

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

New York Stock Exchange

Title of each class

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [] No [X]

The aggregate market value of all stock held by non-affiliates of the Registrant at July 3, 2011 was approximately \$40,695,170 based on a closing sales price of \$3.13 per share on July 3, 2011

At January 29, 2012, the number of shares outstanding of the issuer's classes of common stock is as follows:

Common stock, \$1.00 par value	25,219,325 shares
Class A stock, \$1.00 par value	4,725,000 shares

Part III incorporates information by reference from the Proxy Statement for Registrant's Annual Meeting of Shareholders to be held on April 26, 2012.

THE STANDARD REGISTER COMPANY
 FORM 10-K
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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

1

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 an