STANDARD REGISTER CO
Form 10-Q
November 12, 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 September 28, 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 September 28, 2003
Common stock, $1.00 par value	23,733,493 shares
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 September 28, 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

13 Weeks Ended

39 Weeks Ended

39 Weeks Ended

	September 28	*September 29*	*September 28*	*September 29*
	2003	*2002*	*2003*	*2002*
REVENUE				
Products	$ 184,003	$ 207,089	$ 570,255	

$ 630,133

Services

38,105

45,609

120,946

140,129

Total revenue

222,108

252,698

691,201

770,262

COST OF SALES

Products

112,124

124,574

346,556

374,932

Services

25,439

29,403

82,491

90,054

Total cost of sales

137,563

153,977

429,047

464,986

GROSS MARGIN

84,545

98,721

262,154

	305,276
OPERATING EXPENSES	
Research and development	3,887
	4,769
	13,670
	13,090
Selling, general and administrative	67,878
	68,563
	208,843
	204,965
Depreciation and amortization	10,406
	12,311
	35,292

	34,180
Asset impairments	
	1,306
	-
	10,851
	-
Restructuring charges	
	3,234
	-
	16,206
	-
Total operating expenses	
	86,711
	85,643
	284,862
	252,235

(LOSS) INCOME FROM OPERATIONS	
	(2,166)
	13,078
	(22,708)
	53,041
OTHER INCOME (EXPENSE)	
Interest expense	
	(642)
	(3,429)
	(3,276)
	(9,941)
Investment income and other	
	118
	721
	895

	2,436
Total other expense	
	(524)
	(2,708)
	(2,381)
	(7,505)
(LOSS) INCOME BEFORE INCOME TAXES	
	(2,690)
	10,370
	(25,089)
	45,536

INCOME TAX (BENEFIT) EXPENSE		
		(1,136)
		4,120
		(10,407)
		17,427
NET (LOSS) INCOME		
	$	(1,554)
	$	6,250
	$	(14,682)
	$	28,109

(LOSS) EARNINGS PER SHARE

Basic	$ (0.05)	$ 0.22	$ (0.52)	$ 1.01
Diluted	$ (0.05)	$ 0.22	$ (0.52)	$ 0.99

Dividends Paid Per Share	$ 0.23	$ 0.23	$ 0.69	$ 0.69
NET (LOSS) INCOME	$ (1,554)	$ 6,250	$ (14,682)	$ 28,109
Deferred cost on interest rate swap, net of $672, $815, and $1,740 deferred income tax expense	-	1,008	1,210	

2,609

Unrealized gain on available-for-sale securities

net of $722 and $1,736 deferred income tax benefit

in third quarter 2002 and year-to-date 2002

15

(1,083)

675

(2,604)

Deferred cost on forward contract

(225)

-

(46)

-

Minimum pension liability, net of $75,426 deferred

tax benefit

-

(113,138)

-

(113,138)

Foreign currency translation adjustment

232

24

1,272

24

COMPREHENSIVE LOSS

$ (1,532)

$ (106,939)

$ (11,571)

$ (85,000)

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

A S S E T S	*September 28 2003*	*December 29 2002*
CURRENT ASSETS		
Cash and cash equivalents	$ 62,796	$ 122,579
Trading securities	210	255
Accounts and notes receivable, less allowance for doubtful		
accounts of $5,059 and $6,312, respectively	131,995	155,930
Inventories	52,102	60,179
Prepaid income taxes	15,133	19,029
Deferred income taxes	21,234	21,292
Prepaid expense	13,704	12,793
Total current assets	297,174	392,057
PLANT AND EQUIPMENT		
Buildings and improvements	69,398	83,324
Machinery and equipment	221,870	248,093
Office equipment	166,410	162,505
Total	457,678	493,922
Less accumulated depreciation	296,038	300,801
Depreciated cost	161,640	193,121
Plant and equipment under construction	4,486	8,606
Land	3,798	4,495
Net assets held for sale	5,179	-
Total plant and equipment	175,103	206,222
OTHER ASSETS		
Goodwill	53,616	53,613
Intangible assets, net	15,644	17,199
Deferred tax asset	41,266	40,865
Software development costs, net	17,370	20,987

Restricted cash	4,140	2,401
Available-for-sale securities	1,295	620
Other	22,277	20,900
Total other assets	155,608	156,585
Total assets	$ 627,885	$ 754,864

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	***September 28 2003***	***December 29 2002***
CURRENT LIABILITIES		
Current portion of long-term debt	$ 23	$ 2,572
Accounts payable	26,292	30,853
Accrued compensation	29,232	26,184
Deferred revenue	8,881	8,591
Accrued restructuring	4,008	2,437
Other current liabilities	24,604	31,803
Total current liabilities	93,040	102,440
LONG-TERM LIABILITIES		
Long-term debt	125,000	200,010
Pension benefit obligation	55,642	68,803
Retiree health care obligation	48,910	49,374
Deferred compensation	13,610	12,275
Deferred cost of interest rate swap	-	2,025
Other long-term liabilities	620	936
Total long-term liabilities	243,782	333,423
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value:		
Authorized 101,000,000 shares		
Issued 2003 -25,657,255; 2002 - 25,340,543	25,657	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	56,551	51,541
Accumulated other comprehensive losses	(115,564)	(118,677)
Retained earnings	375,642	409,834
Treasury stock at cost:		
2003 - 1,923,762 shares; 2002 - 1,797,150	(49,351)	(46,124)
Unearned compensation - restricted stock	(6,597)	(4,468)
Common stock held in grantor trust, at cost:		
2003 - 0 shares; 2002 - 123,121 shares	-	(3,170)
Total shareholders' equity	291,063	319,001
Total liabilities and shareholders' equity	$ 627,885	$ 754,864

See accompanying notes.

THE STANDARD REGISTER COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)

39 Weeks Ended

39 Weeks Ended

September 28

September 29

2003

	2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net (loss) income	$ (14,682)
	$ 28,109
Adjustments to reconcile net (loss) income to net	
cash provided by operating activities:	
Depreciation and amortization	35,292
	33,846
Asset impairments	10,851
	-
Restructuring charges	16,206
	-
Loss (gain) on sale of assets	995

	(1,879)
Amortization of unearned compensation - restricted stock	
	1,667
	1,255
Deferred income taxes	
	(1,128)
	-
Tax benefit from exercise of stock options	
	129
	-
Changes in operating assets and liabilities:	
Accounts and notes receivable	
	23,927
	45,087
Inventories	
	8,077
	16,188
Prepaid income taxes	
	3,897

		28,465
Other assets	(3,765)	(1,329)
Restructuring spending	(14,635)	(9,338)
Accounts payable and accrued expenses	(8,707)	(29,038)
Pension and postretirement obligation	(13,625)	(6,871)
Deferred income	290	342
Other liabilities	1,019	6
Net cash provided by operating activities		

45,808

104,843

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to plant and equipment

(14,439)

(19,425)

Proceeds from sale of plant and equipment

3,973

8,488

Acquisitions, net of cash received

-

(99,199)

Purchase of marketable securities

-

(5,000)

Additions to other investments

(293)

-

Net cash used in investing activities

	(10,759)
	(115,136)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	
	(77,584)
	(1,970)
Proceeds from issuance of common stock	
	1,402
	5,984
Dividends paid	
	(19,567)
	(19,285)
Net cash used in financing activities	
	(95,749)
	(15,271)
Effect of exchange rate changes on cash	
	917
	10
NET DECREASE IN CASH AND	

CASH EQUIVALENTS		(59,783)
		(25,554)
Cash and cash equivalents at beginning of period		122,579
		163,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	62,796
	$	137,948

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

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. 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 3 Restructuring and Impairment Charges.

Effective December 30, 2002, 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. The Financial Accounting Standards Board (FASB) defines an underlying 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.

Effective June 15, 2003, the Company adopted 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 adoption of this standard did not have a material effect on the Company s consolidated results of operations, financial position, or cash flows.

Effective June 30, 2003, the Company adopted SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . In particular, it clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133; clarifies

when a derivative contains a financing component that warrants special reporting in the statement of cash flows; amends the definition of an underlying to conform to the language used in FIN 45; and amends certain other existing pronouncements. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of this standard did not have a material effect on the Company s consolidated results of operations, financial position, or cash flows.

Effective June 30, 2003, the Company adopted 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 adoption of this standard did not have a material effect on the Company s consolidated results of operations, financial position, or cash flows.

Effective June 30, 2003, the Company adopted 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. VIEs 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 were effective in January 2003 for all VIEs created after January 31, 2003. The provisions of FIN46 for all VIEs created before February 1, 2003 will be effective December 31, 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.

NOTE 3 RESTRUCTURING AND IMPAIRMENT CHARGES

Pre-tax components of the total restructuring charges recorded in 2003 are as follows:

	Charges Directly to Restructuring Expense	*Charges to Restructuring Accrual*	*Reversed in 2003*	*Total 2003 Restructuring Expense*

2003 Restructuring				
Severance and employer related costs	$ 293	$ 9,084	$ -	$ 9,377
Contract exit and termination costs	775	2,320	-	3,095
Implementation costs	3,055	-	-	3,055
Total 2003 restructuring	4,123	11,404	-	15,527
2001 Restructuring				
Contract exit and termination costs	763	-	-	763
Total 2001 restructuring	763	-	-	763
2000 Restructuring				
Contract exit and termination costs	-	-	(84)	(84)
Total 2000 restructuring	-	-	(84)	(84)
Total restructuring expense	$ 4,886	$ 11,404	$ (84)	$ 16,206

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 that occurred in the third quarter of 2003 consisted of additional headcount reductions in addition to ongoing restructuring costs from the second quarter restructuring actions.

The 2003 restructuring activities are expected to generate annualized pretax savings of approximately $28,000, with about $12,000 of savings to be realized in the last half of 2003. The estimated cost savings should recoup the cash restructuring costs within 11 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 $17,000 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.

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

	Total Costs Expected	*Charges 3Q 2003*	*Total 2003 YTD*

	to be Incurred	*Restructuring Expense*	*Restructuring Expense*
Severance and employer related costs	$ 9,388	$ 419	$ 9,377
Contract termination costs:			
Lease obligations	2,551	3	1,925
Contractual lease obligations for taxes, utilities, and maintenance costs	398	-	398
Associated costs:			
Travel	281	119	281
Equipment removal and relocation	2,345	1,187	2,165
Other exit costs	2,037	743	1,381
	$ 17,000	$ 2,471	$ 15,527
BY SEGMENT:			
Document and Label Solutions	$ 10,569	$ 1,748	$ 10,214
Fulfillment Services	4,942	612	4,012
InSystems	659	37	659
Other	830	74	642
Total	$ 17,000	$ 2,471	$ 15,527

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

	Charged to Accrual	*Incurred in 2003*	*Balance September 29, 2003*
Severance and employer related costs	$ 9,084	$ (6,865)	$ 2,219
Contract termination costs	2,320	(531)	1,789
Total	$ 11,404	$ (7,396)	$ 4,008

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 judgment. 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

lease payments will be charged to restructuring expense as incurred through 2006, of which $763 was expensed in the third quarter of 2003.

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

	Balance December 29, 2002	***Incurred in 2003***	***Balance September 28, 2003***
Contract exit and termination costs	$ 2,320	$ (2,320)	$ -
Total	$ 2,320	$ (2,320)	$ -

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 September 28, 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 $3,172 of assets, primarily machinery and 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 $961 related to the Fulfillment Services segment.

The Company also 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. The resulting impairment charge of $5,790 is included in Asset Impairments in the accompanying Consolidated Statement of Income. The carrying values of the assets that are to be sold are classified as Net Assets Held for Sale in the accompanying Consolidated Balance Sheet.

During the third quarter of 2003, the Company sold a small portion of the equipment resulting in a $239 reduction of the impairment charge. The Company believes that the remaining assets will be sold within one year and has listed the buildings with real estate brokers and plans to sell the remaining 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 in the second quarter of 2003 in the amount 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, based upon the fair value of the number of estimated remaining forms to be designed with the software, and its useful life was reduced. The fair value was calculated based upon the weighted average of probable future cash flows of the asset. The effect on annual amortization expense is not material.

In the third quarter of 2003, PathForward recorded an impairment charge of $1,190 related to capitalized software development costs recorded with the acquisition of PlanetPrint. The software was used exclusively by one customer; beginning in the fourth quarter of 2003, the use of this software by this customer ceased as a result of a mutual decision by both the Company and the customer. The Company has determined there are no alternative uses for this software. This impairment charge is included in Asset Impairments on the accompanying Statement of Income. The effect on annual amortization expense is not 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 $1,082 that is included as a credit to Asset Impairments in the accompanying Consolidated Statement of Income.

NOTE 4 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, located in Mexico and 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.

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 thirty-nine week periods ending September 29, 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 September 29, 2002**	**39 Weeks Ended September 29, 2002**

Revenue	$ **252,698**	$ **781,707**
Net Income	$ **6,250**	$ **27,341**
Net Income Per Share		
Basic	$ **0.22**	$ **0.98**
Diluted	$ **0.22**	$ **0.96**

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 were being amortized on a straight-line basis over five years; however, in the third quarter of 2003, the Company recorded an impairment charge related to these capitalized software development costs. See discussion regarding this impairment in Note 3 Restructuring and Impairment Charges. 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 5 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. The acquisition was completed on October 21, 2003. The Company has elected to receive cash for its shares of Printcafe stock.

NOTE 6 INVENTORIES

The components of inventories at September 28, 2003 and December 29, 2002 were as follows:

	September 28, 2003	December 29, 2002
Finished products	$ 39,099	$ 44,634
Jobs in process	8,433	11,059
Materials and supplies	4,570	4,486
Total	$ 52,102	$ 60,179

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill as of September 28, 2003 allocated by reportable business segments is as follows:

	Document and Label Solutions	Fulfillment Services	InSystems	Total
Goodwill at December 29, 2002	$ -	$ 6,548	$ 47,065	$ 53,613
Purchase price adjustments	-	9	(6)	3
Impairment losses	-	-	-	-
Goodwill at September 28, 2003	$ -	$ 6,557	$ 47,059	$ 53,616

As a result of the realignment of segments in January 2003, the goodwill related to the PlanetPrint acquisition which was reported by the Document Management segment in 2002 is now included in the Fulfillment Services segment.

Identifiable intangible assets consist of the following:

	September 28, 2003		December 29, 2002	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Intangible Assets with Determinable Lives				
Service relationships	**$ 16,048**	**$ (1,671)**	$ 16,048	$ (669)

Patents	**2,707**	**(2,440)**	2,707	(2,405)
Professional services backlog	**1,036**	**(1,036)**	1,036	(518)
	19,791	**(5,147)**	19,791	(3,592)
Intangible Assets with Indefinite Lives				
Trademark	**1,000**	**-**	1,000	-
	1,000	**-**	1,000	-
Total	**$ 20,791**	**$ (5,147)**	$ 20,791	$ (3,592)

Amortization expense for intangible assets was $346 and $1,555 for third quarter 2003 and the first nine months of 2003, respectively. Amortization expense for intangible assets was $1,233 for the year ended December 29, 2002. Estimated amortization expense for the next five years is as follows: 2004-$1,384; 2005-$1,384; 2006-$1,384; 2007-$1,384; and 2008-$1,384. Such estimates do not reflect the impact of future foreign exchange rate changes.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are calculated using discounted expected future cash flows, using a risk-adjusted discount rate. Intangible assets that are subject to amortization are evaluated for impairment if impairment indicators arise in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets .

The consolidation of PlanetPrint and other Fulfillment Services centers in Dallas, Texas, triggered the requirement for an impairment test of the goodwill related to the PlanetPrint acquisition in the second quarter of 2003. During the third quarter of 2003, the Company also performed the annual test for goodwill impairment related to the InSystems acquisition. These tests were performed at the reporting unit level. In both tests, the Company determined that the undiscounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

NOTE 8 COMMON STOCK HELD IN GRANTOR TRUST

As discussed in Note 13 to its Consolidated Financial Statements in its annual report on Form 10-K for the year ended December 29, 2002, the Company maintains a grantor (Trust) to fund the Company s obligations under a deferred compensation plan for eligible participants. Previously, the Trust was partially funded with shares of the Company s common stock. Because obligations under the deferred compensation plan are intended to be settled only in cash, in the second and third quarters of 2003 the Company repurchased 124,995 and 1,617 shares from the Trust for $2,231 and $29, respectively and transferred them to Treasury Stock. There were no Company shares held by the Trust at September 28, 2003.

NOTE 9 EARNINGS PER SHARE

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

(Shares in thousands)	13 Weeks Ended September 28, 2003	13 Weeks Ended September 29, 2002	39 Weeks Ended September 28, 2003	39 Weeks Ended September 29, 2002
Weighted average shares outstanding - basic	28,350	28,134	28,272	27,923
Dilutive effect of stock options	-	490	-	541
Weighted average shares outstanding - diluted	28,350	28,624	28,272	28,464

The effects of stock options on diluted EPS are reflected through the application of the treasury stock method. Under this method, proceeds received by the Company, based on assumed exercise, are hypothetically used to repurchase the Company s shares at the average market price for the period. Outstanding options to purchase 897,496 shares in 2002 were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price of the shares; therefore, the effect would be anti-dilutive. Due to the net losses incurred in 2003, no outstanding options were included in the diluted EPS computation because they would automatically result in anti-dilution.

NOTE 10 STOCK OPTIONS

The Company has two stock-based employee compensation plans, which are fully described in Note 15 to the Consolidated Financial Statements included in the Company s annual report on Form 10-K for the year ended December 29, 2002. The Company accounts for those plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is recognized in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Had compensation cost for the Company s stock-based employee compensation plans been determined based on the fair value of such awards at the grant dates consistent with the provisions of SFAS No. 123, the Company s total and per share net income would be reduced as follows:

	13 Weeks Ended September 28, 2003	13 Weeks Ended September 29, 2002	39 Weeks Ended September 28, 2003	39 Weeks Ended September 29, 2002
Net (loss) income as reported	**$ (1,554)**	$ 6,250	**$ (14,682)**	$ 28,109
Less total compensation expense				

determined under the fair-value								
based method for all awards, net		**(421)**		(533)		**(1,267)**		(1,911)
Proforma net (loss) income	**$**	**(1,975)**	$	5,717	**$**	**(15,949)**	$	26,198
Net (loss) income per share - Basic								
As reported	**$**	**(0.05)**	$	0.22	**$**	**(0.52)**	$	1.01
Proforma	**$**	**(0.07)**	$	0.20	**$**	**(0.56)**	$	0.94
Net (loss) income per share - Diluted								
As reported	**$**	**(0.05)**	$	0.22	**$**	**(0.52)**	$	0.99
Proforma	**$**	**(0.07)**	$	0.20	**$**	**(0.56)**	$	0.92

NOTE 11 - SEGMENT REPORTING

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires companies to provide certain information about their operating segments. In January 2003, the Company realigned certain operating segments to improve operational effectiveness. As a result, the Company has three reportable segments in 2003: Document and Label Solutions, Fulfillment Services, and InSystems. The three remaining, individually insignificant, operating segments were aggregated into Other, which includes International, PathForward, and SMARTworks. Prior periods have been restated to conform to the new organizational structure. Please refer to the Company s Form 10-K for the year ended December 29, 2002 for additional information.

Document and Label Solutions provides a wide array of printed documents and related services that facilitate the recording, storage, and communication of business information. Document and Label Solutions consists principally of business forms, PC-based printing systems, secure documents, form/label combinations, products and services relating to flexographic, screen and offset printed labels, bar code/automatic ID systems, pressure-sensitive labels, compliance labels and variable image products. Document and Label Solutions consists of six business units that have been aggregated for segment reporting purposes.

Fulfillment Services is focused on outsourcing services. Document outsourcing is the delegation to a supplier of the creation, production, processing, printing, mailing or electronic transmission, or fulfillment of any type of printed or electronic documents. Fulfillment Services provides monthly billing statements, customized information kits, and retail card production; warehousing and kitting operations; and print and mail type operations. Fulfillment Services consists of three business units that have been aggregated for segment reporting purposes.

InSystems, acquired in July 2002, is a provider of e-business solutions that enable companies to improve processes and organize, manage, and distribute information in both paper and digital infrastructures. This segment also provides document-handling systems and document security and workflow consulting services. InSystems consists of two business units that have been aggregated for segment reporting purposes.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s annual report on Form 10-K for the year ended December 29, 2002. The segments are managed and reported internally primarily by the type of products they produce. The Company evaluates segment performance based on operating income.

Segment profit and loss information for 2002 has been revised from previously reported amounts to reflect the current organizational structure. The Company did not revise assets by segments for 2002 because it is not practicable to do so. Accordingly, 2002 realigned asset amounts have not been presented.

Information about the Company s operations by segment for the 13-week periods ended September 28, 2003 and September 29, 2002 is as follows:

		Document and Label Solutions	*Fulfillment Services*	*InSystems*	*Other*	*Total*
Revenue from external customers	**2003**	**$ 153,916**	**$ 56,856**	**$ 10,174**	**$ 1,162**	**$ 222,108**
	2002	176,176	63,512	12,858	152	252,698
Intersegment revenues	**2003**	**$ -**	**$ -**	**$ -**	**$ 316**	**$ 316**
	2002	-	-	-	1,945	1,945
Operating (loss) income (a)	**2003**	**$ 6,570**	**$ (1,002)**	**$ (4,942)**	**$ (2,943)**	**$ (2,317)**
	2002	17,453	1,678	(2,673)	(3,533)	12,925

(a) 2003 operating loss includes restructuring and asset impairment charges as follows:

Restructuring	**$ 1,748**	**$ 612**	**$ 37**	**$ 837**	**$ 3,234**
Impairment	**$ (14)**	**$ 130**	**$ -**	**$ 1,190**	**$ 1,306**

Information about the Company s operations by segment for the 39-week periods ended September 28, 2003 and September 29, 2002 is as follows:

		Document and Label Solutions	*Fulfillment Services*	*InSystems*	*Other*	*Total*
Revenue from external customers	**2003**	**$ 477,742**	**$ 176,630**	**$ 34,176**	**$ 2,653**	**$ 691,201**
	2002	549,886	192,715	25,719	1,942	770,262
Intersegment revenues	**2003**	**$**	**$**	**$**	**$ 774**	**$ 774**
	2002	-	-	-	5,568	5,568
Operating (loss) income (a)	**2003**	**5,585**	**$ (8,436)**	**$ (14,196)**	**$ (6,828)**	**$ (23,875)**
	2002	58,679	9,346	(6,543)	(8,891)	52,591
Total assets	**2003**	**$ 249,549**	**$ 83,714**	**$ 109,746**	**$ 11,202**	**$ 454,211**

(a) 2003 operating loss includes restructuring and asset impairment charges as follows:

Restructuring	**$ 10,214**	**$ 4,012**	**$ 659**	**$ 1,321**	**$ 16,206**

Impairment	**$**	**8,517**	**$**	**2,222**	**$**	**-**	**$**	**112**	**$**	**10,851**

Reconciling information between reportable segments and the Company s consolidated financial statements for the 13-week and 39-week periods ended September 28, 2003 and September 29, 2002 is as follows:

	Thirteen Weeks Ended		***Thirty-nine Weeks Ended***	
	September 28, 2003	***September 29, 2002***	***September 28, 2003***	***September 29, 2002***
Operating (Loss) Income	**$ (2,317)**	$ 12,925	**$ (23,875)**	$ 52,591
Other deductions	**150**	153	**450**	450
LIFO adjustment	**-**	-	**716**	-
Total other expense	**(523)**	(2,708)	**(2,380)**	(7,505)
Income (loss) before income taxes (benefit)	**$ (2,690)**	$ 10,370	**$ (25,089)**	$ 45,536
Total Assets			**$ 454,283**	
Corporate and unallocated			**173,602**	
Total consolidated assets			**$ 627,885**	

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 2003 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.

INDUSTRY OVERVIEW AND BUSINESS RISKS

Standard Register is a leading provider of information solutions for healthcare, financial services, insurance, pharmaceutical, manufacturing, and other industries. Its offerings include forms and labels; document security solutions; automatic identification solutions; consulting; facilities management; printing; warehousing and distribution services; fulfillment services; and e-business solutions that help companies improve their business results. Throughout most of its history, the Company's traditional business has involved the design, production, management, and distribution of printed documents that have helped companies manage their business information and transact with their customers and suppliers. As a strategic partner in migrating companies from paper-based to digital processes, the Company s strategy is to provide a full spectrum of solutions from printed documents to consulting to digital solutions - and continue to expand capabilities that help companies reduce costs and apply the appropriate technology to improve their business results. The Company is structured around six strategic business units: Document and Label Solutions, Fulfillment Services, and InSystems (all of which are reportable segments) and International, PathForward, and SMARTworks.

Excess production capacity and stiff price competition are prevalent in the Document and Label Solutions segment, the Company s traditional business. Industry demand for traditional custom printed business documents has been declining as a result of inroads made by alternative technologies and a relatively weak economy. This very competitive market has led to tremendous price competition and pressure from customers to reduce costs. Notwithstanding these challenges, the Company believes it has an opportunity to increase its market share through the effective execution of its sales strategies. It also stands to gain share by providing an increasing array of application software and professional services that help its customers improve their business processes.

Driven by an increase in both consumer and industrial end-use applications, the market for pressure sensitive labels in North America is projected to exhibit steady growth. The need for operational efficiency is likely to drive consolidation in the industry and companies in the industry will increasingly incorporate technologies such as bar-code technology, Internet-based commerce, digital presses, and environmentally friendly adhesives and inks. All of these factors will make the industry more efficient, allowing the Company to compete for new markets with alternative technologies such as shrink sleeve and in-mold label technology.

The overall market for document outsourcing, which includes the Company s Fulfillment Services segment, is expected to increase as companies increasingly seek outside help in performing business communications. Increasingly, companies strive to reach their customers with very targeted and customized promotions. The ability to develop, print and distribute these communications on demand will also fuel growth in this area. Statement production and kitting represents a large and growing market, with approximately a dozen companies with national coverage competing based on capabilities and price. Market trends include the utilization of more technology such as providing statements and billing on the Internet and using digital technology to produce printed or electronic personalized communications to increase customer retention and response rates.

There are two business units with the Company's InSystems segment. InSystems Software Solutions focuses on software solutions for the automation of document-intensive business processes in the financial services industry, particularly insurance. InSystems Document Systems group focuses on hardware and software solutions for negotiable and secure document output in insurance, banking, healthcare and other markets. Industry analysts predict increased information technology spending for health care and financial services organizations and that insurance spending in particular will be comparable to other financial services, with 5-8% of revenue being spent on information technology

projects. Market trends include increased emphasis on regulatory compliance for new product development, security, customer and distribution channel loyalty and the migration from paper to digital solutions. These indicate significant opportunity for InSystems. Convergence of technologies around Enterprise Content Management (ECM,) an approach for managing unstructured content, also presents an opportunity to add value to an ECM platform, with InSystems becoming a provider of best-in-class platform extensions, offering insurance-specific functionality in the Document Automation segment, an area expected to be complementary to, and not subsumed by, ECM.

In summary, the most significant risks facing the Company for the balance of 2003 revolve around the economy and the effect of alternative technologies on the Company s traditional product offerings. Another risk that faces the Company is the continued development of its sales force. As discussed under Results of Operations, the Company initiated several actions related to its sales force late in 2002 and in 2003 designed to improve the revenue trend. These initiatives are continuing to be put in place and are beginning to provide benefits. The Company is addressing its business risks by focusing on the 2003 restructuring actions to align its cost structure with its expected revenue stream, sales force initiatives, product improvements, and continued focus on growth opportunities across all segments. The Company s investments for growth include technology, talent, and capabilities to further strengthen sales effectiveness and bolster its digitization and print-on-demand offerings. During the third quarter, the Company introduced its ExpeData™ suite of digital information solutions. This leading-edge offering includes imaging services, intelligent electronic forms solutions, and innovative digital pen and paper technology that automatically converts written input into digital information. The Company is working with Microsoft, HP, and other leading companies to take these solutions to market. Other technology initiatives included customer implementations of SMARTworks® 6.0, a new version of the Company s e-procurement and print-management software providing enhanced functionality for one-to-one business communications, digital asset management, and business analytics.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

In preparing its financial statements and accounting for the underlying transactions and balances, the Company has applied the accounting policies as disclosed in the Notes to the Consolidated Financial Statements contained in the Company s annual report on Form 10-K for the year ended December 29, 2002. Preparation of the Company s financial statements requires Company management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

The Company considers the policies discussed below as critical to an understanding of its financial statements because their application places the most significant demands on management s judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting estimates are described in the following paragraphs. The impact and any associated risks related to these estimates on the Company s business operations are discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations where such estimates affect reported and expected financial results. The impact of changes in the estimates and assumptions pertaining to restructuring, impairment, and business combinations is directly reflected in the financial results of the individual segment. The impact of changes in estimates and assumptions related to pension and postretirement healthcare benefit plans affect segment results through an allocation of corporate expense.

For a detailed discussion of the application of these and other accounting policies, see Significant Accounting Policies in the Notes to the Consolidated Financial Statements contained in the Company s annual report on Form 10-K for the year ended December 29, 2002. Management has discussed the development and selection of the critical accounting estimates and the related disclosure included herein with the Audit Committee of the Board of Directors.

Pension and Postretirement Healthcare Benefit Plan Assumptions

The Company has defined-benefit pension plans covering substantially all of its employees. The Company also has a postretirement healthcare benefit plan that provides certain healthcare benefits for eligible retired employees.

The Company accounts for its pension and postretirement healthcare benefit plans according to Statement of Financial Accounting Standards (SFAS) No. 87, Employers Accounting for Pensions and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. These accounting standards require the use of actuarial models that use an attribution approach that allocates the cost of an employee s benefit to individual periods of service. The accounting under SFAS No. 87 and SFAS No. 106 therefore requires the Company to recognize cost before the payment of benefits. In order to satisfy these requirements, certain explicit assumptions must be made concerning future events that will determine the amount and timing of the benefit payments. Such assumptions include the discount rate, the expected long-term rate of return on plan assets, the rate of future compensation increases, and the healthcare cost trend rate. In addition, the actuarial calculation includes subjective factors such as withdrawal and mortality rates to estimate the projected benefit obligation. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of pension or postretirement benefit expense recorded in future periods.

One of the principal components of calculating the projected benefit obligation, the accumulated benefit obligation (ABO), and certain components of pension and postretirement healthcare benefit expense is the assumed discount rate. The discount rate is the assumed rate at which the pension and postretirement healthcare benefits could be effectively settled in the future. The Company reviews the discount rate assumptions used to account for pension and postretirement healthcare benefit obligations each fiscal year-end. In determining the rates to use, management evaluates available information about rates implicit in current prices of annuity contracts, as well as rates of return on high-quality fixed-income investments that could be used to effect settlement of the obligations.

One of the principal components of the net periodic pension cost calculation is the expected long-term rate of return on plan assets. The required use of an expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and therefore result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. The Company s qualified defined-benefit pension plan s assets are invested in a broadly diversified portfolio consisting primarily of publicly traded common stocks and fixed-income securities. The Company uses long-term historical actual return experience with consideration to the expected investment mix of the plan s assets, and future estimates of long-term investment returns to develop its expected rate of return assumption used in the net periodic pension cost calculation. Differences between actual and expected returns are recognized in the net periodic pension cost calculation over five years using a five-year, market-related asset value method of amortization.

The Company s non-qualified pension and postretirement healthcare benefit plans are unfunded plans and have no plan assets. Therefore the expected long-term rate of return on plan assets is not a factor in accounting for these benefit plans.

The rate of future anticipated compensation increases is another significant assumption used in the actuarial model for pension accounting and is determined by the Company based upon its long-term plans for such increases.

For postretirement healthcare benefit accounting, the Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates used for the postretirement healthcare benefit obligation and expense. A one percent increase in the assumed healthcare cost trend rate would have resulted in a $0.3 million increase in the interest component of postretirement healthcare expense for 2002 and a $6 million increase in the postretirement healthcare benefit obligation at December 29, 2002. Similarly, a one percent decrease would have

resulted in a $0.3 million decrease in the interest component of 2002 postretirement healthcare expense and a $6 million decrease in the postretirement healthcare benefit obligation at December 29, 2002.

As a result of evaluating the information referred to above, the Company lowered the discount rate, expected return on plan assets, and salary increase assumptions and increased the healthcare cost trend rates that were used to calculate its pension and postretirement healthcare benefit obligations at December 29, 2002 to better reflect current U.S. economic conditions. The decrease in the expected long-term rate of return takes into account recent market performance and the Company s expectations about future long-term market returns.

The following table summarizes the rates used in 2002 and 2001 to calculate the pension and postretirement healthcare benefit obligation.

	2002	2001
Discount rate for obligations	**6.75%**	7.00%
Future compensation increase rate	**4.00%**	5.00%
Expected long-term rate of return		
on plan assets	**9.50%**	10.00%
Healthcare cost trend rate	**10.00%**	8.50%

These assumption changes increased the pension and postretirement healthcare obligations recorded on the Company s Consolidated Balance Sheet by $6 million at December 29, 2002. The assumption changes also increased 2002 pension and postretirement healthcare benefit cost by $3 million and $0.3 million, respectively.

SFAS No. 87 requires the recognition of a minimum pension liability if, as of a given measurement date, the fair value of a plan s assets is less than its ABO. The decline in recent years of the U.S. equity markets has significantly reduced the value of the Company s qualified pension plan assets. Based upon the Company s 2002 year-end actuarial valuation, the fair value of the assets dropped below the ABO and accordingly the Company recorded a pension liability equal to the excess of the ABO over plan assets. This adjustment, net of deferred income taxes, was a direct charge in 2002 to shareholders equity of $115 million.

The expected long-term rate of return on plan assets that the Company is using to determine the fiscal 2003 net periodic pension cost is 9.0% which has increased expense by $2 million. This, plus the amortization of past market losses and other probable changes in actuarial assumptions, is expected to increase 2003 pension cost by approximately $11 million over the 2002 amount. The Company will not have a minimum funding requirement in 2003 although it has made voluntary contributions of $20 million. The Company also made a voluntary contribution of $17 million in the fourth quarter of 2002.

Restructuring

The Company initiated restructuring actions in the second quarter of 2003 which are being accounted for according to SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . Unlike previous restructurings, 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.

The fair value of a liability is the amount at which that liability could be settled in a current transaction between willing parties. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for

the measurement, if available. If quoted market prices are not available, the estimate of fair value is based on the best information available in the circumstances. Management used estimates to calculate the fair value of its obligations related to severance and other employer related costs, lease cancellations, and other contract exit and termination costs related to the 2003 restructuring. Critical estimates used in the measurement of the 2003 restructuring liabilities included management s estimate of the Company s ability to sublease closed facilities within three months and the amount of such sublease arrangements, which range from 40-50% of the original lease amount. If the Company is unable to sublease the facilities, or the amount or timing of the sublease arrangement differs from expectations, the Company could incur up to an additional $1.2 million of restructuring expense, which is not included in the total estimated restructuring costs to be incurred. Estimates were also used for outplacement costs and while not material, could differ from actual amounts. Additionally, the Company s estimate of total expected costs to be incurred could increase or decrease depending upon the variability of these estimates, other assumptions used, and the outcome of any remaining restructuring activities.

During 2000 and 2001, the Company was engaged in significant restructuring actions that required management to develop formalized plans related to the restructuring activities. The development of these plans required the use of significant estimates related to future cash flows and estimated residual value of long-lived assets as well as the recoverability of certain inventories. In addition, management was required to estimate amounts for severance and other employer related costs and lease cancellations and other contract exit and termination costs. Given the significance and timing of the restructuring actions, the process was complex and involved periodic reassessments of the original estimates. Revisions to previously recorded estimates were reported as restructuring actions were completed. 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 $4.8 million of remaining lease payments will be charged to restructuring expense as incurred through 2006.

Impairment of Long-Lived Assets and Investments

The Company assesses the impairment of investments and long-lived assets, which includes intangible assets, goodwill, and plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered important which could trigger an impairment review include, but are not limited to, the following:

Sustained underperformance relative to expected historical or projected future operating results

Changes in the manner of use of the assets, their physical condition or the strategy for the Company’s overall business

Negative industry or economic trends

Declines in stock price of an investment for a sustained period

The Company's market capitalization relative to net book value

A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit, or a long-lived asset will be sold or otherwise disposed of, significantly before the end of its previously estimated useful life

A significant decrease in the market price of a long-lived asset

A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator

An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset

A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset

Unanticipated competition

A loss of key personnel

Long-Lived Assets - The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of the asset to undiscounted expected future cash flows to be generated by the assets. If such assets are considered to be impaired, the impairment amount is calculated using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are typically calculated using discounted expected future cash flows, using a risk-adjusted discount rate, unless quoted market prices are available. Assets held for sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.

In performing tests of impairment, the Company estimates future cash flows that are expected to result from the use of the asset and its eventual disposition. These estimates of future cash flows, based on reasonable and supportable assumptions and projections, require significant management judgment. The time periods for estimating future cash flows is often lengthy, which increases the sensitivity to the assumptions made. Depending on the assumptions and estimates used, the estimated future cash flows used for impairment testing could vary considerably.

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. For assets that were abandoned, the fair value was estimated to be zero and the carrying amount was written off. For assets held for sale, the Company considered recent sales of similar properties, real estate broker valuations, and offers and bids to determine fair value. While the Company believes that the fair value of the assets

held for sale is reasonable, if the Company is not successful in selling the assets, further impairments may need to be recognized.

The Document and Label Solutions segment also recorded an impairment charge in the second quarter of 2003 related to forms-designs software that became technologically outdated. The carrying value of the software was written down to its fair value, based upon the fair value of the number of estimated remaining forms to be designed with the software, and its useful life was reduced. The fair value was calculated based upon the weighted average of probable future cash flows of the asset.

In addition, the Company performed impairment tests during the third quarter of 2003 on capitalized software development costs and intangible assets recorded as part of the InSystems acquisition. In performing these tests, management was required to make estimates of expected future cash flows related to the respective assets. In both tests, the sum of the undiscounted future cash lows exceeded the carrying value of the assets; therefore, no impairment was recognized.

Goodwill and Intangible Assets Goodwill and indefinite-lived intangibles are required to be evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values are typically calculated using discounted expected future cash flows, using a risk-adjusted discount rate.

The consolidation of PlanetPrint and other Fulfillment Services centers in Dallas, Texas, triggered the requirement for an impairment test of the goodwill related to the PlanetPrint acquisition in the second quarter of 2003. During the third quarter of 2003, the Company performed the annual test for goodwill impairment related to the InSystems acquisition. These tests were performed at the reporting unit level. In both tests, the Company determined that the undiscounted sum of the expected future cash flows from the assets exceeded the carrying value of those assets; therefore, no impairment of goodwill was recognized.

In performing the tests for impairment, management was required to make assumptions about future sales and profitability. This required significant judgment due to the short period of time for which the Company owned these business units. In estimating expected future cash flows related to the PlanetPrint assets, the Company used internal forecasts that were based upon actual results, assuming an average revenue growth of 9 % per year and minimal increases in gross margin. In estimating expected future cash flows related to the InSystems assets, the Company used internal forecasts that reflected management s assumptions about future sales and profitability. If the Company s estimate of expected future cash flows had been 10% lower, the expected future cash flows would still have exceeded the carrying value of the assets for either PlanetPrint or InSystems, including goodwill.

The Company cannot predict the occurrence of future impairment triggering events nor the impact such events might have on its reported asset values. Such events may include strategic decisions made in response to the economic conditions relative to operations and the impact of the economic environment on its customer base.

Investments - The Company 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 reported 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. Investment securities are regularly reviewed for impairment based on the criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial condition and near-term prospects for the issuer. If an impairment review indicates that an unrealized loss is other than temporary, the Company is required to recognize the loss in current earnings. Realized gains and losses are accounted for on the specific identification method.

Determining whether a decline in the fair value of an investment is other than temporary requires significant management judgment concerning the financial condition and near-term prospects for the issuer, as well as overall economic conditions. Actual results could differ from assumptions made by management. As discussed under Results of Operations, in its annual report on Form 10-K for the year ended December 29, 2002, the Company recognized in earnings a $4 million unrealized loss on a decline in the value of an investment in Printcafe Software Inc. (Printcafe) that the Company believed was other than temporary. 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. The acquisition was completed on October 21, 2003. This was the per share amount used by the Company in calculating the unrealized loss of $4 million recognized in 2002.

Business Combinations

The Company is required to allocate the purchase price of acquired businesses to the tangible and intangible assets acquired and liabilities assumed, as well as in-process research and development, based on their estimated fair values. The Company engaged an independent third-party to complete a valuation to assist in determining the fair value of assets acquired and liabilities assumed for its two acquisitions completed during 2002. Such valuations require management to make significant estimates and assumptions, especially related to intangible assets. The significant purchased intangible assets recorded by the Company for the 2002 acquisitions and the fair value assigned to them are discussed in detail under Acquisitions.

Critical estimates made in valuing certain intangible assets include but are not limited to: future expected cash flows from customer contracts; acquired developed technologies and patents; assumptions used in determining the useful life; and discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

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 $1.6 million. The joint venture, located in Mexico and 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 Ontario, 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 $46.9 million of goodwill, $17.1 million of purchased intangibles, and $21.0 million 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 purchases intangibles, for income tax purposes. Approximately $45 million of the goodwill and $15 million of the purchased intangibles are expected to be deductible for tax purposes over 15 years. Of the purchased intangibles, $16.1 million was assigned to service relationships that have a twelve-year useful life and $1.0 million to professional services backlog that have a one-year useful life. Capitalized software costs are amortized on a straight-line basis over the estimated product life of the related software, which ranges from one to 10 years. Amounts related to purchased research and development assets acquired and written off immediately subsequent to acquisition were insignificant. Results of operations for InSystems, which is a separate reporting segment, are included in the Company s consolidated financial statements from the date of acquisition. 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 selected assets from PlanetPrint, a business services company headquartered in Minneapolis, Minnesota. The Company paid $9.5 million in cash for a digital print-on-demand operation in Dallas, Texas, and software development and consulting operations in Minneapolis. In conjunction with the acquisition, the Company recorded approximately $6.5 million of goodwill and $1.6 million 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 were being amortized on a straight-line basis over five years; however, in the third quarter of 2003, the Company recorded an impairment charge related to these capitalized software development costs. See discussion of 2003 impairment under Results of Operations. Results of operations are included in the Company s consolidated financial statements from the date of acquisition and included with the Fulfillment Services segment. Concurrently, the Company also acquired selected intellectual assets of PathForward for $1.0 million in cash, which was recorded as an intangible asset.

RESULTS OF OPERATIONS

Pre-tax components of the total restructuring charges recorded in 2003 are as follows:

	Charges Directly to Restructuring Expense	***Charges to Restructuring Accrual***	***Reversed in 2003***	***Total 2003 Restructuring Expense***
2003 Restructuring				
Severance and employer related costs	$ 0.2	$ 9.1	$ -	$ 9.3
Contract exit and termination costs	0.8	2.3	-	3.1
Implementation costs	3.1	-	-	3.1
Total 2003 restructuring	4.1	11.4	-	15.5
2001 Restructuring				
Contract exit and termination costs	0.7	-	-	0.7
Total 2001 restructuring	0.7	-	-	0.7
2000 Restructuring				
Contract exit and termination costs	-	-	-	-
Total 2000 restructuring	-	-	-	-

Total restructuring expense	$	4.8	$	11.4	$	-	$	16.2

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 that occurred in the third quarter of 2003 consisted of additional headcount reductions in addition to ongoing restructuring costs from the second quarter restructuring actions.

The 2003 restructuring activities are expected to generate annualized pretax savings of approximately $28 million, with about $12 million of savings to be realized in the last half of 2003. The estimated cost savings should recoup the cash restructuring costs within 11 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 $17 million 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.

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

	Total Costs Expected to be Incurred	***Charges 3Q 2003 Restructuring Expense***	***Total 2003 YTD Restructuring Expense***
Severance and employer related costs	$ 9.4	$ 0.4	$ 9.4
Contract termination costs:			
Lease obligations	2.6	-	1.9
Contractual lease obligations for taxes, utilities, and maintenance costs	0.4	-	0.4
Associated costs:			
Travel	0.3	0.1	0.3
Equipment removal and relocation	2.3	1.2	2.1
Other exit costs	2.0	0.8	1.4

	$	17.0	$	2.5	$	15.5
BY SEGMENT:						
Document and Label Solutions	$	10.6	$	1.7	$	10.2
Fulfillment Services		4.9		0.6		4.0
InSystems		0.7		0.1		0.7
Other		0.8		0.1		0.6
Total	$	17.0	$	2.5	$	15.5

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

	Charged to Accrual		***Incurred in 2003***		***Balance September 29, 2003***	
Severance and employer related costs	$	9.1	$	(6.9)	$	2.2
Contract termination costs		2.3		(0.5)		1.8
Total	$	11.4	$	(7.4)	$	4.0

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 judgment. 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 $4.8 million of lease payments will be charged to restructuring expense as incurred through 2006, of which $0.7 million was expensed in the third quarter of 2003.

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

	Balance December 29, 2002		***Incurred in 2003***		***Balance September 28, 2003***	
Contract exit and termination costs	$	2.3	$	(2.3)	$	-
Total	$	2.3	$	(2.3)	$	-

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 September 28, 2003***
Contract exit and termination costs	$ 0.1	$ -	$ (0.1)	$ -
Total	$ 0.1	$ -	$ (0.1)	$ -

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 $3.2 million of assets, primarily machinery and equipment, were determined to have no fair value and were disposed of, resulting in a non-cash impairment charge. Of this amount, $2.2 million related to the Document and Label Solutions segment and $1.0 million related to the Fulfillment Services segment.

The Company also 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. The resulting impairment charge of $5.8 million is included in Asset Impairments in the accompanying Consolidated Statement of Income. The carrying values of the assets that are to be sold are classified as Net Assets Held for Sale in the accompanying Consolidated Balance Sheet.

During the third quarter of 2003 the Company sold a small portion of the equipment, resulting in a $0.2 million reduction of the impairment charge. The Company believes that the remaining assets will be sold within one year and has listed the buildings with real estate brokers and plans to sell the remaining 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 $2.0 million 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, based upon the fair value of the number of estimated remaining forms to be designed with the software, and its useful life was reduced. The effect on annual amortization expense will not be material.

In the third quarter of 2003, PathForward recorded an impairment charge of $1.2 million related to the capitalized software development costs recorded with the acquisition of PlanetPrint. The software was used exclusively by one customer; beginning in the fourth quarter of 2003, the use of this software by this customer ceased as a result of a mutual decision by both the Company and the customer. The Company has determined there are no alternative uses for this software. This impairment charge is included in Asset Impairments on the accompanying Statement of Income. The effect on annual amortization expense is not 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 $2.3 million. These buildings were sold during 2003, resulting in a total gain of $1.1 million that is included as a credit to Asset Impairments in the accompanying Consolidated Statement of Income.

Results of Operations

The table below presents the results of operations for the thirteen and thirty-nine week periods ending September 28, 2003 and September 29, 2002. The figures correspond to or are aggregated directly from those reported in the Statement of Operations.

SUMMARY OF OPERATIONS

	Thirteen Weeks Ended		***Thirty-nine Weeks Ended***	
	September 28,	***September 29,***	***September 28,***	***September 29,***
(Dollars in millions, except per share amounts)	***2003***	***2002***	***2003***	***2002***
Revenue	**$ 222.1**	**$ 252.7**	**$ 691.2**	**$ 770.3**
Gross Margin	**84.5**	**98.7**	**262.2**	**305.3**
% Revenue	***38.1%***	***39.1%***	***37.9%***	***39.6%***
SG&A and R&D Expense	**71.8**	**73.6**	**222.5**	**218.3**
Depreciation & Amortization	**10.4**	**12.0**	**35.3**	**34.0**
Asset Impairment	**1.3**	**-**	**10.9**	**-**
Restructuring	**3.2**	**-**	**16.2**	**-**
(Loss) Income From Operations	**(2.2)**	**13.1**	**(22.7)**	**53.0**
Interest Expense	**0.6**	**3.4**	**3.3**	**9.9**
Investment (Income) Expense and Other	**(0.1)**	**(0.7)**	**(0.9)**	**(2.4)**
Pretax (Loss) Income	**(2.7)**	**10.4**	**(25.1)**	**45.5**
Net (Loss) Income	**$ (1.6)**	**$ 6.3**	**$ (14.7)**	**$ 28.1**
(Loss) Earnings Per Diluted Share	***(0.05)***	***0.22***	***(0.52)***	***0.99***

Consolidated revenue decreased by 12.1% to $222.1 million in the third quarter of 2003 compared with $252.7 million for the same period of 2002. Consolidated revenue decreased by 10.3% to $691.2 million in the first nine months of 2003 compared with $770.3 million for the same period of 2002. Revenue for the first six months of 2003 included $17.9 million of revenue from acquisitions, which are not included in 2002 results for the same period. Excluding this effect, revenue decreased 12.6% or $96.9 million in the first nine months of 2003. The decline in revenue was attributable to several factors including continued weak economic and industry conditions. Soft business conditions not only have resulted in lower unit volume demands, but customers are also managing their costs by delaying expenditures, extending the review process for purchases, and undertaking strategic sourcing initiatives to reduce their total cost of ownership, impacting all products from documents to software.

The Company s Document and Label Solutions segment experienced the greatest decline in revenue dollars. The traditional printing and services (non-label) portion of this segment, which currently represents about half of the Company s consolidated revenue, operates in an industry currently characterized by modestly declining demand, over-supply, and competitive pricing. These conditions, coupled with a weak economy that focused customer attention on cost reductions, undermined both volume and pricing. Additionally, in order to bring value to its customers and remain competitive, the Company pursues a strategy of helping its customers improve their profitability by improving their business processes. This can also lead to lower revenue as improved processes may require fewer or lower value documents for existing clients.

The 2001 restructuring also produced some unintended consequences that dampened sales activity during 2002. The reassignment of accounts to a fewer number of representatives and a change in the sales incentive system to focus more on profitability resulted in an increased level of account losses, particularly smaller accounts, and a reduced rate of new account development. In addition, some marginally profitable business held over from the restructuring period was lost during the year. Finally, the desired level of cross selling between the general and newly formed specialty sales forces did not materialize. These factors, plus the weak economic and market conditions discussed above, contributed to a reduction in revenue during 2002 and a lower recurring base of business as the Company entered 2003.

The Company took actions late in 2002 and in 2003 to improve the revenue trend. First, the sales incentive system was changed to bring the focus back in the direction of growth. Second, the Document and Label Solutions sales forces were consolidated and incentives were established to increase the level of cross selling. Third, the Company established a strategic sales force to develop new business at targeted accounts. Fourth, an inside sales force was created to retain and develop new business at smaller accounts where the direct sales force cannot be cost effective. Fifth, a lead generation group was formed to develop qualified leads for selected high value added marketing programs. Sixth, the Company added a sales team focused on the healthcare market which has been successful in obtaining new opportunities in that market such as the Broadlane contract discussed below. Finally, the Fulfillment sales force hired several sales representatives with strong industry experience. Management expects these actions and other initiatives to result in an upturn in revenue during the last quarter of 2003 compared to the third quarter of 2003.

In July 2003, the Company signed a five-year agreement with Broadlane, Inc., a leading group purchasing organization for 2,000 hospitals across the country. The agreement, which took effect August 1, names the Company as one of five suppliers to Broadlane customers for their document solution needs, which are estimated by Broadlane at $100 million annually. While there is no guarantee what percentage of this business the Company will ultimately win, this agreement is an example of the opportunities the Company has to grow its business. Since the agreement took effect, the Company has obtained commitments for approximately $18 million from Broadlane customers and continues to pursue additional business under this contract.

Gross margin was 38.1% and 37.9% for the third quarter and year-to-date period compared with 39.1% and 39.6% for the same periods in 2002. The decrease was primarily due to the lower revenue, the resulting low absorption of fixed manufacturing costs, and unfavorable product mix. These factors were partially offset by savings resulting from the Company s focus on cost reductions and Six Sigma initiatives.

Selling, general, and administrative (SG&A) and research and development (R&D) expense totaled $71.8 million for the third quarter of 2003, $1.6 million less than the third quarter of 2002. SG&A and R&D expense totaled $222.5 million for the nine months ended September 28, 2003, $4.4 million less than the comparable period of 2002. On a year-to-date basis, R&D expense remained relatively constant while several factors affected SG&A expense.

The most significant factors were pension expense and the inclusion of the companies acquired in July 2002. Pension expense for the third quarter of 2003 and the year-to-date period was $3.8 million and $11.5 million higher than the comparable periods of the prior year, primarily as a result of the decline in recent years of the value of invested

pension assets, as discussed more fully under Critical Accounting Policies. The 2003 year-to-date period includes nine months of expense from the companies acquired in 2002, whereas the 2002 year-to-date period only includes three months of expense. Excluding the pension and acquisition effects, expenses were down $5.4 million and $15.8 million for the third quarter and year-to-date period respectively. Higher compensation costs related to sales force initiatives were more than offset by lower commissions, lower healthcare costs, and lower spending for professional services as a result of fewer one-time projects in 2003 and continued focus on cost reduction. The decrease in third quarter 2003 also reflects the cost benefits realized as a result of the restructuring activities undertaken in the second quarter of 2003.

Depreciation and amortization was $10.4 million and $35.3 million for the three- and nine-month periods ended September 28, 2003, respectively, compared to $12.3 million and $34.2 million for the same periods of 2002. Depreciation expense decreased $1.7 million and $1.5 million in the third quarter and year-to-date period, respectively, due to asset impairments recorded in second quarter 2003 and also because of lower capital spending levels than in 2002. On a year-to-date basis, amortization expense increased $2.6 million between years due to the effect of the 2002 acquisitions.

Interest expense was $0.6 million and $3.3 million for the third quarter and first nine months of 2003, respectively compared to $3.4 million and $9.9 million for the comparable periods of 2002. The decrease reflects the expiration of an interest rate swap, lower floating rates currently available in the market, and declining debt balances. The Company s swap agreement that fixed its borrowing rate at an all-in-rate of approximately 6.7% expired in January 2003.

The effective tax rate for the third quarter of 2003 was 42.2% compared to 39.7% for the comparable period of 2002. The effective tax rate for the first nine months of 2003 was 41.5% compared to 38.3% for the first nine months of 2002. In the second quarter of 2002, the Company received a refund for research and development tax credits and also had a higher balance of tax-exempt investments creating a lower effective tax rate for 2002.

REALIGNMENT OF SEGMENTS

In January 2003, the Company realigned its operating segments to improve operational effectiveness. As a result, the Company has three reportable segments in 2003: Document and Label Solutions, Fulfillment Services, and InSystems. The three remaining, individually insignificant, operating segments are aggregated into Other, which includes International, PathForward (both previously part of Document Management) and SMARTworks. Prior period amounts have been restated to conform to the new organizational structure. Please refer to the Company s Form 10-K for the year ended December 29, 2002, for additional information.