

STANDARD REGISTER CO

Form 10-K

March 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 1, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-01097

THE STANDARD REGISTER COMPANY

(Exact name of Registrant as specified in its charter)

OHIO

31-0455440

(State or other jurisdiction of incorporation or organization)

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

600 ALBANY STREET, DAYTON OHIO

45417

(Address of principal executive offices)

(Zip code)

(937) 221-1000

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Common stock \$1.00 par value

Title of each class

New York Stock Exchange

Name of each exchange on which registered

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

THE STANDARD REGISTER COMPANY
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PART I

Item 1 – BUSINESS

COMPANY

The Standard Register Company (referred to in this report as the “Company,” “we,” “us,” “our,” or “Standard Register”) is a publicly-traded company that began operations in 1912 in Dayton, Ohio. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol SR.

Standard Register is a recognized leader in the healthcare, financial services, commercial, and industrial markets. Our mission is to be trusted by the world’s leading organizations to build and protect their reputations. We use a century of industry expertise, leading technologies, and a compelling portfolio of solutions to help companies advance their reputations by aligning mission-critical communications with corporate standards and priorities. We believe our success depends on our ability to build strategic relationships with our customers. Through an intense focus on customer needs and continued development of innovative solutions, we help them solve problems and gain a competitive advantage.

PRODUCTS AND SERVICES

We provide a combination of market-specific solutions and other solutions that serve common business needs across our markets. We classify our solutions as core or legacy based upon our business strategy and focus. Core solutions represent solutions designed to address current and evolving needs of targeted markets, consist of combinations of print, labels, services, and software, and are targeted growth areas for us. Legacy solutions primarily support common business transaction processing needs and consist mainly of printed products and distribution services. Although many of our legacy solutions continue to be negatively impacted by digital technology advances, our history and expertise in these solutions provides unique insight that enables us to create new core solutions and access to a broad customer base. Core solutions accounted for approximately 40% of total revenue in 2011.

Product/Service:	Core	Legacy
Print	<p>Global marketing solutions: Multi-media marketing materials such as brochures, newsletters, direct mail, commercial business cards, flyers, post cards, product literature, and promotional items</p> <p>Critical communications: Patient education materials, billing statements, explanation of benefits, healthcare plan enrollment kits, training materials, commercial transaction documents, customer notices, membership and enrollment documents, double-sided postcards, and other variable communications</p> <p>Digital print solutions: On-demand printing with digital color and wide-format capabilities, technical literature for manufactured products</p>	<p>Administrative and clinical forms, traditional business documents such as checks, envelopes, application forms, deposit slips, tellers receipts, and secure documents</p> <p>Secure documents, secure prescriptions produced in secure pads, laser sheets, and rolls of thermal paper</p>

Labels

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Patient wristbands, labels and documentation with barcodes, patient photos and data Transactional labels such as shipping and distribution labels

Functional, decorative, and in-mold labels, as well as pressure-sensitive decals, for manufactured products

Software

Patient information solutions, such as SMARTworks Clinical Enterprise and iMedConsent™

Branch automation solutions for retail banks

Services

Distribution and design services for global marketing solutions and critical communications Distribution services for medical forms and other business documents

Software maintenance support and professional services

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Our product offerings are supported by our SMARTworks technology platform which provides our customers a central point of access from which their entire organization can quickly upload content and order printed materials. The platform offers companies decentralized content management with centralized brand control and the ability to create one-to-one personalized communications. For print products, we also offer flexible output options, from print and mail, to e-mail, fax, or online presentment.

SEGMENTS

We operate four business units, which are organized based upon their customer base and the primary markets they serve: Healthcare, Financial Services, Commercial Markets, and Industrial. Each of these business units represents an operating segment and a reportable segment. You can read additional information related to revenues and operating profit for each reportable segment for years 2009 through 2011 in Note 17, "Segment Reporting" in the Notes to Consolidated Financial Statements.

Healthcare

Our Healthcare segment accounted for 36.5%, 37.6%, and 38.3% of our consolidated revenues in 2011, 2010, and 2009. This segment serves the needs of the healthcare market, which is comprised of the following:

Acute Care Providers – Primarily hospitals and integrated delivery networks (IDNs) - defined as groups of healthcare providers

Long-Term Care Providers – Organizations that provide senior living, assisted living, skilled nursing, and dementia care services

Ambulatory Care Providers – Other organizations providing healthcare such as physicians and outpatient surgery centers

Payors and Managed Care – Organizations that provide some portion of payment for healthcare services such as Anthem, Medicare, and HMO's - sometimes referred to as the insurance sector

Facilitators of Ancillary Services – Providers of ancillary healthcare services that are prescribed by providers or other non-clinical services that directly interact with patients such as laboratories and clinical staffing

Our primary focus is on acute care providers where we serve 62% of U.S. hospitals. However, we also serve long-term and ambulatory care providers, payors and managed care, and providers of ancillary services.

Products and Services – Our customers' success depends on delivering safe, quality patient care. Through on-going collaboration with our customers and extensive market expertise, we support their success by delivering solutions to help them accelerate performance, attract and educate patients, enhance their safety, and improve quality of care.

Healthcare segment revenues are derived primarily from administrative and clinical forms, critical communications, global marketing solutions, labels, secure prescriptions, and patient information solutions. Administrative and clinical forms account for approximately half of the Healthcare segment's revenues and support the compliant and safe delivery of care. Our solutions help hospitals standardize documents, streamline workflow, reduce costs, improve regulatory compliance, and more effectively manage both paper and electronic medical records.

Our critical communication and global marketing solutions provide cost-effective, targeted, personalized communications that enable our customers to attract patients and new professionals, communicate with physicians and

benefactors, and educate patients and the community at large. These web-based solutions allow our customers to combine static and variable text, as well as photos and graphics, to produce professional brochures, mailers and other communications, tailored to an individual recipient.

Labels are essential to patient identification and safety. Our technology gives hospitals the ability to generate labels, wristbands and documentation with barcodes, patient photos and data which help assure the right tests, treatments, and medications are matched with the right patient. We offer laser and thermal wristbands and labels, as well as traditional patient ID and alert wristbands.

Our patient information solutions help hospitals manage what is increasingly a hybrid environment of both paper and electronic medical records. Our newest offering is our iMedConsent solution which assists physicians in educating and informing patients about conditions, diagnoses, and treatments. This solution streamlines internal practices, standardizes communication across the enterprise, and better documents required informed consent encounters.

Market Trends – With an increasing number of patients due to population growth and aging, the focus on patient safety is intensifying. The Joint Commission redefined its patient safety goals in 2011 which include: improving patient identification, enhancing the effectiveness of communications among caregivers, and accurately and completely reconciling medications across the continuum of care. The Patient Protection and Affordable Care Act statute, passed in 2010, gives the Centers for Medicare and Medicaid Services the authority to penalize hospitals for excess readmission rates starting in federal fiscal year 2013 based on clinical outcome experience in 2012. In addition, there are “pay for performance” trends emerging within healthcare insurance whereby healthcare providers may be paid based on quality and efficiency measures instead of solely on the type of service provided. We anticipate these trends will create increased demand for patient identification products and services, patient information solutions, as well as critical communication and global marketing solutions.

The healthcare market continues to move to electronic medical records (EMR), using fewer traditional paper documents for managing patient information and administrative functions. With enactment of the American Recovery and Reinvestment Act (ARRA), we estimate the use of paper documents will continue to decline at an annual rate of approximately 20%. The ARRA provides financial incentives through the Medicare program to encourage physicians and hospitals to adopt and use certified electronic medical records in a meaningful way. Incentives for early adopters began in 2010 and extend to 2014, with a 1% penalty incurred by non-adopters beginning in 2015. The federal government has defined “meaningful use” milestones and identified investments that are eligible to receive incentive payments for 2011, with additional rules to be determined for 2013 and 2015. As understanding of these complex rules builds, we anticipate hospitals will move forward with their EMR investment plans, although the market effort to comply thus far has been slow. We anticipate paper documents will remain into the foreseeable future, even at the highest stages of EMR adoption. Therefore, this trend may create additional opportunities for digital print solutions and patient information solutions that help hospitals organize, manage and migrate to an electronic state.

Declining reimbursements, an increasing population of uninsured patients, and tough economic conditions are placing financial pressures on hospitals and creating increased demand for solutions that reduce cost. At the same time, hospitals are in an increasingly competitive environment and are seeking to attract and retain both staff and patients, creating more opportunities for global marketing solutions.

Financial Services

The Financial Services segment serves the needs of the financial services market, which consists of retail banks, insurance carriers, credit agencies, security dealers, insurance agents or brokers, and holding companies. We focus on major retail banks and large insurance carriers, targeting the top 450 large and mid-market retail banks and the 300 largest insurance carriers. Currently, three customers account for approximately 50% of this segment’s revenue.

The Financial Services segment accounted for 26.9%, 26.3%, and 27.8% of our consolidated revenues in 2011, 2010, and 2009.

Products and Services –Service providers within the financial services market are focused on customer retention, cost management, revenue growth, managing security and regulatory compliance, and creating operational efficiencies. We provide solutions that help companies ensure brand consistency, increase customer loyalty, enhance security, increase efficiencies, and decrease costs.

Revenue for Financial Services is derived primarily from the following: traditional documents, global marketing solutions, critical communications, and software and professional services. Traditional documents account for just under half of segment revenues. We are an industry leader in document security, utilizing specialized inks, secure papers, unique constructions, and other proprietary security features to defeat attempts to create fraudulent copies or alterations. We also offer a national network of production locations and certified suppliers, which enables our

customers to reduce inventory and distribution costs associated with pre-printed documents and eliminate obsolete content.

Global marketing solutions account for approximately 34% of our Financial Services segment revenues. Our web-based solutions enable marketers to more effectively launch and manage campaign materials through their sales channels by ensuring that marketing materials are current and consistent across all media and enabling shortened cycle times for delivery. In addition, we also manage point of sale and collateral fulfillment as a service to our customers, utilizing expertise of our PrintConcierge® group and software that facilitates bidding and order management among a nationwide network of third-party commercial printers. In 2011, we introduced a new suite of promotional products solutions. These solutions provide businesses with greater control over their brand and more creativity. This offering is now available to businesses of all sizes through a new retail website, SR-Promo.com. Businesses can create a dedicated company store, providing easy access to promotional items that support local marketing efforts or internal recognition and incentive programs, while maintaining control of the brand.

For most of our critical communications, we utilize digital technology to enable customers to vary the data printed on each page or create fully personalized kits of information. Our newest solution, integrated statement and billing, enables businesses to manage multi-channel customer communications to reduce transaction costs, shorten the time between invoicing and payment, and create new cross-selling opportunities. It provides a complete outsourced solution for managing the printing, mailing, electronic transmission, and fulfillment of business-critical documents such as invoices, statements, and notifications. The multi-channel approach coordinates print and electronic presentment and payment solutions, enabling businesses to tailor communications to customer preferences while moving aggressively to increase e-billing and payment.

Software includes our branch automation solution for banks that automates the creation, authorization, printing, reporting, and reconciliation of official items such as checks, money orders, starter checks, and similar items. The solution creates operational efficiencies, minimizes internal and external fraud, and increases opportunities for cross-selling by bank staff.

Market Trends

Economic uncertainty and the recent crisis in the financial markets are sharpening retail banks' focus on preserving capital and competing for deposits. Banks and insurance providers are also experiencing increased competitive pressures from ongoing consolidations and nontraditional competitors such as internet-only providers. In addition, the industry continues to be impacted by advances in digital technologies and trends in customer preferences to conduct business transactions at ATMs or on the internet and in marketing through social media channels. As financial service providers assess their portfolios and seek to differentiate themselves, they are focusing on customer retention and making significant moves to reposition their offerings in the market. The combination of these trends continues to create price pressures and reduced demand for traditional printed documents and communications. However, as these providers continue to seek more customer-specific marketing materials, demand for global marketing solutions, as well as commercial and digital print, is expected to increase.

As a result of economic uncertainties, financial service providers are also focused on cost management and operational efficiencies in their branch and call center operations and back-office processing centers. This trend may create additional opportunities for software solutions and the efficiencies and cost-saving benefits they provide. Additionally, banks may explore potential benefits of outsourcing non-core operations, such as printed communications, creating additional opportunities for our global marketing solutions.

In response to expanding regulatory requirements adopted to address corporate scandals, fraud, accounting irregularities, and privacy rights, financial services providers are placing renewed emphasis on the need to maintain the confidentiality of customer data, thereby increasing demand for suppliers with secure controls and safeguards in place to host or process personal data when outsourcing a critical business process. We are positioned to provide a full range of innovative products to respond to these needs by utilizing our history of expertise in specialized inks, secure paper, proprietary document security features, secure printing software, bar codes, and data encryption.

Commercial Markets

The Commercial Markets segment serves the business-to-business or commercial market, which primarily includes retailers, business service providers, wholesalers, transportation services, technology and communication providers, and government. Currently, our primary customers are large diverse retailers, state governments, overnight delivery carriers, business service providers, and wholesale companies.

Our Commercial Markets segment accounted for 24.6%, 25.5%, and 25.3% of our consolidated revenues in 2011, 2010, and 2009.

Products and Services – Customers within the commercial market generally operate high transaction businesses, have a national footprint of service locations, and require specialized printing needs in core processes to run their operations and communicate with customers, employees, and stakeholders. We provide solutions that help companies ensure brand consistency, increase customer loyalty, enhance security, increase efficiencies, and decrease costs.

Revenue for Commercial Markets is derived primarily from the following: traditional documents, global marketing solutions, labels, critical communications, and professional services. Traditional documents account for approximately 35%; while global marketing solutions and labels each account for approximately 20% of the segment's revenues. Product offerings for traditional documents, labels, global marketing solutions, and critical communications are the same as those offered in our Financial Services segment, but modified to meet the particular needs of our Commercial Market customers.

Market Trends

The introduction of alternative technologies has reduced industry demand for traditional custom-printed documents, while a very competitive and oversupplied market has led to price competition. The combination of improved digital printing devices and more sophisticated workflow software is transforming an industry once dominated by long-run offset production to one characterized by shorter, digitally-printed runs. As a result, investments in digital color management and production technologies will be vital to maintaining a competitive product portfolio within the industry.

Economic uncertainty, driven by the recent financial crisis, has also created global volatility and consumer anxiety in the retail markets. As a result, consumers are narrowing their purchases to necessities, affecting retailer demand as well as wholesale demand. Discretionary spending remains under pressure, so retailers are responding with enhanced value propositions. Additionally, in-store marketing is on the rise, which we expect to result in declines in the amount of traditional advertising. Retailers are also investing in their websites to set them apart from their competition. These trends may create additional opportunities for our global marketing solutions and critical communications.

We are seeing a transformation currently underway throughout government with a trend toward more outsourcing and updating of technology. We expect heavy reliance on our traditional documents to remain intact. Issues surrounding national security, immigration reform, and identity protection all create opportunity for us to leverage our intellectual property in the document security space.

We continue to see increasing trends in the number of organizations outsourcing their document management programs. In addition, customers are migrating to fewer suppliers and more strategic relationships. These trends create opportunities for providers who maintain an extensive portfolio of solutions.

Industrial

Our Industrial segment accounted for 12.0%, 10.6%, and 8.6% of our consolidated revenues in 2011, 2010, and 2009. This segment is focused on the printed production part needs of manufacturers. Printed production parts are all of the labels and technical literature which go on a manufactured product or are shipped with a product.

There are over 280,000 manufacturing companies in the U.S. producing millions of different products. Industries offering the best fit for our Industrial segment range from apparel, wood, and consumer products to rubber, plastic, and metal products and industrial machinery and equipment. We focus on companies that produce hard goods with multiple manufacturing facilities, particularly companies that have a centralized sourcing model and value technical expertise and high levels of service. We are a market leader in printed production parts for key industry segments such as HVAC, electrical, and appliance and consumer durables, and a preferred supplier for multi-site manufacturers.

Products and Services – The manufacturing environment is characterized by large numbers of stock-keeping units (SKUs), high obsolescence, little coordination between facilities, and many time-consuming processes. Additionally, manufacturers place heavy emphasis on consumer safety and compliance. In today's economic environment, manufacturers are forced to meet these challenges with fewer resources, creating unique needs related to printed production parts. We help manufacturers realize efficiencies by removing waste from the manufacturing process, reduce product liability claims through improved compliance, and gain distinction with the latest product decoration technology.

Revenue for this segment is derived primarily from labels, global marketing solutions, technical literature and other documents, and critical communications. Labels include functional, decorative, and in-mold labeling and decorating

and represent approximately 70% of segment revenues. Utilizing our material science capabilities, our functional labels protect our customers' images by ensuring their product marking complies with legally-required standards and is designed and applied in the most efficient and effective manner. Our color management capabilities with our decorative labels ensure a manufacturer's brand is presented consistently to consumers and can improve the appearance of products, potentially leading to new consumers.

In-mold labeling solutions enhance the appearance of molded plastic products while reducing the risk of label failure. Through patented Grafilm® technology, our in-mold labeling and decorating products allow manufacturers to enhance the appearance of their products by expanding available decoration space, even on curved, contoured or textured parts. In-mold labels bond with the molded part and are permanent and non-removable, providing manufacturers with safety labeling, branding and decoration that lasts the life of the product.

Global marketing solutions consist primarily of managing and producing the materials that enable manufacturers to market to the end consumer through their dealer/distributor networks. Our technology helps to ensure that our customers' dealers and distributors utilize their brand appropriately.

Critical communications enable manufacturers to provide targeted, effective messages to their customers, while reducing costs and ensuring information security.

Market Trends – In the industrial market, multiple compliance and legal requirements, a focus on consumer safety, and an increased interest in enhancing the marketing potential of industrial products are driving an increase in consumer and industrial end-use applications for labels. In addition, rising wages and regulatory costs in low-cost countries such as China are driving some U.S. manufacturers to move production back to North America. Based on these trends and an expected increase in the number of industrial products produced as the population grows, we expect the market for functional, decorative, and in-mold labels, as well as technical literature in North America, to exhibit steady growth in the long term.

In the short term, the manufacturing sector of the U.S. economy is slowly recovering from the recent recession and is expected to continue its upward momentum. According to the Institute for Supply Management, which publishes the Purchasing Managers Index (PMI), production increased approximately 4% in 2011. Production for 2012 is expected to grow approximately 3% according to the Machinery and Allied Products Institute (MAPI). Stronger U.S. manufacturing performance coupled with growth in Asian manufacturing has put upward pressure on commodity prices that are being reflected in rising U.S. producer prices. These trends are expected to result in increased demand in the short-term for labels and technical literature, particularly for solutions that reduce a manufacturer's product costs.

Technologies such as bar code, radio frequency identification, internet-based commerce, digital presses, and environmentally-friendly adhesives and inks continue to advance. Customers will seek products utilizing these technologies as costs related to their application decline to acceptable levels, requiring providers to continue to make selective investments to remain competitive. In-mold labeling is underpenetrated in durable goods in the U.S. Acceptance is growing, and the use of robotics dedicated to in-mold labeling is accelerating this market growth.

COMPETITION

We have a market-focused approach to solutions development and a long history of working within our targeted markets. We also have an extensive product offering which enables us to offer end-to-end solutions that create efficiencies, eliminate costs associated with maintaining multiple vendor relationships, and improve the quality and effectiveness of our customers' communications. Combined with our national footprint of sales and production capabilities, we believe these factors create competitive advantages for us in each of our segments. Each segment has a unique competitive environment. A discussion of our competitive advantages and challenges specific to each segment follows.

Healthcare – We have contractual agreements with the five largest Group Purchasing Organizations (GPOs). GPOs are large influential service companies that help healthcare providers realize savings and efficiencies by aggregating purchasing volume and using that leverage to negotiate discounts with manufacturers, distributors and other vendors. The combination of our long history of healthcare experience in process improvement and contractual agreements with the GPOs provide us a competitive advantage with the majority of hospitals and IDNs.

Our principal competitors for print products, including forms, patient communication, and marketing materials, are R.R. Donnelley and Sons and WorkflowOne, which are national competitors. Excess production capacity and price competition are prevalent with some print products. The service and technology we provide combined with our industry knowledge and breadth of product offerings enable us to compete effectively, even with forms where there is greater price sensitivity.

Principal competitors for wristbands and labels include LaserBand and Precision Dynamics Corporation (PDC), although we also partner with PDC on certain products. Wristbands and labels are primarily dominated by suppliers with limited offerings and no supporting technology, though technology will become increasingly important as hospitals move to electronic medical records.

Principal competitors for technology solutions are FormFast, Bottomline Technologies, and Access e-Forms. Service is an important component in competing in this sector. We believe our extensive experience in healthcare and workflow solutions and the assistance we provide in organizing, managing, and migrating clinical and business forms differentiate us from our competitors.

Financial Services and Commercial Markets – Major competitors for these segments include national companies such as R.R. Donnelley and Sons, WorkflowOne, and Williams Lea, as well as regional printers and print distributors. Highly focused application specialists continue to evolve in the market. In addition, many local and regional printers compete by offering shortened turnaround times. These factors contribute to a highly competitive environment for most of our product offerings.

Emerging competitors include marketing technology providers that provide solutions similar in nature to our SMARTworks platform and specialized marketing solutions providers. We believe our strategic focus on our targeted markets and continued investment in digital technologies will enable us to maintain and develop a competitive portfolio of innovative solutions.

Industrial – Our Industrial segment differentiates itself by offering a comprehensive national program for design, sourcing and inventory management of printed production parts. Our customer service team is made up of specialists who understand the form, fit and function of printed production parts, as well as the importance of these parts to the manufacturer’s products. Our professional design team has the ability to work across multiple platforms, including computer-aided design (CAD)-based systems. We offer full graphic capabilities and electronic cataloging for reorders, ensuring uniformity of all parts. Our professionals are also fully conversant with current compliance requirements. With competency in more than 100 languages, we also support the global communication needs of industrial manufacturers.

The market is dominated by local and regional competitors, with no one competitor owning a substantial percentage of the market. Principal competitors for functional and decorative labels include R. R. Donnelley and Sons, Avery Dennison, Brady Label, Worldmark, and Serigraph. We compete by offering extensive expertise in industrial label applications and material sciences, a national footprint, and a complete printed production parts solution. However, the market is extremely competitive, and suppliers offering favorable pricing effectively compete with our offerings.

Our principal competitors for in-mold labeling and decorating are Central Decal, Inland Label, Serigraph, and other local and regional competitors. The market for this product is underpenetrated in durable goods in the U.S., and the new technology currently has not gained wide acceptance. We believe our patented Grafilm technology outperforms other technology in the market. With the addition of robotics solutions in 2011, we are able to provide a complete turnkey solution.

Principal competitors for marketing solutions include R. R. Donnelley and Sons, Avery Dennison, JG Sullivan, and other local and regional competitors. The market for these products is highly decentralized, with the majority of the market served by local and regional competitors. We believe our SMARTworks technology platform provides us a competitive advantage.

WAREHOUSING AND DISTRIBUTION

Many of our custom-printed documents are warehoused for subsequent delivery to our customers in the quantity, time, and place of their choosing. We provide a network of distribution centers across the country which allows us to service customers with multiple locations. Inventory control, reporting, and reorder are provided in a module of our proprietary SMARTworks document management system that resides on the customer’s desktop. Revenue derived from these services is attributed to all of our segments based upon the customer and market being served.

SALES CHANNELS

We serve our customers through a combination of field-based sales, telesales, and the web. Each approach is customized to meet the needs of the segment being served. However, we have a unified approach in sales methodology, customer relationship management, and training. Each of our primary markets has devoted sales channels specific to the market. These channels are primarily organized based upon a combination of their sales objective, market segmentation, and account segmentation as follows:

- Geographically-based direct sales forces that focus on the retention, expansion and acquisition of middle market to larger accounts

- Inside-sales channel that focuses on the retention and expansion of supplies and specialized product offerings to smaller accounts or remote geographies where our direct sales force cannot be cost effective

 - Business development groups that focus on the acquisition of new business

- A specialized technology sales group that focuses on the acquisition of new technology business and supports direct sales teams in selling software and systems integration

E-commerce websites for selling commonly-used items and supporting smaller customers where our direct sales forces cannot be cost effective

A group of associates responsible for developing and maintaining relationships to distribute legacy and core products through external channels.

OUR RAW MATERIALS

We purchase raw paper in a wide variety of weights, grades, and colors from various paper mills in the U.S. and Canada. Pressure-sensitive materials, carbonless paper, inks, and printing supplies are available nationally and are purchased from leading vendors. We continuously ensure that we have adequate supplies to meet present and future sales objectives. We generally order from suppliers with whom we have long-standing relationships.

OUR RESEARCH AND DEVELOPMENT

During 2011, we spent \$4.5 million on research and development compared with \$4.9 million and \$5.2 million in 2010 and 2009. Research and development is primarily focused on two areas: the design and development of new products, services, software and technologies, and process improvement activities. The design and development of new products and technologies also includes equipment design and development used in production, as well as the integration of new technologies available in the marketplace.

OUR INTELLECTUAL PROPERTY

We have many trademarks and patents related to documents, equipment, systems, labels, and security products that provide a competitive advantage or generate license income. None of these, individually, have a material effect upon the business.

SEASONALITY

No material portion of our business could be considered seasonal. However, historically, we generate slightly lower revenues in the third quarter than in other quarters of the year.

GOVERNMENTAL AND ENVIRONMENTAL REGULATION

We have no significant exposure with regard to the renegotiation or termination of government contracts. Any expenditure made to comply with federal, state, or local provisions of environmental protection has not had a material effect upon our capital expenditures, earnings, or competitive position.

The Company has participated with other Potentially Responsible Parties (“PRPs”) in the investigation, study, and remediation of the Pasco Sanitary Landfill Superfund Site (the “Pasco Site”) in eastern Washington State since 1998. The Company was a member of a PRP Group known as the Industrial Waste Area Generators Group II (the “IWAG Group”). In 2000, the IWAG Group and several other PRP groups entered into agreed orders with the Department of Ecology for implementation of interim remedial actions and expansion of groundwater monitoring. In September 2010, the group entered into a new agreement creating the IWAG Group III. The new agreement changed the allocation of responsibility among the members, which resulted in a significant decrease in our level of participation. Based upon new investigations, it was also deemed probable that participation by certain other PRPs would increase for costs expected to be incurred after 2010. At this time, an agreement has not yet been reached on the final remediation approach. We have accrued our best estimate of our obligation and have an undiscounted liability of \$1.2 million that we currently believe is adequate to cover our portion of the total future potential costs of remediation. We expect the costs to be incurred over a period of 60 years; however, the current proposed remediation approach could require monitoring for a longer period of time. This estimate is contingent upon the final remedy agreed upon, the participation of other PRPs, the length of monitoring required, and the final agreed upon allocation. Until a final remediation approach is approved and a final agreement is reached among all PRPs, it is reasonably possible that one or more of these factors could change our estimate; however, we are unable to determine the impact at this time.

From 1995 through 2003, the Company participated with other PRPs in the investigation, study, and remediation of the Valleycrest Landfill Site (the “Valleycrest Site”) in western Ohio. The Company is a member of a PRP Group known as the Valleycrest Landfill Site Group (the “VLSG”). In 2003, General Motors Corporation (“GM”) stepped into the Company’s position under the Site Participation Agreement and in return for \$270, agreed to indemnify the Company against certain future liability in connection with the Valleycrest Landfill Site. Therefore, we did not previously record a liability for potential remediation costs. In 2009, we were notified that in connection with GM’s

bankruptcy filing, GM does not plan to continue contributions to the site, including its contractual obligation to indemnify the Company for future liability. We believe that it is probable the Company will participate in remediation actions. A remedial investigation and feasibility study was conducted by the VLSCG which indicated a range of viable remedial approaches. During 2010, we obtained an updated estimate of costs for possible final remedies. At this early stage, a final remediation approach has not been selected, and we have accrued the estimate of our obligation based on the most likely approach. In addition, we have also determined that GM will likely not be required to fund their originally allocated portion of the environmental costs. However, GM has entered into an agreement with the VLSCG to fund a small portion of these costs through bankruptcy settlements. We have an undiscounted long-term liability of \$2.3 million that we currently believe is adequate to cover our portion of the total future potential costs of remediation, which are expected to be incurred over a period of 30 years. This estimate is contingent upon the final remedy agreed upon, the participation of other PRPs not currently in the VLSCG, and the final agreed upon allocation. Until a final remediation approach is approved and a final agreement is reached among all PRPs, it is reasonably possible that one or more of these factors could change our estimate; however, we are unable to determine the impact at this time.

OUR EMPLOYEES

At January 1, 2012, we had approximately 2,700 employees.

OUR WEBSITE

Our internet website is www.standardregister.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports are available, without charge, on the website as soon as reasonably practicable after we file these reports with the SEC. You can also obtain these reports, free of charge, by contacting Investor Relations, Standard Register, Corporate Offices, P.O. Box 1167, Dayton, Ohio 45401, e-mail: investor@standardregister.com, phone: 937-221-1504. In addition, these reports and other information can be obtained, free of charge, at www.sec.gov. You may also read and copy materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 800-732-0330. We are not including the information contained in our website as part of, or incorporating it by reference to, this Annual Report on Form 10-K.

FORWARD-LOOKING INFORMATION

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Forward-looking statements include statements in which we use words such as "anticipates," "projects," "expects," "plans," "intends," "believes," "estimates," "targets," and other similar expressions that indicate trends and future events. Among other things, all statements regarding expectations related to the following are forward-looking statements that involve certain risks and uncertainties:

- decline in legacy solutions
- expansion in core solutions
- future pension funding requirements and amortization of actuarial gains and losses
- expanding market share in core markets and globally
- investing in our employees
- 2012 priorities
- future financial condition, revenue trends, and cash flows
- projected costs or cost savings related to our 2011 restructuring plan
- ability to realize deferred tax assets
- 2012 capital expenditures
- business strategy

Because forward-looking statements deal with future events, actual results for fiscal year 2012 and beyond could differ materially from our current expectations depending on a variety of factors including, but not limited to:

- our access to capital for expanding in core solutions
- the pace at which digital technologies erode the demand for certain legacy solutions
- the success of our plans to deal with the threats and opportunities brought by digital technology
- results of cost-containment strategies and restructuring programs
- our ability to attract and retain key personnel
- variation in demand and acceptance of the Company's products and services
- frequency, magnitude, and timing of paper and other raw material price changes
- timing of the completion and integration of acquisitions.

These forward-looking statements are based on current expectations and estimates. We cannot assure that such expectations will prove to be correct. 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.

Item 1A – Not applicable

Item 1B – Not applicable

Item 2 – PROPERTIES

Our corporate office is an owned facility located in Dayton, Ohio. In addition, as of January 1, 2012, we lease or own 28 production facilities and operate 11 warehouses, the majority of which are combined with our production facilities. All facilities are located in the U.S., with the exception of one production facility located in Mexico. More than half of our products are produced in our production facilities; other products are primarily sourced from one of the Company's preferred suppliers. Our current capacity, with modest capital additions, is expected to be sufficient to meet production requirements for the near future.

Item 3 – LEGAL PROCEEDINGS

We have no material claims or litigation pending against us.

Item 4 – Not applicable

PART II

Item 5 - MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price - The following table lists the high and low market prices as reported on the NYSE and cash dividends paid per share:

Quarter	2011		
	Dividend	High	Low
1st	\$ 0.05	\$ 3.61	\$ 2.92
2nd	\$ 0.05	\$ 3.58	\$ 3.01
3rd	\$ 0.05	\$ 3.20	\$ 2.46
4th	\$ 0.05	\$ 2.74	\$ 2.26

Quarter	2010		
	Dividend	High	Low
1st	\$ 0.05	\$ 6.56	\$ 4.66
2nd	\$ 0.05	\$ 5.87	\$ 2.90
3rd	\$ 0.05	\$ 3.96	\$ 2.73
4th	\$ 0.05	\$ 3.79	\$ 2.92

Approximate Number of Holders of Common Stock - On January 31, 2012, there were 2,129 shareholders of record of our common stock. This number includes restricted shares, but excludes individual holders whose shares are held by nominees. There are also 16 holders of Class A stock.

Dividends – On January 23, 2012, we announced the suspension of quarterly dividends in keeping with Ohio law, which requires that cash dividends be paid only out of a corporation’s statutory surplus. Because of the decline in shareholders’ equity, there is not currently a statutory surplus. The 2012 first quarter dividend which was declared in December 2011 was paid on March 9, 2012. See further discussion under “Liquidity and Capital Resources”.

There were no repurchases of our common stock during the fourth quarter of 2011. Information regarding our equity compensation plans is included in Item 12 and is incorporated by reference into this section of Item 5.

Item 6 - SELECTED FINANCIAL DATA

THE STANDARD REGISTER COMPANY
FIVE-YEAR FINANCIAL SUMMARY
(Dollars in thousands except per share amounts)

	2011	2010 (a)	2009(a)	2008 (a)	2007 (a,b,c)
SUMMARY OF OPERATIONS					
Revenue	\$ 648,109	\$ 668,377	\$ 694,016	\$ 791,076	\$ 865,432
Cost of sales	449,940	458,569	478,367	540,180	594,076
Gross margin	198,169	209,808	215,649	250,896	271,356
Operating expenses	192,338	205,913	240,884	234,131	281,514
Interest expense	2,466	2,189	1,197	2,220	3,763
Investment and other income (expense)	632	(333)	390	285	208
Income tax expense (benefit)	91,695	1,005	(10,678)	7,942	(5,556)
(Loss) income from continuing operations	\$ (87,698)	\$ 368	\$ (15,364)	\$ 6,888	\$ (8,157)
Net (loss) income	\$ (87,698)	\$ 368	\$ (15,364)	\$ 6,888	\$ (7,883)
DILUTED PER SHARE DATA					
(Loss) income from continuing operations	\$ (3.02)	\$ 0.01	\$ (0.53)	\$ 0.24	\$ (0.27)
Net (loss) income	\$ (3.02)	\$ 0.01	\$ (0.53)	\$ 0.24	\$ (0.26)
Dividends paid	\$ 0.20	\$ 0.20	\$ 0.38	\$ 0.92	\$ 0.92
Book value per share	\$ (3.40)	\$ 2.07	\$ 2.06	\$ 1.92	\$ 4.58
YEAR-END FINANCIAL DATA					
Current ratio	2.1 to 1	2.4 to 1	1.6 to 1	2.2 to 1	2.5 to 1
Working capital	\$ 89,409	\$ 109,238	\$ 73,071	\$ 106,613	\$ 131,538
Plant and equipment	\$ 73,950	\$ 74,149	\$ 85,740	\$ 102,071	\$ 110,975
Total assets	\$ 293,861	\$ 384,787	\$ 396,952	\$ 433,575	\$ 441,084
Long-term debt (d)	\$ 60,149	\$ 42,926	\$ -	\$ 33,840	\$ 51,988
Shareholders' (deficit) equity	\$ (99,053)	\$ 59,804	\$ 59,385	\$ 55,167	\$ 131,497
OTHER DATA					
Number of shares outstanding at year-end	29,100,203	28,955,247	28,864,151	28,786,354	28,727,177
Number of employees	2,700	2,600	2,900	3,100	3,400
Capital expenditures	\$ 14,186	\$ 8,403	\$ 8,844	\$ 17,330	\$ 21,575

(a) Adjusted for accounting method change from LIFO to FIFO

- (b) Reflects the gain on sale of Digital Solutions on April 21, 2007.
- (c) Reflects losses from discontinued operations as a result of the sale of Digital Solutions.
- (d) Reflects all debt as current in 2009.

Item - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7 OPERATIONS (Dollars in millions, except per share amounts)

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties, including those discussed under the caption "Forward-Looking Information" in Item 1 of this Annual Report on Form 10-K and elsewhere in this report. These risks could cause our actual results to differ materially from any future performance suggested below. This Management's Discussion and Analysis includes the following sections:

Overview – An overall discussion of our Company, the business challenges and opportunities we believe are key to our financial success, and our plans for facing these challenges and capitalizing upon the opportunities before us.

Critical Accounting Policies and Estimates – A discussion of the accounting policies that require our most critical judgments and estimates. This discussion provides insight into the level of subjectivity, quality, and variability involved in these judgments and estimates.

Results of Operations – An analysis of our consolidated results of operations and segment results for the three years presented in our consolidated financial statements. This analysis discusses material trends within our business and provides important information necessary for an understanding of our operating results.

Liquidity and Capital Resources – An analysis of cash flows and a discussion of our financial condition. This section provides information necessary to evaluate our ability to generate cash and to meet existing and known future cash requirements over both the short and long term.

References to 2011, 2010, and 2009 refer to the 52-weeks period ended January 1, 2012 and January 2, 2011, and the 53-week period ended January 3, 2010.

OVERVIEW

The Company – We are trusted by the world's leading companies to advance their reputations by aligning their communications with corporate standards and priorities. By partnering with our customers, we help them increase efficiency; comply with regulatory requirements; improve the way they communicate with and serve their customers, employees, and stakeholders; and ultimately thrive in today's competitive business climate.

We continue to build a portfolio of solutions to address the changing business landscape for our primary markets. We help companies migrate from paper-based to digital processes by providing innovative tools to manage the entire lifecycle of their documents from concept to delivery. To accomplish this, we utilize our market expertise to provide products and services including: printed documents and communications, labels, nationwide warehousing and custom-delivery services, consulting, and software solutions.

Our operations include four reportable segments based upon the primary markets we serve: Healthcare, Financial Services, Commercial Markets, and Industrial.

Our Business Challenges – Advances in on-demand technologies have accelerated the adoption of electronic distribution of documents and digital printing, therefore reducing the market for longer-run traditional business forms, a legacy product offering of the Company. In addition, the downturn in the economy and turmoil in the credit markets in recent years have created highly competitive conditions in an already over-supplied, price-competitive

industry. We have taken substantial measures to transform our Company to be leaders in our primary markets. Going forward, we believe our success is dependent upon addressing the following key challenges:

Transformation of our portfolio of solutions

Future pension funding requirements and amortization of actuarial gains and losses

Generating positive cash flow

Expanding market share in core markets

Developing a targeted approach in global expansion

Transformation of our portfolio of solutions – Traditional business documents and information-driven processes are essential in order to conduct business. However, many printed documents and related services are being replaced or commoditized by advances in digital technologies, causing significant price pressures and steady declines in demand for a large portion of our legacy product line. The same digital advances also introduce new opportunities with significant growth potential for us, such as print-on-demand services and solutions that assist customers in their transition to digital business environments. These growth opportunities are particularly enhanced within our four market segments due to our extensive history and experience.

At the end of 2008, we began the process of evolving into a market-focused innovator. In 2009, we transformed from a product-driven company to one focused on the key markets we serve and we aligned management roles and resources to create an intense focus on customer needs within our four primary markets. In 2010 and 2011, we continued our transformation and focused on providing and developing new solutions for growth and durability. A key example of this in 2011 is our investment in new digital color equipment and technology. The investment supports our strategy for growth in core marketing solutions by helping our customers manage their brand through effective color execution and increased security and efficiency in their critical communications. Optimization of our manufacturing footprint and implementation of new workflow and print technology in our Print On Demand Centers in 2010 was an important first step operationally. We transformed five of our regional print centers into "super centers," equipping each with high-speed, high-quality color printing, and in-line finishing and bindery capabilities. In addition, the regional centers and our three largest satellite facilities were upgraded with the latest high-speed, monochrome printing equipment as well as wide-format printers. Advances in production were complemented by new digital workflow technology, which was rolled out across our entire digital print network. The software allows web-based orders to move from customer desktops through the production process with minimal intervention. It automatically routes orders to the print center most convenient to the customer, which dramatically improves fulfillment times and reduces freight costs for the customer. These investments create a strategic advantage for us by allowing us to capitalize on growth opportunities in web publishing.

During 2011 and 2010, we renewed our emphasis on leveraging our intellectual property to further develop and enhance our solution portfolio, resulting in new inventions and patents. We also made strategic acquisitions. In 2011, we acquired 100% of the ownership interest in Dialog Medical. Dialog Medical provides solutions for managing the patient informed consent process. We believe this acquisition strengthens and broadens our leadership in the healthcare market, compliments our portfolio of solutions, and enhances our ability to continue to advance our core growth products in the healthcare market. In 2010, we purchased the assets of Fusion Graphics, Inc. The assets consisted primarily of patented in-mold label products and intellectual property, including the Grafilm In-Mold Labeling System. The acquisition is expected to allow us to serve a much broader group of customers worldwide and continue to develop new products within our Industrial business unit. Building on these technologies, we launched our new Grafilm-Roto in-mold labeling product in the fourth quarter of 2010.

We have also developed strategic relationships with outside partners and invested in additional talent to further drive growth and development of innovative solutions that address the needs of our core markets.

As a result of these investments, we expect to continue to grow and develop innovative solutions, specifically in the areas of patient identification and safety solutions, secure document solutions, marketing and critical communication solutions, and industrial in-mold labeling. These solutions address important business needs and are positioned for future growth. They have also contributed to the shift in our revenue from legacy to core solutions. Core solutions, as a percent of total revenue, were 40% in 2011, compared with 37% in 2010 and 32% in 2009. We believe our extensive expertise within our markets combined with our continued focus on targeted solutions for those markets will differentiate us from our competitors and will continue to produce growth opportunities outside of our legacy solutions.

Future pension funding and loss amortization – During 2001, 2002, and most recently in 2008 and 2011, our qualified pension plan became underfunded due to weak stock market returns and historically low long-term interest rates. The amortization of these actuarial losses has resulted in significant pension loss amortization in recent years – \$24.3 million in 2011, \$18.7 million in 2010, and \$14.6 million in 2009. We expect this trend to continue and that pension loss amortization will continue to materially impact our operating profit in future years. Based upon current estimates of funding, asset performance, and interest rates, we project pension loss amortization to be \$23.0 million in 2012. Due to the high degree of variability and uncertainty regarding the assumptions used to determine these amounts, actual results could differ significantly from those expected.

The Pension Protection Act of 2006 became effective in 2008 and increased the minimum funding requirements for our qualified pension plan. In response to the weak economic conditions, the Pension Relief Act of 2010 (PRA) was passed in 2010. The PRA provides funding relief specifically for plan years 2008 – 2011 by allowing plan sponsors to stretch out funding over a longer period of time for two of these years. Based upon the new requirements and current estimates, our minimum funding is estimated to be \$27 million in 2012, \$37 million in 2013, and \$44 million in 2014. Our estimates of minimum funding requirements are also dependent upon investment return and interest rate assumptions that have a high degree of variability and uncertainty, as evidenced in the recent economic climate. Unexpected gains or losses in asset values or changes in factors affecting interest rates could materially impact the actual required contributions.

In response to these challenges, in 2008 we modified our qualified and non-qualified defined benefit pension plans. As a result, participants in these plans ceased accruing additional pension benefits in July 2008, and the final pension amounts will be based upon pay and service through June 29, 2008. The effect of these actions eliminated pension service costs for these plans for 2009 and beyond, resulting in annualized net savings of approximately \$4 million in retirement costs. In addition, some variability in the actuarial gains and losses of these plans were eliminated as estimates of service periods and compensation levels are no longer required since plan benefits have been frozen.

Despite these changes, settlement of our pension obligations will still present uncertainty and variability in our financial results in future years, with the ultimate outcome determined by actual asset performance in our qualified plan, interest rates, and the level of our pension contributions.

Generating positive cash flow – Transforming our product portfolio and funding our pension plan creates additional challenges related to generating and maintaining positive cash flow due to the significant cash investments required. Pricing pressures in our legacy product line as these products are further commoditized create additional pressures on cash. Our core solutions generally generate higher profit margins; therefore, our continued shift from legacy to core solutions will help offset these pressures. We continue to undertake aggressive actions to accelerate our transition, reduce costs, and align resources around our core solutions business. Significant restructuring actions have been implemented to improve our cost structure, most recently late in 2011. The 2011 plan is expected to reduce costs by approximately \$45 million annually and allow us to continue to maintain sufficient liquidity and capital resources to fund near-term operations and growth initiatives. Additionally, due to the lack of a statutory surplus required under Ohio law, we have suspended our dividend, which will result in the retention of approximately \$6 million of capital annually.

Expanding market share in core markets – In 2010 and 2011, we continued to grow market share, optimize operations and earnings, and develop new solutions for growth and durability. We achieved positive results, as we acquired new customers and expanded business with existing customers across all of our segments. We continued to advance our market positions by developing key partnerships and alliances, providing us with new opportunities for growth-targeted products and increased market share in our legacy print products. Additionally, we continued investing in system and infrastructure enhancements, including a refresh of our web-based SMARTworks platform. These enhancements provide advanced web-based capabilities for our customers, reduce costs, and create operating efficiencies; all of which allow us opportunities to expand our market share through client service and reinvestment in solutions.

As demand for traditional print products is projected to decline approximately 10% to 15% per year, the continued expansion of our market share is a key factor to our success. We believe our current strategic plans will continue to drive further expansion of our market share in the U.S. going forward.

Developing a targeted approach to global expansion – Since many of our customers have a global presence, we believe we must also increase our ability to provide solutions that support global requirements and are working to develop plans to achieve this.

Our Focus – In 2011, we continued to focus on our customers, creating cost and operational improvements and efficiencies, and cash flow. As a result of aligning our organization around our key markets, implementing and progressing with our go-to-market strategy, and creating an internal structure for continuous cost and revenue improvement, we have made substantial progress in these areas. Building on this success, our 2012 priorities continue to center around our customers and operational and profit improvement:

Acquire new customers

Defend and expand current business

Optimize cost structure.

To offset expected declines in legacy product demand, we will continue plans to acquire new customers. We have made investments in our business development and marketing organizations and will continue to invest in alternate sales channels. By successfully combining legacy print/product capabilities with technological capabilities, we offer complete solutions that we expect to give us a competitive advantage in acquiring new customers.

We believe the key to our success is our customers. Our intense focus on our customers' needs is intended to foster customer loyalty, and we have developed processes and tools to assist in building loyalty, extending our relationships, and measuring and ensuring customer satisfaction. We will continue to monitor our progress and sponsor additional market-focused customer councils to further enhance our understanding of customer needs and how we can better serve them. By focusing on customer loyalty, we are ensuring that we have a clear understanding of how our customers view us and can develop specific action plans regarding retaining and expanding our business.

We expect to continue to optimize our cost structure and align our operations around our core solutions. Our realignment around vertical markets has enabled us to focus our efforts on providing valuable solutions to markets where we are trusted industry leaders and have extensive understanding of document and information management needs. In 2012, organizational excellence continues to be our goal, and we expect to continue refining our processes to ensure that each person and process in the Company is aligned with our strategic goals. We will also continue to critically evaluate costs and improve productivity in order to stay cost competitive and most importantly, generate positive cash flow.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements. Preparation of our financial statements requires us 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. Although we believe our estimates and assumptions are reasonable, they are based on information presently available, and actual results may differ significantly from those estimates.

We consider the estimates discussed below as critical to an understanding of our financial statements because they place the most significant demands on management's judgment about the effect of matters that are inherently uncertain, and the impact of different estimates or assumptions is material to our financial condition or results of operations. The impact and any associated risks related to these estimates are discussed throughout this discussion and analysis where such estimates affect reported and expected financial results. The impact of changes in the estimates and assumptions discussed below for the pension plan, fair value measurements, deferred taxes, and environmental liabilities generally do not affect segment results. However, changes in revenue recognition could impact individual segment results.

For a detailed discussion of the application of these and other accounting policies, see "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements. Management has discussed the development and selection of the critical accounting policies and the related disclosure included herein with the Audit Committee of the Board of Directors.

Pension Benefit Plan Assumptions

Included in our financial statements are significant pension obligations and benefit costs which are measured using actuarial valuations. The use of actuarial models requires us to make certain assumptions concerning future events that will determine the amount and timing of the benefit payments. Such assumptions include the discount rate and the expected long-term rate of return on plan assets. 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 have a significant impact on the amount of pension obligations and benefit expense recorded in future periods.

Discount rate – One of the principal components of calculating the projected benefit obligation and certain components of pension benefit costs is the assumed discount rate. The discount rate is the assumed rate at which future pension benefits could be effectively settled. The discount rate established at year end for the benefit obligations is also used in the calculation of the interest component of benefit cost for the following year. Discount rates are established based on prevailing market rates for high-quality, fixed-income instruments with maturities equal to the future cash flows to pay the benefit obligations when due.

Expected long-term rate of return on plan assets – 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 our employees. Our 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. We use long-term historical actual return experience and estimates of future long-term investment return, with consideration to the expected investment mix of the plan’s assets, to develop our expected rate of return assumption used in the net periodic pension cost calculation. Differences between actual and expected returns are recognized in the pension cost calculation over five years using a five-year, market-related asset value method of amortization. The amortization of these differences has, and will continue to have, a significant effect on net periodic pension cost.

Our non-qualified pension 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.

Assumptions regarding mortality – One of the assumptions made in the calculation of the projected benefit obligation is an estimate of mortality rates for the population of pension participants. Our actuaries use mortality tables, which include death rates for each age, in estimating the amount of pension benefits that will become payable. The mortality tables include the proportion of the number of deaths in a specified group to the number living at the beginning of the period in which the deaths occur. We use the RP-2000 Mortality Table to determine benefit obligations and to determine pension and postretirement benefit cost.

We review the assumptions used to account for our pension obligations and benefit cost each fiscal year end.

Weighted-Average Assumptions

Projected benefit obligation	2011	2010
Discount rate used for pension obligations	4.25%	5.00%

Holding all other assumptions constant:

A 1% increase in the discount rate would decrease the pension obligation recorded by approximately \$39.2 million.

A 1% decrease in the discount rate would increase the pension obligation recorded by approximately \$45.9 million.

Net periodic pension benefit cost	2011	2010	2009
Discount rate (1)	5.00%	5.80%	5.75/7.0%
Expected long-term rate of return on plan assets	8.00%	8.75%	8.75%

(1) The discount rate was 5.75% through March 1, 2009 and 7.0% April through December 2009 due to settlements that occurred on March 1, 2009. As a result, pension expense was adjusted to reflect the updated discount rate at that time.

Holding all other assumptions constant:

A 1% increase or decrease in the discount rate would decrease or increase pension cost by approximately \$1.1 million.

A 1% increase or decrease in the expected long-term rate of return on plan assets would decrease or increase pension benefit cost by \$2.8 million.

The long-term rate of return on plan assets we expect to use to determine fiscal 2012 net periodic pension cost is 8.0%, the same as in 2011.

In 2011, we recorded non-cash actuarial losses of \$80.5 million to accumulated other comprehensive income. We currently have a total of \$209.8 million of actuarial losses, net of deferred tax benefits, related to our pension plans that will be amortized to expense in future years. Amortization of actuarial losses is expected to be approximately \$23.0 million in 2012. We expect amortization expense to trend higher in future periods based on current estimates of funding, asset performance, and interest rates. Due to the high degree of variability and uncertainty in these assumptions, actual results could differ significantly.

Goodwill

During the second quarter of 2011, we performed the annual impairment test for goodwill. The test was performed at the reporting unit level using the two-step approach required by generally accepted accounting principles.

The first step of the test required us to compare the fair value of the reporting units to the carrying value of the assets assigned to those reporting units, including goodwill. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss.

To determine fair value, we followed an income approach utilizing a discounted future cash flow methodology. The determination of the fair value of the reporting units required us to make significant estimates and assumptions, including revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, and future economic and market conditions. In addition, we made certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Though we believe our assumptions are reasonable, actual financial results could be different due to unanticipated events and circumstances that may occur. The following describes the key assumptions used in our fair value calculations:

Revenue and cost assumptions: Using historical trending and internal forecasting techniques, we projected revenue and costs for the remainder of 2011 through 2014. Factory cost/revenue forecasts were based on both historical information and the Company's current strategic plan. A terminal value was then applied to the projected cash flow stream based on the three-year cash flow.

We calculated three outcomes: a most likely, a best case, and a worst case based on future cash flow projections. All outcomes were weighted to arrive at an overall projected cash flow.

Discount rate determination: We used the industry weighted-average cost of capital that reflects the weighted average return on debt and equity of our peer group from a market participant perspective.

The results of our test indicated that the fair values of our reporting units were greater than their carrying value; therefore, goodwill was not impaired.

In addition to calculating a range of possible outcomes, we also performed a sensitivity analysis designed to understand the relative impact of the major assumptions used in our calculations. If our estimate of expected future cash flows had been 5% lower, or there was a 1% variation in either the terminal value or the discount rate, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

Deferred Taxes

We are subject to income taxes in both the United States and Mexico. Significant management judgment is required in determining our deferred tax assets and liabilities, any valuation allowance recorded against our deferred tax assets, and our provision for income taxes, including tax positions taken or to be taken in our tax returns.

At January 1, 2012, we had net deferred tax assets of \$146.9 million attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and to operating loss and tax credit carryforwards.

We review the potential future tax benefits of all deferred tax assets on an ongoing basis. The Company concluded after evaluating all positive and negative evidence regarding the potential realization of the Company's deferred tax

assets, a valuation allowance is necessary primarily based on cumulative losses in recent years, (defined as the current and two preceding years) and current year actuarial pension losses. A valuation allowance is being recorded against the entire U.S. net deferred tax asset except for \$21.0 million related to the pension liability. We are forecasting that the pension liability will be reduced by future actuarial gains prior to funding the related liability; therefore, the deferred tax asset will be realized without the need for future taxable income. Because of the cumulative losses in recent years, the Company is not relying on forecasts of future taxable income to realize any U.S. deferred tax assets. The amount of our deferred tax assets considered realizable; however, could change if our estimates of business results or future taxable income change.

We also have a Canadian capital loss carryforward that has an indefinite carryforward period. A full valuation allowance has been provided for the tax benefit associated with this capital loss as it is more likely than not that this capital loss will not be utilized.

We base our estimate of deferred tax assets and liabilities on current tax laws and rates. Since the effect of a change in tax rates is recognized in earnings in the period when the changes are enacted, changes in existing tax laws or rates could affect actual tax results and the valuation of deferred tax assets over time. As the economic recovery continues to be sluggish and as issues of debt reduction, global competitiveness, and job creation dominate the national discussion, pressure is clearly building for Congress to lower the corporate rate. President Obama's deficit-reduction commission recommended a rate between 23% and 29%, while others have suggested a drop to 10%. If enacted, the effect of a change in corporate tax rates on our tax expense and deferred taxes will be dependent on the amount of our tax valuation allowance.

Environmental Remediation

We are currently involved in the remediation of three environmental sites that are more fully described in Note 18 to our Consolidated Financial Statements. In accordance with accounting standards for environmental liabilities, we have recorded an estimate of the total costs to remediate these sites. However, due to the lengthy nature in settling environmental obligations and the fact that final remedies have not been determined for two of the sites, determining total costs requires the use of significant judgment and estimates. Areas requiring the most significant judgments and estimates include the extent and timing of final remediation actions and the estimation of our share of the final remedy. Due to the complexity of environmental issues, monitoring costs can extend for many years. We must also estimate all costs related to the final remedy, which frequently involves complex procedures that can vary significantly from original plans depending on actual conditions encountered on the site. Until final remediation approaches are approved and final agreements are reached among all PRPs, it is reasonably possible that one or more of these factors could change our estimates; however, we are unable to determine the impact at this time.

Revenue Recognition

We enter into arrangements with customers that contain multiple elements or deliverables such as software, professional services, and ongoing maintenance and post-contract customer support. We account for the licensing of software arrangements in accordance with generally accepted accounting standards for software revenue recognition. We recognize revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable, and collection is probable. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements, we must: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine whether vendor-specific objective evidence (VSOE) of fair value exists for each undelivered element; and (4) allocate the total price among the various elements we must deliver. Changes in assumptions or judgments or changes to the elements in a software arrangement could change the timing or amount of revenue that we report in a particular period.

We also enter into arrangements with customers that contain multiple elements or deliverables such as custom-printed products, warehousing services, and custom-delivery services. During 2011, we adopted a new accounting standard that requires us to use a hierarchy to allocate arrangement consideration to each element in the arrangement. The hierarchy requires the use of VSOE, third-party evidence of selling price (TPE), or best estimate of selling price (BESP). VSOE represents the price of the deliverable when sold on a stand-alone basis, while TPE represents the price that outside vendors charge on a stand-alone basis. BESP is management's best estimate of the selling price on a stand-alone basis using available internal and external data and should be used only when VSOE or TPE cannot be established.

Two of our deliverables, custom-printed products and warehousing services, require the use of BESP. Determining BESP requires us to make judgments and assumptions regarding the value of these deliverables on a stand-alone basis. To determine BESP, we consider internally-generated data such as estimated costs for materials, labor, manufacturing and administrative costs, as well as external data such as observable pricing for similar products and current industry and competitive market conditions. In addition, we consider product life cycle stages, profit margins, assumed volume/activity levels, and typical agreement terms. We routinely update, analyze, and weight this data based on the significance we believe each assumption bears on the selling prices we ultimately could charge. As such, our determination of BESP requires significant judgment.

We adopted the new accounting standard on a prospective basis for new or materially modified arrangements beginning in 2011. The adoption of this standard did not have a material effect on our financial statements; however, future changes in the assumptions utilized or judgments could change the timing or amount of revenue that we report in future periods.

RESULTS OF OPERATIONS

The discussion that follows provides information which we believe is relevant to an understanding of our results of operations and financial condition. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto. This analysis is presented in the following sections:

Consolidated Summary: A discussion of our consolidated results of operations for 2011, 2010, and 2009.

Segment Operating Results: An analysis of revenue, cost of sales, gross margin, and operating income by segment.

Consolidated Results

The following summarizes our consolidated results for 2011, 2010, and 2009. In addition, the following table presents “Non-GAAP net income,” which is a non-GAAP financial measure and represents net income excluding pension loss amortization, pension settlements and curtailments, postretirement plan termination, restructuring charges, asset impairments, and the deferred tax valuation allowance. Generally, a non-GAAP financial measure is a numerical measure of a company’s performance, financial position, or cash flows where amounts are either excluded or included not in accordance with generally accepted accounting principles. The presentation of non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States. We believe that this non-GAAP financial measure provides a more complete understanding of our current underlying operating performance, a clearer comparison of current period results with past reports of financial performance, and greater transparency regarding information used by management in its decision making. This presentation is similar to the manner in which our Board of Directors internally evaluates performance.

	2011	% Change	2010 (1)	% Change	2009 (1)
Revenue	\$ 648.1	-3%	\$ 668.4	-4%	\$ 694.0
Cost of sales	449.9	-2%	458.6	-4%	478.3
Gross margin	198.2	-6%	209.8	-3%	215.7
Gross margin % of sales	30.6%		31.4%		31.1%
SG&A expense	206.7	1%	204.6	0%	205.3
Pension settlements, curtailments, and postretirement plan termination	(19.7)		0.4		20.4
Restructuring and asset impairment	5.2		1.7		12.7
Environmental remediation	0.2		(0.8)		2.5
Other expense, net	1.8		2.5		0.8
Income (loss) before taxes	4.0		1.4		(26.0)
Income tax expense (benefit)	91.7		1.0		(10.6)
% rate	2294.0%		73.2%		41.0%
Net (loss) income	\$ (87.7)		\$ 0.4		\$ (15.4)
Non-GAAP net (loss) income:					
Net (loss) income	\$ (87.7)		\$ 0.4		\$ (15.4)

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Adjustments:

Deferred tax valuation	89.5	-	-
Pension loss amortization	24.3	18.7	14.6
Pension settlements, curtailments, and postretirement plan termination	(19.7)	0.4	20.4
Restructuring and asset impairment (2)	5.2	2.3	12.7
Income tax effect of adjustments (at statutory tax rates)	(3.9)	(8.6)	(18.9)
Non-GAAP net income	\$ 7.7	\$ 13.2	\$ 13.4

(1) Adjusted for accounting method change for inventory. See Note 7 - Inventories of the Notes to Financial Statements

(2) Includes impairment recorded in other income in 2010

In 2011 and 2010, we remained focused on transforming our product portfolios within all of our segments and launched new solutions. Economic conditions also showed improvement across our markets, which corresponded to increased order levels. However, as the recovery in the economy has been slow, customers have continued to focus on cost containment, resulting in pressure on price. Additionally, cost reduction initiatives implemented by our customers and the continued proliferation of technology have driven declines in the use of certain legacy print products, as technology was utilized to reduce or eliminate the need for printed products. These conditions have led to accelerated rates of decline in our legacy products, particularly during the last half of 2011. As a result, overall declines in revenue in legacy print products continue to offset progress made in our core solutions.

The following table details the estimated changes in revenue and cost of sales for 2011 and 2010.

	Revenue Change				Cost of Sales Change			
	2011		2010		2011		2010	
Units	-4	%	-3	%	-3	%	-3	%
Price	1	%	-1	%	1	%	-3	%
Mix	-		-		-		2	%
	-3	%	-4	%	-2	%	-4	%

Revenue

The acquisition of new customers, expansion of new business with existing customers, and an upward trend in order levels due to improved economic conditions drove improvement in our unit sales during 2011 and 2010. However, due to continued pressures on legacy print products, overall units declined. Excluding the extra week of revenue in 2009, the unit decline in 2010 was only 2%.

Increases in revenue due to price in 2011 were driven primarily by the pass-through of material price increases. Declines in pricing in 2010 were driven by intense price competition and customer efforts to minimize costs, particularly in our Commercial Markets segment which operates in highly competitive market conditions. We experienced increased material costs during 2010 and successfully passed through these costs, which offset pricing pressures during 2010.

The following table provides further insight into the changes in revenue by major categories.

	2011 % Chg			2010 % Chg			2009
Print	\$ 388.2	-5	%	\$ 407.5	-5	%	\$ 430.2
Labels	108.6	4	%	104.5	2	%	102.1
Software	10.0	-4	%	10.4	21	%	8.6
Services	89.4	-6	%	95.1	-5	%	99.9
Other	51.9	2	%	50.9	-4	%	53.2
	\$ 648.1	-3	%	\$ 668.4	-4	%	\$ 694.0
Core	40%			37%			32%
Legacy	60%			63%			68%

Core print revenue increased in 2011 and 2010 as we progressed with our go-to-market strategy and acquired new customers and expanded sales to existing customers. Marketing solutions increased approximately \$3.4 million in 2011 and \$16.2 million in 2010. Critical communication solutions increased approximately \$1.7 million in 2011, but

decreased slightly in 2010. However, declines in legacy print, primarily business forms and documents, declined approximately \$21.4 million in 2011 and \$34.6 million in 2010 despite expanding our market share and acquiring new customers.

Labels revenue increased in 2011 and 2010 driven by improved economic conditions and advancement of new solutions such as our in-mold labels. Core label products increased approximately \$5.4 million in 2011 and \$6.6 million in 2010, which was offset by declines in legacy label products of \$1.2 million and \$4.3 million.

Services revenue, primarily warehousing and custom-delivery services, declined in 2011 and 2010 as print revenue volume declined. Many of these services are bundled with printed products and therefore fluctuate with the changes in print revenue.

Cost of Sales and Gross Margin

In 2011, cost of sales decreased primarily as a result of units due to lower sales volume. These decreases were offset partially by increases in price resulting from higher material costs and increased costs associated with newly-acquired customers and unabsorbed costs due to lower sales volume. We realized savings from previously implemented cost reduction initiatives, which partially offset these increases. As a result, the gross margin percentage declined slightly as compared with 2010.

The decline in cost of sales in 2010 was driven primarily by units and price. Units declined due to the overall decrease in sales volume. We estimate that the reduction in production costs through our restructuring actions, workforce reductions, and cost reduction initiatives taken during 2009 accounted for substantially the entire decline in price. Cost reductions were partially offset by an unfavorable product mix. Due to increased opportunities in certain marketing solutions, product mix shifted from some lower-cost internally-produced products to other higher-cost products that are primarily outsourced. The gross margin percentage in 2010 remained consistent with 2009, despite the decline in revenue.

Selling, General and Administrative Expense

	2011	2010	2009
Selling expense	\$100.1	\$100.7	\$108.7
General and administrative expense	74.5	76.5	71.3
Depreciation	8.1	8.8	9.2
Amortization of pension net actuarial losses	24.3	18.7	14.6
Other expense	(0.3)	(0.1)	1.5
Total selling, general and administrative expense	\$206.7	\$204.6	\$205.3

In 2011, selling compensation and related expenses decreased due to reduced revenue volume and changes in selling compensation plans during the year. In addition, communication and facility costs were lower as compared to 2010 as we continued to realize benefits from previously implemented restructuring and cost reduction initiatives. These savings were partially offset by increases in business development and training costs. In 2010, our cost reduction initiatives reduced expenses approximately \$10.7 million, primarily in compensation-related expenses, communication service costs, and facility costs. Reductions in communication service costs were enabled in large part by the increased infrastructure investments reported in general and administrative expenses. Product management costs on key priority solutions, new deal support costs in client satisfaction, and business development costs were higher by approximately \$2.7 million as we moved forward with planned investments related to our go-to-market strategy.

General and administrative expenses declined in 2011 as a result of lower employee healthcare costs, planned technology investments, and incentive compensation as compared with 2010. In 2010, our restructuring plans and cost reduction initiatives resulted in steady declines in general and administrative expenses. However, a significant portion of the savings was used for planned investments and increased compensation and related expenses. Investments in system infrastructure projects accounted for an increase of approximately \$6 million, of which approximately \$2.7 million was focused on advancing our client-facing technology through SMARTworks.

Amortization of pension net actuarial losses increased in 2011 and 2010 as expected due to significant net actuarial losses recorded in recent years that are required to be amortized in future periods. Based upon current estimates of funding, asset performance, and interest rates, we project pension loss amortization to be \$23.0 million in 2012.

Other expense consists primarily of research and development and other pension and postretirement costs. Primarily as a result of plan modifications, other pension and postretirement costs declined in 2011 and 2010. These savings were partially offset in 2011 as a result of the termination of our postretirement healthcare plan, which is more fully discussed under "Pension curtailments and settlements." Due to the termination, amortization of unrecognized prior service credits and actuarial losses were approximately \$1.0 million less favorable in 2011. We will no longer amortize any unrecognized prior service credits and actuarial losses for this plan in future periods. This amortization previously had been favorably impacting operating expenses by approximately \$1.0 million per quarter or \$4.0 annually.

Pension curtailments and settlements

As a result of associates retiring and electing a lump-sum payment of their pension benefit, we recorded non-cash settlement charges of \$0.5 million and \$0.4 million in 2011 and 2010 related to our non-qualified retirement plan and \$20.4 million in 2009 related to our qualified, non-qualified, and supplemental executive retirement plans. A pension settlement charge is recorded when the total lump sum payments for a year exceed total service and interest costs recognized for that year. The settlement charge recognizes a pro-rata portion of the unrecognized actuarial losses at the date of the settlement.

In 2011, we also terminated our postretirement healthcare plan and will no longer offer medical benefits to currently retired employees, effective as of December 31, 2011. Because the elimination of these benefits reduced benefits previously earned, this action was treated as a negative plan amendment that reduced the accumulated postretirement benefit obligation by \$5.1 million.

In addition, the plan amendment also resulted in a net credit of \$15.2 to net postretirement benefit cost for the immediate recognition of previously unrecognized prior service credits and actuarial losses. This credit was offset by an adjustment to accumulated other comprehensive income and deferred tax liabilities.

Restructuring and Other Exit Costs

The Company has undertaken cost reduction initiatives and restructuring actions as part of ongoing efforts to improve efficiencies, reduce costs, and maintain a strong financial condition. We recorded \$5.2 million, \$1.7 million, \$11.5 million, of restructuring and other exit costs in 2011, 2010, and 2009 related to these initiatives. We intend to continue to critically evaluate operations and costs and may initiate additional cost-reducing initiatives or restructurings in the future.

2011 Plans

In late 2011, we developed a strategic restructuring program that was announced in January 2012. The restructuring program is designed to better align our resources in support of our growing core solutions business and to reduce costs to offset the impact of declining revenue in our legacy operations. The restructuring program is expected to result in an estimated \$45.0 million in annual savings and the elimination of 12% to 15% of our workforce over the next six to nine months. Approximately \$11.0 million of the savings is expected to be realized in cost of sales, with the remainder realized in SG&A expenses.

Total costs of the restructuring program are expected to be approximately \$7.0 million, of which \$5.5 million is for involuntary termination costs and \$1.5 million is for contract termination and other associated costs, primarily costs for the relocation of equipment and inventory and fees to a third party to assist with the program implementation.

2009 Plans

In 2009, we launched a company-wide review of business practices and growth acceleration opportunities designed around the priorities of client satisfaction, cost reduction, and increased market coverage. As a result, we implemented a restructuring plan and numerous organizational improvements to simplify business, move closer to the customer, grow revenue, and improve overall efficiency of our business.

Restructuring costs primarily included: severance related to workforce reductions; contract termination and other exit costs from the strategic closure of production and distribution facilities and the subsequent relocation of equipment and inventory; and fees to the third-party that assisted with the development and implementation of the plan.

All of our plans were completed by the end of 2011, and we have realized substantially all of the projected savings expected.

Environmental Remediation

We currently participate in the remediation of two environmental sites for which final remedies have not yet been determined (Pasco Site and Valleycrest Site). Prior to 2009, our expenses related to these matters had not been significant. However, in 2009, we recorded noncash charges of \$2.5 million for estimated costs for environmental remediation. Of this amount, \$2.0 million related to the Valleycrest Landfill site. We had participated with other potentially responsible parties of this site from 1995 through 2003. In 2003, GM stepped into the Company's position under the Site Participation Agreement and agreed to indemnify the Company against certain future liability in connection with the site. Therefore, we did not previously record a liability for potential remediation costs. In 2009, we were notified that in connection with GM's bankruptcy filing, GM did not plan to continue contributions to the site, including its contractual obligation to indemnify the Company for future liability. Due to this development, we recorded an estimate of our potential liability for remediation costs. Determining the amount of these costs required significant estimates, as we are in the early stages of developing a remediation plan with other potentially responsible parties, and final potentially responsible parties and their respective shares are unknown.

During 2010, we obtained updated information regarding currently-proposed remediation and our expected share of the remediation for these sites. As a result, we updated the estimates of our total costs to remediate these sites, which resulted in a net noncash credit of \$0.8 million. Of this amount, the Pasco Site accounted for a credit of \$1.3 million, and the Valleycrest Site accounted for a charge of \$0.5 million. As we are still in the early stages of developing a remediation plan with other potentially responsible parties for the Valleycrest Site, estimates of total projected costs are difficult to determine. Additionally, since the final potentially responsible parties and their respective shares of the remediation costs have not been determined at this time for either site, uncertainty exists as to what our final share of the total costs may be. Therefore, we could experience increased costs in future periods as the remediation processes progress, although we are unable to estimate the amounts at this time.

Income Taxes

The effective tax rate used to calculate our tax benefit or expense was 2,294.0%, 73.2%, and 41.0% for 2011, 2010, and 2009. The reconciliation of the statutory federal income tax rate to the effective tax rate follows:

	2011		2010		2009	
Statutory federal income tax rate	35.0	%	35.0	%	35.0	%
State and local income taxes	1.7		15.3		4.7	
Change in cash surrender value	5.0		(12.5)	)	2.2	
Meals and entertainment	4.9		12.3		(0.7))
Change in unrecognized tax benefits	(9.8)	)	14.0		-	
Adjustment to prior year tax accruals	1.4		20.8		(0.3))
Foreign statutory rate differential	(2.3)	)	(0.4)	)	(0.4))
Rate adjustment to deferred taxes	17.5		-		-	
Deficiencies on equity awards	3.6		6.9		(0.7))
Valuation allowance	2,238.6		(19.8))	-	
Permanent and other items	(1.6)	)	1.6		1.2	
Effective tax rate	2,294.0	%	73.2	%	41.0	%

The effective tax rate for 2011 was significantly impacted by an adjustment to establish a valuation allowance against substantially all of our net deferred tax assets except for \$21.0 million related to the pension liability. After evaluating all positive and negative evidence regarding the potential realization of our deferred tax assets, we concluded that a valuation allowance is necessary primarily based on cumulative losses in recent years and current year actuarial pension losses. Because of the cumulative losses in recent years, the Company is not relying on forecasts of future taxable income to realize any U.S. deferred tax assets.

Segment Operating Results

Management evaluates the results of its segments on the basis of operating income before restructuring and impairment, and excludes items listed in the reconciliation in Note 17 – Segment Reporting of the Notes to Financial Statements. This non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States. A complete description of our reportable segments is included in Item 1, “Business.”

Components of Segment Operating Income

Production costs of our manufacturing and supply chain shared-services functions are accumulated on a customer basis and reported in the applicable business unit's cost of sales. Our business units incur a portion of selling, general and administrative expense directly. Each business unit also receives an allocation of SG&A expense as follows:

Each business unit has its own sales regions. Selling expense incurred by each sales region is allocated to other business units based on the percentage of revenue generated for the other business unit. We use an activity-based method to allocate expense associated with our client satisfaction function to business units.

Finance, technology, and other corporate general and administrative expenses are allocated based on the business unit's budgeted revenue as a percentage of actual consolidated revenue.

General and administrative expense of our remaining shared-services is allocated based on a percentage of actual revenue.

In 2011, we reclassified certain customers between our segments to better align them with the core markets served. Segment information for prior years has been revised from previously reported information to reflect the current presentation. In addition, we changed the allocation methodology for our finance, technology, and other corporate general and administrative expenses. Previously, these expenses were allocated based on the business unit's actual revenue as a percentage of actual consolidated revenue. Beginning in 2011, these expenses are now allocated based on the business unit's budgeted revenue as a percentage of budgeted consolidated revenue.

Variability in the segment's actual revenue or the level of selling or corporate SG&A expense to allocate can have a significant impact on segment profitability.

Segment Operating Results

The following table presents Revenue, Gross Margin, and Operating Income (Loss) by segment for 2011, 2010, and 2009. A discussion of each segment's results follows.

	2011	% Chg	2010	% Chg	2009		
Revenue							
Healthcare	\$236.8	-6	% \$251.0	-6	% \$265.8		
Financial Services	174.1	-1	% 175.7	-9	% 193.2		
Commercial Markets	159.4	-7	% 170.6	-3	% 175.4		
Industrial	77.8	9	% 71.1	19	% 59.6		
Consolidated Revenue	\$648.1	-3	% \$668.4	-4	% \$694.0		
		% Rev		% Rev		% Rev	
Gross Margin							
Healthcare	\$83.1	35.1	% \$91.9	36.6	% \$96.5	36.3	%
Financial Services	50.5	29.0	% 52.2	29.7	% 56.2	29.1	%
Commercial Markets	41.8	26.2	% 44.2	25.9	% 46.9	26.7	%
Industrial	22.8	29.3	% 21.5	30.2	% 16.1	27.0	%
Total Segments	\$198.2	30.6	% \$209.8	31.4	% \$215.7	31.1	%
Operating Income (Loss)							
Healthcare	\$14.5	6.1	% \$19.6	7.8	% \$22.6	8.5	%
Financial Services	7.3	4.2	% 7.4	4.2	% 7.9	4.1	%
Commercial Markets	(3.9)	) -2.4	% (3.3)	) -1.9	% (2.6)	) -1.5	%
Industrial	0.1	0.1	% (0.5)	) -0.7	% (2.7)	) -4.5	%
Total Segments (1)	\$18.0	2.8	% \$23.2	3.5	% \$25.2	3.6	%

(1) A reconciliation of operating income per segment to consolidated income from operations is provided in Note 17-Segment Reporting of the Notes to Financial Statements.

Healthcare

Our Healthcare segment serves hospitals and other providers of healthcare and related services. This market is undergoing fundamental change as advancing technologies and the focus on patient safety and cost efficiencies are transforming how patient information is obtained and maintained throughout the patient care process. These factors, combined with legislative actions in the U.S., are leading to a shift from printed patient documents and records to electronic medical records, steadily reducing demand for most legacy print products while increasing demands for digital document solutions and safety products. In 2011, we continued to see the effects of these factors, with declines

in legacy print products accelerating as the year progressed.

Since reorganizing around our markets in 2009, we have continued to build on our extensive expertise in healthcare and address the needs of our customers in this changing market by focusing on solutions that ease the transition to electronic medical records, enhance patient care and safety, and reduce overall costs. We have also taken efforts to increase our market share by extending existing solutions to current customers, securing additional GPO agreements, and creating strategic partnerships.

In 2011, we acquired 100% of the ownership interest in Dialog Medical. Dialog Medical provides solutions for managing the patient informed consent process. We believe this acquisition strengthens and broadens our leadership in the healthcare market, compliments our portfolio of solutions, and enhances our ability to continue to advance our core growth products in the healthcare market.

The following table details the estimated changes in revenue and cost of sales for 2011 and 2010. Changes in product mix did not materially contribute to the changes in either revenue or cost of sales.

	Revenue Change		Cost of Sales Change	
	2011	2010	2011	2010
Units	-7%	-5%	-5%	-4%
Price	-	-1%	-	-2%
Acquisition	1%	-	1%	-
	-6%	-6%	-4%	-6%

Revenue

During 2011 and 2010, units increased as we continued efforts to retain and expand our customer base by pursuing new opportunities provided by the Novation contract secured late in 2009 and by expanding sales in core solutions. However, these increases were more than offset by declines in our administrative and clinical forms due to adoption of digital technologies and lower-than-expected rates of expansion in label and wristband products. Additionally, 2% of the unit decline in 2010 related to the additional week in 2009.

The decrease in pricing in 2010 was primarily the result of an increase in discounts related to new customers acquired as a result of new GPO agreements, as well as other new customers.

The following table provides further insight into the changes in revenue by major categories.

	2011	% Chg	2010	% Chg	2009
Print	\$ 152.5	-8 %	\$ 165.6	-6 %	\$ 176.4
Labels	31.6	1 %	31.4	-8 %	34.3
Software	5.6	47 %	3.8	124 %	1.7
Services	29.7	-5 %	31.3	-5 %	33.0
Other	17.4	-8 %	18.9	-7 %	20.4
	\$ 236.8	-6 %	\$ 251.0	-6 %	\$ 265.8
Core	37%		34%		31%
Legacy	63%		66%		69%

We continued executing our go-to-market strategy by acquiring new customers and expanding our offerings to existing customers in 2011 and 2010. These efforts produced positive results as print revenue in core communication solutions increased \$2.6 million in 2011 and \$3.1 million in 2010. However, overall revenue in legacy print products, primarily administrative and clinical forms, declined \$15.6 million in 2011 and \$14.0 million in 2010, which more than offset these gains. These declines were driven by the continued adoption of digital technologies and are expected to continue at accelerated rates in future periods.

Labels revenue increased slightly in 2011 as we began to see the effects of our focus on developing and expanding core patient identification solutions. Declines in labels in 2010 resulted from decreases in legacy labels and lower

than expected rates of expansion in core labels and wristbands, due in part to limitations under our GPO agreements.

Services declined in 2011 and 2010 due to declines in legacy print products and the associated services with these products, primarily storage and freight.

Although currently only 2% of total revenue, software sales have increased in 2011 and 2010 as we continue to expand our core solutions in this area. Revenue from our recent acquisition of Dialog Medical accounted for an increase of approximately \$2.2 million.

Cost of sales

Cost of sales decreased in 2011 and 2010 primarily due to units from lower sales volume. Material prices increased approximately 1% in 2011 and 2010; however, lower production expenses realized from our cost reduction initiatives offset these costs.

Operating income

Operating income was down \$5.1 million in 2011 compared with 2010 due to lower gross margin on lower sales volume. The decline was partially offset by lower compensation-related selling expenses and lower allocated SG&A expenses.

Operating income was down \$3.0 million in 2010 compared with 2009. The decline resulted from lower sales volume and higher SG&A costs. Compensation-related selling expenses declined substantially in 2010 from sales optimization initiatives implemented as a result of our structured cost improvement processes. However, these savings were offset by planned investments in technology sales and product management costs.

Financial Services

Our Financial Services segment operates in a market where advancing technologies and changing regulatory requirements continue to transform the products and services desired by our customers. The unstable economic conditions in 2009 and 2010 particularly impacted financial services customers leading to consolidations within the industry, intense customer focus on cost reductions, and highly competitive conditions. These factors also led to an increase in the adoption of digital technologies further impacting demand and prices for traditional print products.

During 2010 and 2011, we utilized our extensive experience to continue to develop our product portfolio and address the changing needs of this market. We expanded sales to existing customers in marketing solutions and also began to expand our customer base. Although the economy in general improved in 2010 and 2011, economic conditions within this market still remain weak. Combined with cost pressures related to regulatory compliance requirements, financial services institutions continue to struggle which continues to impact this segment.

The following table details the estimated changes in revenue and cost of sales for 2011 and 2010.

	Revenue Change		Cost of Sales Change					
	2011	2010	2011	2010				
Units	-1	%	-9	%	-1	%	-8	%
Price	-		-		1	%	-4	%
Mix	-		-		-		2	%
	-1	%	-9	%	-		-10	%

Revenue

We saw positive effects from our go-to-market strategy in 2011 and 2010 as we increased our customer base slightly and expanded sales to existing customers. However, we continued to see the effects of weak economic conditions and technology erosion which offset these gains and resulted in unit declines, particularly in 2010. In 2010, unit declines were further impacted by the significant erosion in volume with a few customers that occurred during 2009. The lack of an extra week in 2010 as compared with 2009 also resulted in a 1% decline in units.

Recently, one of our significant customers announced a major restructuring. We do not know the exact impact this may have on the segment's financial results; however, we anticipate lower revenue of approximately \$15-18 million from this customer in 2012.

The following table provides further insight into the changes in revenue by major categories.

	2011	% Chg	2010	% Chg	2009
Print	\$ 125.7	-1 %	\$ 126.4	-10 %	\$ 141.1
Labels	1.7	6 %	1.6	33 %	1.2
Software	3.1	-42 %	5.3	26 %	4.2
Services	31.2	-4 %	32.6	-10 %	36.4
Other	12.4	27 %	9.8	-5 %	10.3
	\$ 174.1	-1 %	\$ 175.7	-9 %	\$ 193.2
Core	34%		30%		24%
Legacy	66%		70%		76%

Expansion of sales to existing customers and acquisition of new customers contributed to increases in our core print solutions in 2011 and 2010. Marketing solutions increased approximately \$2.2 million in 2011 and \$6.5 million in 2010. Critical communication solutions also increased \$3.0 million in 2011. However, these gains were outpaced by declines in legacy print of approximately \$5.7 million in 2011 and \$17.1 million in 2010.

Cost of sales

In 2011, costs declined due to units as a result of lower sales volume. This decline was offset by an increase in price, driven by higher material costs and initial costs associated with newly-acquired customers. These increases offset continued improvements in cost of sales from previously implemented cost reduction initiatives. As a result, the gross margin percentages declined slightly as compared to 2010.

In 2010, cost of sales declined primarily due to units on lower sales volume. The decrease attributable to price was primarily driven by our internal cost reduction initiatives and restructuring plans. These reductions were partially offset by increased costs related to product mix resulting from our go-to-market strategy for marketing solutions. Some of these solutions are lower-margin products that are primarily outsourced at a higher cost than internally-produced products. As a result, the gross margin percentage in 2010 improved only slightly as compared with 2009.

Operating income

Operating income in 2011 was consistent with 2010. The decline in gross margin as a result of lower volume was offset by lower allocated SG&A expenses.

Operating income decreased by \$0.5 million in 2010 compared with 2009, due primarily to planned increases in selling and administrative expenses related to business development activities and improvements in our infrastructure during the first half of 2010. Increased costs were offset somewhat by lower commissions on reduced revenue and cost savings realized from our cost reduction initiatives taken in 2008 and 2009.

Commercial Markets

Our Commercial Markets segment also operates in a market being affected by digital advances. Customer adoption of digital technologies has reduced demand in traditional print products creating excess capacity and increased price competition, while at the same time creating new opportunities for print-on-demand and digital-based products. Additionally, products sold in this segment are heavily weighted toward customer spending on transactional documents, training, advertising, and payroll services. Therefore, a strong correlation exists between the demand for

most of our products and the economic conditions within the market and unemployment rates. A slow economic recovery and high unemployment rates continue to have a negative impact on our customers. Reduced demand has resulted in consolidations and divestitures as a means to control costs and create efficiencies.

During 2011 and 2010, economic conditions slowly improved, and we continued to focus on our customers' needs and the development of new solutions. We extended solutions to existing customers and acquired new customers. However, intense price competition and continued technological erosion in our traditional print products led to revenue declines.

The following table details the estimated changes in revenue and cost of sales for 2011 and 2010.

	Revenue Change		Cost of Sales Change	
	2011	2010	2011	2010
Units	-8 %	1 %	-7 %	-1 %
Price	1 %	-4 %	1 %	-5 %
Mix	-	-	-1 %	4 %
	-7 %	-3 %	-7 %	-2 %

Revenue

Revenue declined in 2011 primarily due to lower units. Non-repeat orders in marketing solutions, lost revenues from a few large customers, and reduced demand for legacy products drove the declines. Increases in revenue due to price resulted primarily from the pass-through of material cost increases.

In 2010, units increased primarily as a result of improved economic conditions and a small expansion in our customer base. However, this increase was offset by price declines. Intense competition within the industry resulted in higher discounts on new business, as well as with existing customers.

The following table provides further insight into the changes in revenue by major categories.

	2011	% Chg	2010	% Chg	2009
Print	\$ 90.3	-7 %	\$ 97.3	1 %	\$ 96.1
Labels	27.4	-5 %	28.8	-15 %	33.7
Software	1.1	10 %	1.0	-58 %	2.4
Services	21.6	-11 %	24.4	2 %	24.0
Other	19.0	-1 %	19.1	-1 %	19.2
	\$ 159.4	-7 %	\$ 170.6	-3 %	\$ 175.4
Core	30%		30%		24%
Legacy	70%		70%		76%

Declines in legacy solutions negatively impacted print revenue in 2011 and 2010, accounting for declines of approximately \$4.9 million and \$6.7 million. Marketing solutions increased in 2010 approximately \$6.8 million but declined \$3.0 million in 2011.

Services declined in 2011 primarily due to declines in distribution services associated with unit declines in print products.

Cost of sales

In 2011, cost of sales decreased overall primarily driven by lower sales volume. We did experience some higher costs as a result of material cost increases during the year and increased production costs related to newly acquired customers and unabsorbed costs due to lower unit volume. However, changes in product mix from some lower margin legacy products to higher margin core growth products offset some of the higher costs.

In 2010, cost of sales decreased overall primarily driven by lower production costs of approximately 5% resulting from our workforce reductions and other cost reduction initiatives. These savings were offset by a shift in product

mix from some internally produced products to higher-cost outsourced products. Despite the reduction in cost of sales, the gross margin percentage declined in 2010 as compared with 2009, as pricing concessions in revenue outpaced the cost savings.

Operating income

The operating loss for 2011 was \$0.6 million higher compared with 2010 due to the decline in sales volume and unabsorbed SG&A costs. The operating loss for 2010 was \$0.7 million higher than 2009 due the decline in sales volume and increased administrative expenses related to planned investments in infrastructure in 2010.

Industrial

Our industrial segment has experienced growth as we continued to execute our go-to-market strategy and expand our in-mold product line. Our acquisition of selected assets of Fusion Graphics in 2010 and the development of new applications has supported these efforts.

Additional growth has been realized as economic conditions in the U.S. have slowly improved from the economic downturn in 2009. Primary customers for this segment are manufacturers of products directly affected by discretionary spending levels of consumers and products supporting the housing industry. As a result, as conditions improved, order levels for most of our products increased. Although manufacturing has continued to expand in the U.S. in 2011 and is expected to expand in 2012, some industrial segments that we focus on have continued to show slow growth or declines, especially HVAC, electrical distribution, and appliances.

The following table details the estimated changes in revenue and cost of sales for 2011 and 2010.

	Revenue Change		Cost of Sales Change	
	2011	2010	2011	2010
Units	6%	15%	6%	14%
Price	3%	4%	4%	-1%
Mix	-	-	-	1%
	9%	19%	10%	14%

Revenue

Revenue increased in 2011 and 2010 primarily due to units. Growth was driven by increased sales of core solutions, the acquisition of new customers, and expansion of sales to existing customers.

Units also increased, particularly in 2010, as economic conditions in manufacturing improved from the downturn in 2009. Due to slow economic growth and some declines experienced by our HVAC, electrical distribution, and appliance customers, revenue increases were lower in 2011 as compared to 2010.

Pricing increased in 2011 and 2010 primarily due to targeted efforts to improve profit margins and the pass-through of material price increases. We expect this trend to continue in 2012.

The following table provides further insight into the changes in revenue by major categories.

	2011	% Chg	2010	% Chg	2009
Print	\$ 19.7	8%	\$ 18.2	10%	\$ 16.6
Labels	47.9	12%	42.7	30%	32.9
Software	0.2	-33%	0.3	-	0.3
Services	6.9	1%	6.8	5%	6.5
Other	3.1	-	3.1	-6%	3.3
	\$ 77.8	9%	\$ 71.1	19%	\$ 59.6
Core	88%		86%		82%
Legacy	12%		14%		18%

Increases in print products in 2011 and 2010 were driven primarily by increases in marketing solutions and critical communications. These solutions increased approximately \$1.7 million in 2011 and \$1.6 million in 2010. The increases were partially offset by declines in legacy print products of \$0.3 million in 2011 and 2010. Marketing solutions and critical communications increased due to increased sales efforts around these core solutions as we implemented our go-to-market strategy.

Increases in labels in 2011 and 2010 were primarily driven by increased sales in printed production parts as a result of the acquisition of new customers and improved economic conditions. The rate of increase in 2011 was lower as economic growth in some of our primary industrial segments weakened as 2011 progressed. Sales of our in-mold labels continued to increase with the acquisition of new customers, although at lower than anticipated rates. Revenue from in-mold labels was \$2.8 million, \$1.7 million, and \$0.6 million in 2011, 2010, and 2009.

Cost of sales

The increase in cost of sales due to units in 2011 and 2010 was driven by higher sales volume. In 2011, costs also increased due to pricing as a result of higher material costs of approximately 2% and higher production costs of 2%. Higher production costs resulted from unabsorbed costs due to lower than anticipated volume in our in-mold product line and temporarily higher costs associated with certain customer accounts. Due to the increase in costs, the gross margin percentage declined approximately 1% in 2011 as compared with 2010.

In 2010, volume increases throughout the year improved cost absorption rates, particularly in our in-mold product line. We incurred higher material costs of approximately 2% resulting from supplier price increases during 2010. However, we successfully offset these increases with reduced production costs of approximately 3% resulting from our restructuring and cost reduction initiatives. Due to these cost improvements, the gross margin percentage increased from 27.0% in 2009 to 30.2% in 2010.

Operating income

Operating income improved from a loss of \$0.5 million in 2010 to income of \$0.1 million in 2011 as a result of higher sales volume and targeted cost reduction efforts.

Improvements in gross margin drove the increase in operating income in 2010. Although, higher administrative costs and increases in selling expenses during 2010 offset some of these gains. Administrative costs increased as part of planned investments in infrastructure and increased costs related to the acquisition of Fusion Graphics. Selling expenses increased due to planned investments in business development activities associated with implementing our go-to-market strategy and higher commissions due to the increase in revenue in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our discussion of liquidity and capital resources will include an analysis of our cash flows and capital structure. This discussion also presents financial measures that are considered non-GAAP. Because our credit facility is borrowed under a revolving credit agreement which currently permits us to borrow and repay at will up to a balance of \$100 million (subject to limitations related to receivables, inventories, and letters of credit), we take the measure of cash flow performance prior to borrowing or repayment of the credit facility. In effect, we evaluate cash flow as the change in net debt (credit facility less cash and cash equivalents).

Cash Flows

The major elements of the Statements of Cash Flows are summarized below:

CASH INFLOW (OUTFLOW)	2011	2010	2009
Net income plus non-cash items	\$32.5	\$44.3	\$50.3
Working capital	7.2	(0.3)	7.7)
Restructuring payments	(1.2)	(5.4)	(9.9)
Contributions to qualified pension plan	(25.0)	(24.0)	(20.6)
Other (1)	(0.2)	(2.8)	(8.3)
Net cash provided by operating activities	13.3	11.8	19.2
Capital expenditures	(14.1)	(8.4)	(8.8)
Acquisitions	(4.9)	(2.5)	-)
Proceeds from sale of property and equipment	1.8	0.4	0.6
Net cash used in investing activities	(17.2)	(10.5)	(8.2)
Net change in borrowings under credit facility	12.6	4.0	2.0
Principal payments on long-term debt	(1.7)	(1.5)	(0.2)
Dividends paid	(5.8)	(5.8)	(11.0)
Other	-	0.2	0.2
Net cash provided by (used in) financing activities	5.1	(3.1)	(9.0)
Net effect of exchange rate changes	(0.2)	(0.1)	0.1)
Net change in cash	\$1.0		