation	**174,935**	185,174
Retiree healthcare obligation	**4,921**	4,931
Deferred compensation	**6,278**	6,306
Environmental liabilities	**3,773**	3,823
Other long-term liabilities	**3,104**	3,060
Total long-term liabilities	**229,828**	246,220
COMMITMENTS AND CONTINGENCIES - see Note 11		
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value:		
Authorized 101,000,000 shares		
Issued 26,293,274 and 26,227,199 shares	**26,293**	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	**63,754**	63,401
Accumulated other comprehensive losses	**(139,888)**	(142,900)
Retained earnings	**144,095**	143,562
Treasury stock at cost:		
2,014,320 and 1,996,952 shares	**(50,225)**	(50,167)
Total shareholders' equity	**48,754**	44,848
Total liabilities and shareholders' equity	**$ 352,642**	$ 369,831

See accompanying notes.

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

	13 Weeks Ended	
	April 3, 2011	***April 4, 2010***
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	**$ 535**	$ (813)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**5,350**	6,087
Restructuring charges	**74**	432
Pension and postretirement benefit expense	**4,621**	3,521
Deferred tax expense (benefit)	**118**	(543)
Other	**842**	705
Changes in operating assets and liabilities:		
Accounts and notes receivable	**11,361**	5,584
Inventories	**(202)**	2,901
Restructuring spending	**(683)**	(2,407)
Accounts payable and accrued expenses	**(2,497)**	(728)
Pension and postretirement obligations	**(9,908)**	(8,194)
Deferred compensation payments	**(430)**	(766)
Other assets and liabilities	**270**	(184)
Net cash provided by operating activities	**9,451**	5,595
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to plant and equipment	**(1,879)**	(2,073)
Proceeds from sale of plant and equipment	**-**	19
Net cash used in investing activities	**(1,879)**	(2,054)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in borrowings under revolving credit facility	**(5,728)**	(4,119)

Principal payments on long-term debt		**(357)**		(199)
Proceeds from issuance of common stock		**43**		44
Dividends paid		**(1,459)**		(1,456)
Purchase of treasury stock		**(58)**		(34)
Net cash used in financing activities		**(7,559)**		(5,764)
Effect of exchange rate changes on cash		**13**		12
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**26**		(2,211)
Cash and cash equivalents at beginning of period		**531**		2,404
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$**	**557**	$	193

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Capital lease recorded for equipment	**$**	**-**	$	4,311
Loan payable recorded for professional services		**-**		1,598

See accompanying notes.

THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

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

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 $74 in 2011 and $397 in 2010 relate to costs required to be expensed as incurred, primarily for the termination of contracts and the relocation of equipment. Components of 2009 restructuring and other exit costs consist of the following:

	Total Expected Costs	***Total Q1 2011 Expense***	***Cumulative To-Date Expense***
Involuntary termination costs	**$ 3,450**	$ (21)	$ 3,381
Contract termination costs	**2,600**	46	1,432
Other associated exit costs	**8,600**	49	8,120
Total	**$ 14,650**	$ 74	$ 12,933

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

Balance	***Incurred***	***Reversed***	***Balance***

	2010	*in 2011*	*in 2011*	*2011*
Involuntary termination costs	$ 878	$ (345)	$ (20)	$ 513
Contract termination costs	811	(244)	-	567
Total	$ 1,689	$ (589)	$ (20)	$ 1,080

2008 Plans

Restructuring and other exit costs of $35 in 2010 primarily relate to contract termination costs that were required to be expensed as incurred.

NOTE 5 INCOME TAXES

The effective tax rate for the 13-week period ending April 3, 2011 was 22.2% compared to 40.0% for the 13-week period ending April 4, 2010. The rate in 2011 was lower primarily due to the following factors: a higher proportion of taxable income during 2011 attributable to our operations in Mexico which is taxed at a lower rate than the United States; and a decrease in our liability for unrecognized tax benefits.

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 6 EARNINGS PER SHARE

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

	13 Weeks Ended	
	April 3,	***April 4,***
(Shares in thousands)	***2011***	***2010***
Weighted average shares outstanding - basic	**28,976**	28,875
Effect of potentially dilutive securities	**21**	-
Weighted average shares outstanding - diluted	**28,997**	28,875

No outstanding options were included in the computation of diluted EPS for the 13-week period ending April 3, 2011 because the exercise price of the options was greater than the average market price at the end of the period; therefore, the effect would be anti-dilutive. Due to the net loss for the 13-week period ended April 4, 2010, no outstanding options or unvested shares were included in the diluted EPS calculation because they would automatically result in anti-dilution.

NOTE 7 SHARE BASED COMPENSATION

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

	13 Weeks Ended	
	April 3,	***April 4,***
	2011	***2010***
Nonvested stock awards, service based	**$ 112**	$ 92

Nonvested stock awards, performance based	**99**	29
Stock options	**255**	257
Total share-based compensation expense	**466**	378
Income tax benefit	**185**	150
Net expense	**$ 281**	$ 228

Stock Options

During the first quarter of 2011, the Company issued options to purchase 1,506,924 shares of stock contingent upon approval by the shareholders of the Company of the 2011 Equity Incentive Plan at the annual meeting of shareholders held on April 28, 2011. The 2011 Equity Incentive Plan was subsequently approved; and therefore, the grant date for expense purposes for these options is April 28, 2011. The weighted-average fair value of the stock options was estimated at $1.63 per share, using the Black-Scholes option-pricing model. Expense will be amortized on a straight-line basis over a 4-year vesting period. The significant assumptions used to estimate the fair value of the options are as follows:

Risk-free interest rate	**1.4%**
Dividend yield	**4.4%**
Expected term	**4 years**
Expected volatility	**79.9%**

Performance-Based Stock Awards

During the first quarter, we canceled 76,979 shares of performance-based stock awarded in 2010 due to the specified performance level not being attained.

NOTE 8 PENSION PLANS

Net periodic benefit cost includes the following components:

	13 Weeks Ended	
	April 3, 2011	*April 4,*