STANDARD REGISTER CO
Form 10-Q
August 07, 2003

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 29, 2003

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 0-01097

THE STANDARD REGISTER COMPANY
(Exact name of Registrant as specified in its charter)

OHIO	**31-0455440**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

600 ALBANY STREET, DAYTON OHIO	**45408**
(Address of principal executive offices)	(Zip Code)

(937) 221-1000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X 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 June 29, 2003
Common stock, $1.00 par value	23,554,891shares
Class A stock, $1.00 par value	4,725,000 shares

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THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 29, 2003

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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)

	13 Weeks Ended June 29 2003	***13 Weeks Ended June 30 2002***	***26 Weeks Ended June 29 2003***	***26 Weeks Ended June 30 2002***
REVENUE				
Products	$ 193,164	$ 208,076	$ 386,252	$ 423,044
Services	39,786	45,709	82,841	94,520
Total revenue	232,950	253,785	469,093	517,564
COST OF SALES				
Products	117,785	122,869	234,432	250,358
Services	26,057	29,947	57,052	60,65
Total cost of sales	143,842	152,816	291,484	311,009
GROSS MARGIN	89,108	100,969	177,609	206,55

OPERATING EXPENSES								
Research and development		4,749		4,161		9,783		8,32
Selling, general and administrative		69,440		66,674		140,965		136,402
Depreciation and amortization		12,293		10,904		24,886		21,869
Asset impairments		9,545		-		9,545		
Restructuring charges		12,972		-		12,972		
Total operating expenses		108,999		81,739		198,151		166,592
(LOSS) INCOME FROM OPERATIONS		(19,891)		19,230		(20,542)		39,963
OTHER INCOME (EXPENSE)								
Interest expense		(971)		(3,165)		(2,634)		(6,512
Investment income and other		381		957		777		1,713
Total other expense		(590)		(2,208)		(1,857)		(4,797
(LOSS) INCOME BEFORE INCOME TAXES		(20,481)		17,022		(22,399)		35,160
INCOME TAX (BENEFIT) EXPENSE		(8,485)		6,080		(9,271)		13,307
NET (LOSS) INCOME	$	(11,996)	$	10,942	$	(13,128)	$	21,859
(LOSS) EARNINGS PER SHARE								
Basic	$	(0.42)	$	0.39	$	(0.46)	$	0.79
Diluted	$	(0.42)	$	0.38	$	(0.46)	$	0.77
Dividends Paid Per Share	$	0.23	$	0.23	$	0.46	$	0.46
NET (LOSS) INCOME	$	(11,996)	$	10,942	$	(13,128)	$	21,859
Deferred cost on interest rate swap, net of $245, $815, and $1,067 deferred income tax expense		-		367		1,210		1,60
Unrealized gain on available-for-sale securities net of $1,014 deferred income tax benefit in 2002		-		(1,521)		660		(1,521
Deferred cost on forward contract net of $0 and $146 deferred tax expense		(37)		-		179		
Foreign currency translation adjustment		540		-		1,040		
COMPREHENSIVE (LOSS) INCOME	$	(11,493)	$	9,788	$	(10,039)	$	21,939

See accompanying notes.

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THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)

A S S E T S	*June 29* *2003*	*December 29* *2002*
CURRENT ASSETS		
Cash and cash equivalents	$ 112,773	$ 122,579
Trading securities	210	255
Accounts and notes receivable, less allowance for doubtful		
accounts of $5,165 and $6,312, respectively	134,958	155,930
Inventories	50,458	60,179
Prepaid income taxes	14,054	19,029
Deferred income taxes	21,392	21,292
Prepaid expense	13,246	12,793
Total current assets	347,091	392,057
PLANT AND EQUIPMENT		
Buildings and improvements	68,932	83,324
Machinery and equipment	222,052	248,093
Office equipment	164,728	162,505
Total	455,712	493,922
Less accumulated depreciation	292,845	300,801
Depreciated cost	162,867	193,121
Plant and equipment under construction	8,399	8,606
Land	3,798	4,495
Net assets held for sale	5,380	-
Total plant and equipment	180,444	206,222
OTHER ASSETS		
Goodwill	53,616	53,613
Intangible assets, net	15,990	17,199
Deferred tax asset	40,741	40,865
Software development costs, net	19,325	20,987
Restricted cash	4,499	2,401
Available-for-sale securities	1,280	620
Other	22,398	20,900
Total other assets	157,849	156,585
Total assets	$ 685,384	$ 754,864

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	*June 29 2003*	*December 29 2002*
CURRENT LIABILITIES		
Current portion of long-term debt	$ 76	$ 2,572
Accounts payable	23,177	30,853
Accrued compensation	25,095	26,184
Deferred revenue	8,851	8,591
Accrued restructuring	8,991	2,437
Other current liabilities	24,531	31,803
Total current liabilities	90,721	102,440
LONG-TERM LIABILITIES		
Long-term debt	170,000	200,010
Pension benefit obligation	63,498	68,803
Retiree health care obligation	49,065	49,374
Deferred compensation	13,311	12,275
Deferred cost of interest rate swap	-	2,025
Other long-term liabilities	675	936
Total long-term liabilities	296,549	333,423
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value:		
Authorized 101,000,000 shares		
Issued 2003 -25,478,652; 2002 - 25,340,543	25,479	25,340
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	53,795	51,541

Accumulated other comprehensive losses	(115,587)	(118,677)
Retained earnings	383,705	409,834
Treasury stock at cost:		
2003 - 1,922,145 shares; 2002 - 1,797,150	(49,322)	(46,124)
Unearned compensation - restricted stock	(4,652)	(4,468)
Common stock held in grantor trust, at cost:		
2003 - 1,616 shares; 2002 - 123,121 shares	(29)	(3,170)
Total shareholders' equity	298,114	319,001
Total liabilities and shareholders' equity	$ 685,384	$ 754,864

See accompanying notes.

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

	26 Weeks Ended June 29 2003	***26 Weeks Ended June 30 2002***
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (13,128)	$ 21,859
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	24,886	21,869
Asset impairments	9,545	-
Restructuring charges	12,972	-
Loss (gain) on sale of assets	843	(1,682)
Amortization of unearned compensation - restricted stock	1,072	649
Deferred income taxes	(937)	-
Tax benefit from exercise of stock options	98	-
Changes in operating assets and liabilities:		
Accounts and notes receivable	20,964	29,696
Inventories	9,721	6,521
Prepaid income taxes	4,975	29,118
Other assets	(3,386)	(3,100)

Restructuring spending	(6,420)	(7,211)
Accounts payable and accrued expenses	(16,030)	(26,263)
Pension and postretirement obligation	(5,614)	(5,315)
Deferred income	260	1,292
Other liabilities	776	199
Net cash provided by operating activities	40,597	67,632
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to plant and equipment	(9,652)	(10,662)
Proceeds from sale of plant and equipment	3,427	7,722
Purchase of marketable securities	-	(5,000)
Additions to other investments	(293)	-
Net cash used in investing activities	(6,518)	(7,940)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(32,531)	(630)
Proceeds from issuance of common stock	1,040	5,142
Dividends paid	(13,059)	(12,868)
Net cash used in financing activities	(44,550)	(8,356)
Effect of exchange rate changes on cash	665	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,806)	51,336
Cash and cash equivalents at beginning of period	122,579	163,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 112,773	$ 214,838

See accompanying notes.

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THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The Company s investments in international joint ventures are included in the accompanying consolidated financial statements using the equity method of accounting. The Company s share of earnings (losses) from these joint ventures is included in Investment income (expense) for periods ending one month prior to the Company s fiscal period-end in order to ensure timely preparation of the consolidated financial statements. 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 29, 2002 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 RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective December 30, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, which addresses the financial accounting and disclosure of legal obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The new standard requires the Company to record the fair value of the liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The related asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the asset s economic life. As of June 29, 2003, the Company reviewed its assets and has identified no asset retirement obligations. 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 30, 2002, the Company also adopted the section of SFAS No. 145, Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections, regarding financial reporting for early extinguishment of debt. Since the Company does not have any gains or losses on extinguishment of debt recorded, 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 30, 2002, the Company also adopted the provisions of 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 not be recognized until 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. See Note 4 Restructuring and Impairment Charges.

Effective January 1, 2003, the Company adopted Financial Interpretation Number (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 further defines the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 incorporates, without change, the guidance in FIN 34, Disclosure of Indirect Guarantees of Indebtedness of Others, which is being superseded.

FIN 45 generally applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. An underlying is defined by the Financial Accounting Standards Board (FASB) as a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable. There are several exceptions including, but not limited to, pension contracts, deferred compensation contracts, lessee s residual value guarantee in a capital lease, guarantees accounted for as contingent rent, and guarantees that constitute vendor rebates.

FIN 45 requires disclosure of the nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee. The maximum potential amount of future payments under the guarantee, the carrying amount of the liability, if any, for the guarantor s obligations and the nature and extent of any recourse provisions that would enable the guarantor to recover amounts paid under the guarantee must also be disclosed.

FIN 45 is effective, on a prospective basis, to guarantees issued or modified after December 31, 2002. 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 2003, FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which requires issuers to classify certain financial instruments as liabilities (or assets in some circumstances). SFAS No.150 covers certain financial instruments that embody an obligation that the issuer can or must settle by issuing its own equity shares and instruments that require the issuing company to buy back all or some of its shares in exchange for cash or other assets. The new standard also requires disclosures about alternative ways to settle the instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003. The Company will adopt the new standard beginning in the third quarter of fiscal 2003 for all financial instruments entered into prior to May 31, 2003 and does not anticipate that the adoption will have a material effect on the Company s consolidated results of operations, financial position, or cash flows.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46 extends the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. These variable interest entities (VIEs) are to be evaluated for consolidation based on their variable interests. Variable interests are contractual, ownership, or other interests in an entity that expose their holders to the risks and rewards of the VIE. VIE s have commonly been referred to as special-purpose entities or off-balance sheet structures. The objective of FIN 46 is not to restrict the use of VIEs, but to improve the financial reporting related to them.

FIN 46 introduces a new consolidation model, the variable interests model, which determines control (and consolidation) based on potential variability in gains and losses of the entity being evaluated for consolidation. Variable interests include equity investments, loans, leases, derivatives, guarantees, forward contracts, service contracts, and other instruments whose values change with changes in the VIE s assets. FIN 46 requires existing unconsolidated VIEs to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests.

The provisions of FIN 46 are effective immediately for all VIEs created after January 31, 2003. The Company must apply FIN 46 beginning in the third quarter of fiscal 2003 for all VIEs created before February 1, 2003. The Company is currently evaluating the impacts of the initial recognition, measurement and disclosure provisions of FIN 46; however, the Company does not believe that it holds any VIEs that require disclosure or consolidation.

In November 2002 the Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and or rights to use assets. In applying EITF No. 00-21, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should be evaluated as a single arrangement. It also addresses how arrangement consideration should be measured and allocated. EITF No. 00-21 does not address when the criteria for revenue recognition are met or provide guidance on the appropriate method of revenue recognition.

Under EITF No. 00-21, revenue arrangements with multiple deliverables should be accounted for separately if the product or service has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the product or service, the arrangement includes a general right of return relative to the item, and delivery or performance of the undelivered item is considered probable and substantially in control of the vendor. Consideration should be allocated among the separate elements of the arrangement based on their relative fair value.

EITF No. 00-21 requires disclosure of the accounting policy for recognition of revenue from multiple-deliverable arrangements and the description and nature of such arrangements, including performance-, cancellation-, termination-, or refund-type provisions. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company is currently evaluating the impact of the initial recognition, measurement, and disclosure provisions and does not anticipate that the adoption will have a material effect on the Company s consolidated results of operations, financial position, or cash flows.

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NOTE 4 RESTRUCTURING AND IMPAIRMENT CHARGES

2003 Restructuring

In the second quarter of 2003, the Company initiated several actions to improve utilization and profitability and to provide for continuing investment in growth initiatives. The Company consolidated four printing and service operations within the Fulfillment Services segment to form a new state-of-the-art regional print-on-demand and fulfillment center in Dallas, Texas. Within the Document and Label Solutions segment, a rotary printing plant was closed to trim excess capacity and several warehouses were consolidated in response to shifting demand in favor of print-on-demand services. The Company also eliminated management positions at its corporate headquarters. All of these actions were completed at the end of the second quarter. Minor additional restructuring activities are expected to occur in the third quarter of 2003.

These cost reductions are expected to generate annualized pretax savings of approximately $28,000, with about $13,000 of savings to be realized over the balance of 2003. The estimated cost savings should recoup the cash restructuring costs within six months.

Costs to be incurred include severance and employer related costs, contract termination costs, and other associated costs directly related the restructuring efforts. Total restructuring charges expected to be incurred total $16,087 pretax. Under SFAS No. 146, liabilities for costs associated with a restructuring cannot be recorded until the liability is incurred and the fair value can be estimated, except for certain one-time termination benefits. Therefore, certain restructuring costs, primarily sublease payments and associated taxes, utilities and maintenance costs, as well as equipment removal, relocation, and travel to implement the restructuring, will be expensed as incurred through 2005, the majority in the remainder of 2003. All costs are included in restructuring charges in the accompanying Consolidated Statement of Income.

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Pre-tax components of the 2003 restructuring charge are as follows:

	Total Costs Expected to be Incurred	*Charges 2Q 2003 Restructuring Expense*	*Total 2003 YTD Restructuring Expense*

Severance and employer related costs	$ 9,214	$ 8,958	$ 8,958
Contract termination costs:			
Lease obligations	2,487	1,922	1,922
Contractual lease obligations for taxes, utilities, and maintenance costs	453	398	398
Associated costs:			
Travel	242	162	162
Equipment removal and relocation	1,662	299	299
Other exit costs	2,029	1,317	1,317
	$ 16,087	$ 13,056	$ 13,056
BY SEGMENT:			
Document and Label Solutions	$ 9,634	$ 8,466	$ 8,466
Fulfillment Services	4,878	3,400	3,400
InSystems	622	622	622
Other	953	568	568
Total	$ 16,087	$ 13,056	$ 13,056

Pre-tax components of the 2003 restructuring accrual activity in fiscal 2003 are as follows:

	Charged to Accrual	***Incurred in 2Q 2003***	***Balance June 29, 2003***
Severance and employer related costs	$ 8,858	$ (2,267)	$ 6,591
Contract termination costs	2,320	(2)	2,318
Total	$ 11,178	$ (2,269)	$ 8,909

2001 Restructuring

The remaining liability at December 29, 2002 relates to long-term lease obligations through 2006 that the Company was attempting to sublease or cancel. Due to the nature of the charges and the duration of the program, estimates of the liability amounts required significant judgement. The Company has been unable to sublease as many of the facilities as expected or to buyout the leases with as favorable terms as originally anticipated. As a result, the liability for contract exit and termination costs was in excess of the amount originally estimated. Approximately $4,822 of remaining lease payments will be charged to restructuring expense as incurred through 2006.

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Pre-tax components of the 2001 restructuring accrual activity in fiscal 2003 are as follows:

	Balance December 29, 2002	***Incurred in 2003***	***Balance June 29, 2003***
Contract exit and termination costs	$ 2,320	$ (2,238)	$ 82
Total	$ 2,320	$ (2,238)	$ 82

2000 Restructuring

The remaining liability from the 2000 restructuring related to a non-cancelable lease obligation that expired in June 2003. In the second quarter of 2003, the Company reversed the excess liability.

Pre-tax components of the 2000 restructuring accrual activity in fiscal 2003 are as follows:

	Balance December 29, 2002	***Incurred in 2003***	***Reversed in 2003***	***Balance June 29, 2003***
Contract exit and termination costs	$ 117	$ (33)	$ (84)	$ -
Total	$ 117	$ (33)	$ (84)	$ -

2003 Impairment

In conjunction with the 2003 restructuring, assets were either written off or written down to estimated fair value if the asset was to be sold. Due to an oversupply of used production equipment in the marketplace, approximately $3,445 of assets, primarily machinery & equipment, were determined to have no fair value and were disposed of, resulting in a non-cash impairment charge. Of this amount, $2,211 related to the Document and Label Solutions segment and $1,234 related to the Fulfillment Services segment.

The Company has identified certain pieces of equipment and two buildings that were closed that it believes can be sold. In June 2003, the Company determined that the plan of sale criteria in SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets, had been met. Accordingly, the carrying values were adjusted to their fair value less costs to sell, considering recent sales of similar properties, real estate brokers valuations, and offers and bids to determine fair value. The resulting impairment charge of $5,158 is included in Asset Impairments in the accompanying Consolidated Statement of Income. The carrying values of the assets are classified as Net Assets Held for Sale in the accompanying Consolidated Balance Sheet. The Company believes that the assets will be sold within one year and has listed the buildings with real estate brokers and plans to sell the equipment through brokers and to international affiliates. In accordance with SFAS No. 144, the Company discontinued depreciation on these assets in

June 2003.

In addition, the Document and Label Solutions segment recorded an impairment charge of $2,020 related to forms-designs software that became technologically outdated. The Company is replacing the software used for forms design to one that is more widely used by its customers and is more of an industry standard. Accordingly, the carrying value of the software was written down to its fair value and its useful life was reduced. The effect on annual depreciation expense will not be material.

2001 Impairment

In conjunction with the 2001 restructuring, management performed a review of its existing property and equipment and determined that certain long-lived assets were impaired. These assets were either written off or written down to estimated fair value if the asset was to be sold. At December 29, 2002, assets held for sale related to the Document and Label Solutions segment included buildings with net book values of $2,263. These buildings were sold during 2003, resulting in a total gain of $1,078 that is included as a credit to Asset Impairments in the accompanying Consolidated Statement of Income.

NOTE 5 ACQUISITIONS

On April 7, 2003, the Company entered into a joint venture partnership agreement with Grupo Calidata Thomas Greg, S.A. de C.V. In exchange for a 40% equity interest the Company contributed receivables valued at $1,600. The joint venture, known as Label Solutions, S. de R.L. de C.V., will manufacture and sell label products, and will import the Company s label products. This joint venture is being accounted for under the equity method of accounting**.**

On July 2, 2002, the Company acquired for cash 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 were 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 SFAS No. 141, Business Combinations. The final purchase price for the acquisition, net of cash received, totaled $88,720 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 $46,888 of goodwill, $17,084 of purchased intangibles, and $21,011 of capitalized software development costs. In accordance with SFAS No. 142, goodwill will not be amortized but will be reviewed periodically for impairment. The Company filed an election under section 338 of the Internal Revenue Code which will allow the Company to amortize and deduct the eligible fair market value of the net assets acquired in a stock purchase, including goodwill and certain purchased intangibles, for income tax purposes. Approximately $45,400 of the goodwill and $15,273 of the purchased intangibles are expected to be deductible for tax purposes over 15 years. Of the purchased intangibles, $16,048 was assigned to service relationships that have a twelve-year useful life and $1,036 to professional services backlog that had a one-year useful life. Capitalized software development costs are amortized on a straight-line basis over the estimated product life of the related software, which ranges from one to ten years. Amounts related to purchased research and development assets acquired and written off immediately subsequent to acquisition were insignificant.

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The purchase allocation was as follows:

Current assets	**$ 7,763**
Plant and equipment	**4,440**
Software development costs	**21,011**
Goodwill	**46,888**
Intangible assets	**17,084**
Other assets	**2,377**
Total assets acquired	**99,563**
Current liabilities	**9,182**
Long-term debt	**1,142**
Long-term liabilities	**519**
Total liabilities assumed	**10,843**
Net assets acquired	**$ 88,720**

Results of operations for InSystems have been included in the Company s Consolidated Financial Statements since the date of acquisition. InSystems is part of a reportable segment and all of the goodwill was assigned to this segment. The following table summarizes selected unaudited pro forma financial information for thirteen and twenty-six week periods ending June 30, 2002 as if InSystems had been acquired at the beginning of the quarter. The 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 period presented. In addition, it is not intended to be a projection of future results and does not reflect any synergies that might be achieved from combining the operations.

(Unaudited)	**13 Weeks Ended June 30, 2002**	**26 Weeks Ended June 30, 2002**
Revenue	**$ 259,118**	**$ 529,009**

Net Income	**$ 10,306**	**$ 21,091**
Net Income Per Share		
Basic	**$ 0.37**	**$ 0.76**
Diluted	**$ 0.36**	**$ 0.74**

On July 12, 2002, the Company acquired selected assets from PlanetPrint, a business services company headquartered in Minneapolis, Minnesota. The Company paid $10,428 in cash for a digital print-on-demand operation in Dallas, Texas, and software development and consulting operations in Minneapolis, Minnesota. The acquisition was accounted for by the purchase method of accounting. In conjunction with the acquisition, the Company recorded approximately $6,557 of goodwill and $1,586 of capitalized software development costs. In accordance with SFAS No. 142, goodwill will not be amortized but will be reviewed periodically for impairment. Capitalized software development costs are amortized on a straight-line basis over the estimated product life of the related software, which ranges from one to ten years. Results of operations from the date of acquisition are included in the Company s Consolidated Financial Statements in the Fulfillment Services segment. Concurrently, the Company also acquired selected intellectual assets of PathForward for $1,000 in cash, which was recorded as an intangible asset. Pro forma financial information and other related disclosures have not been presented because the acquisitions were not material.

NOTE 6 INVESTMENTS

As discussed in Note 5 to its Consolidated Financial Statements in its annual report on Form 10-K for the year ended December 29, 2002, the Company purchased 500,000 shares of common stock in Printcafe Software Inc. (Printcafe), a publicly traded provider of enterprise software, for $5,000 in June 2002. The Company did not have intentions of selling the shares in the near term and therefore classified the investment as available-for-sale securities. The investment was reported at fair value, with unrealized losses reported in accumulated other comprehensive income (loss) in shareholders equity.

On January 23, 2003, an unsolicited offer was made for all of the shares of Printcafe. The Board of Directors of Printcafe subsequently formed a special committee to evaluate all potential offers to purchase Printcafe. The Company believed that this sequence of events would likely lead to a sale of Printcafe. Therefore, the Company believed that an other-than-temporary decline occurred and recognized a portion of the unrealized loss based on the offer price. The resulting $3,700 unrealized loss on investment was included in Investment Income (Expense) and Other in the Consolidated Statements of Income for the year ended December 29, 2002. An additional unrealized loss of $680 was recorded as a component of other comprehensive income (loss).

On February 26, 2003, Printcafe and Electronics for Imaging, Inc. (EFI) signed a merger agreement providing for EFI's acquisition of Printcafe for $2.60 per share for each outstanding Printcafe share. This merger agreement is subject to a vote of Printcafe s stockholders. EFI has filed a proxy statement with the SEC describing the terms of the merger and has stated that they expect the merger to be completed in the second half of 2003. On June 11, 2003, EFI exercised an option to purchase Printcafe common stock, which increased their beneficial ownership to 31% of the outstanding shares of Printcafe common stock.

As of June 29, 2003, Printcafe s stock price was $2.56 resulting in a $1,280 asset on the Company s Consolidated Balance Sheet and the amount of unrealized loss included as a component of other comprehensive income (loss) was $20.

NOTE 7 INVENTORIES

The components of inventories at June 29, 2003 and December 29, 2002 were as follows:

	June 29, 2003	December 29, 2002
Finished products	$ 38,509	$ 44,634
Jobs in process	7,532	11,059
Materials and supplies	4,417	4,486
Total	$ 50,458	$ 60,179