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CENVEO, INC  
Form 10-K/A  
June 27, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K/A  
AMENDMENT NO. 1  
ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

COMMISSION FILE NUMBER 1-12551

-----  
CENVEO, INC.  
(Exact name of Registrant as specified in its charter.)

COLORADO 84-1250533  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

ONE CANTERBURY GREEN  
201 BROAD STREET  
STAMFORD, CT 06901  
(Address of principal executive offices) (Zip Code)

203-595-3000  
(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
----- Common Stock, par value \$0.01 per share	----- The New York Stock Exchange

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

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

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

Indicate by check mark 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. / /

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer /X/ Accelerated filer / / Non-accelerated filer / /

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes / / No /X/

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$960,610,100 based on the closing sale price as reported on the New York Stock Exchange.

As of June 15, 2007 the registrant had 53,687,107 shares of common stock, par value \$0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part II (Item 5) and Part III of this form (Items 11, 12, 13 and 14, and part of Item 10) is incorporated by reference from the Registrant's Proxy Statement to be filed pursuant to Regulation 14A with respect to the Registrant's Annual Meeting of Shareholders to be held on or about May 3, 2007.

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CENVEO, INC.

FORM 10-K/A

AMENDMENT NO. 1

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Cenveo, Inc. ("Cenveo") hereby amends Item 8, Financial Statements and Supplementary Data and Item 15, Exhibits and Financial Statement Schedules, of its Annual Report on Form 10-K for the year ended December 31, 2006, which was originally filed by Cenveo with the SEC on February 27, 2007 (the "Original 10-K"), by including the separate audited Canadian GAAP financial statements of its significant equity investee as required under Rule 3-09 of Regulation S-X and a reconciliation of the investees net earnings to the equity income reflected in its consolidated financial statements.

EXPLANATORY NOTE

This Form 10-K/A is being filed in order to provide the audited Canadian GAAP financial statements of the Supremex Income Fund (the "Fund"), which qualified as a significant equity investee of Cenveo and a reconciliation of the Fund's audited Canadian GAAP net earnings for the nine-months ended December 31, 2006 to the \$6.2 million of equity income reflected in Cenveo's consolidated financial statements. The reconciliation is presented in Note 3 Discontinued

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Operations and the audited Canadian GAAP financial statements of the Fund are included in Exhibit 99.1. The audited Canadian GAAP financial statements of the Fund are being filed as an amendment to Cenveo's Annual Report on Form 10-K within six months of the Fund's fiscal year end, as permitted by Rule 3-09 of Regulation S-X.

Item 8 of the Original 10-K is amended to read in its entirety as follows:

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Cenveo, Inc.

We have audited the accompanying consolidated balance sheets of Cenveo, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule included in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cenveo, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1, 12 and 13 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statements of Financial Accounting Standards No. 123(R), "Share-Based Payment", and No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cenveo, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an

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unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Stamford, Connecticut  
 February 28, 2007  
 except for the fourth  
 paragraph of Note 3, as  
 to which the date is  
 June 26, 2007

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## CENVEO, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands, except par values)

	DECEMBER 31,	
	2006	2005
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 10,558	\$ 1,035
Accounts receivable, net.....	230,098	247,277
Inventories.....	92,406	108,704
Assets held for sale.....	51,966	--
Prepaid and other current assets.....	41,413	25,767
	-----	-----
Total current assets.....	426,441	382,783
Property, plant and equipment, net.....	251,103	317,606
Goodwill.....	258,136	311,146
Other intangible assets, net.....	31,985	23,961
Other assets, net.....	34,285	44,068
	-----	-----
Total assets.....	\$1,001,950	\$1,079,564
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Current maturities of long-term debt.....	\$ 7,513	\$ 2,791
Accounts payable.....	116,067	124,901
Accrued compensation and related liabilities.....	40,242	53,765
Other current liabilities.....	63,609	79,051
	-----	-----
Total current liabilities.....	227,431	260,508
Long-term debt.....	667,782	809,345
Deferred income taxes.....	4,356	10,045
Other liabilities.....	40,640	49,216
Commitments and contingencies		
Shareholders' equity (deficit):		
Preferred stock, \$0.01 par value; 25 shares authorized, none issued.....	--	--

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Common stock, \$0.01 par value; 100,000 shares authorized, 53,515 and 53,025 shares issued and outstanding as of December 31, 2006 and 2005, respectively.....	535	530
Paid-in capital.....	244,894	239,432
Retained deficit.....	(186,436)	(305,091)
Unearned compensation.....	--	(1,825)
Accumulated other comprehensive income.....	2,748	17,404
	-----	-----
Total shareholders' equity (deficit).....	61,741	(49,550)
	-----	-----
Total liabilities and shareholders' equity (deficit)....	\$1,001,950	\$1,079,564
	=====	=====

See notes to consolidated financial statements.

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CENVEO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)

	YEARS ENDED DECEMBER 31,		
	2006	2005	2004
	-----	-----	-----
Net sales.....	\$1,511,224	\$1,594,781	\$1,597,224
Cost of sales.....	1,208,500	1,319,950	1,313,224
Selling, general and administrative.....	189,476	218,740	236,224
Amortization of intangible assets.....	5,473	5,147	5,224
Restructuring, impairment and other charges.....	41,096	77,254	5,224
	-----	-----	-----
Operating income (loss).....	66,679	(26,310)	37,224
Loss on sale of non-strategic businesses.....	2,035	4,479	
Interest expense, net.....	60,980	73,821	73,224
Loss from the early extinguishment of debt.....	32,744	--	17,224
Other (income) expense, net.....	(78)	1,143	2,224
	-----	-----	-----
Loss from continuing operations before income taxes.....	(29,002)	(105,753)	(55,224)
Income tax (benefit) expense.....	(7,177)	42,348	(11,224)
	-----	-----	-----
Loss from continuing operations.....	(21,825)	(148,101)	(44,224)
Income from discontinued operations, net of taxes.....	140,480	13,049	25,224
	-----	-----	-----
Net income (loss).....	\$ 118,655	\$ (135,052)	\$ (19,224)
	=====	=====	=====
Income (loss) per share--basic and diluted:			
Continuing operations.....	\$ (0.41)	\$ (2.96)	\$ (0.41)
Discontinued operations.....	2.64	0.26	
	-----	-----	-----
Net income (loss).....	\$ 2.23	\$ (2.70)	\$ (0.41)
	=====	=====	=====

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Weighted average shares--basic and diluted..... 53,288 50,038 47

See notes to consolidated financial statements.

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CENVEO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	YEARS ENDED DECEMBER 31	
	2006	2005
Cash flows from operating activities:		
Net income (loss).....	\$ 118,655	\$ (135,052)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of discontinued operations, net of taxes.....	(127,438)	--
Income from discontinued operations, net of taxes.....	(13,042)	(13,049)
Depreciation.....	35,220	43,101
Amortization of other intangible assets.....	5,473	5,147
Amortization of deferred financing costs.....	1,728	3,603
Deferred income taxes.....	(10,881)	35,665
Non-cash restructuring, impairment and other charges, net.....	10,346	32,010
Loss on early extinguishment of debt.....	32,744	--
Loss on sale of non-strategic businesses.....	2,035	4,479
Provisions for bad debts.....	4,345	3,427
Provisions for inventory obsolescence.....	1,900	2,936
Deferred compensation provision.....	5,954	2,505
Loss (gain) on disposal of assets.....	379	(555)
Changes in operating assets and liabilities, excluding the effects of acquired businesses:		
Accounts receivable.....	(6,508)	341
Inventories.....	2,212	(139)
Accounts payable and accrued compensation and related liabilities.....	(15,905)	(59,386)
Other working capital changes.....	(23,790)	8,652
Other, net.....	(2,688)	2,312
Net cash provided by (used in) continuing operating activities.....	20,739	(64,003)
Net cash provided by discontinued operating activities.....	2,617	25,330
Cash flows from investing activities:		
Cost of business acquisitions, net of cash acquired...	(49,425)	(3,552)
Capital expenditures.....	(19,930)	(28,154)
Acquisition payments.....	(4,653)	(4,053)
Proceeds from divestitures, net.....	3,189	8,377
Proceeds from sale of property, plant and equipment...	11,475	3,796
Net cash used in investing activities of continuing operations.....	(59,344)	(23,586)
Proceeds from the sale of discontinued operations.....	211,529	--

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Proceeds from the sale of property, plant and equipment of discontinued operations.....	--	211
Capital expenditures for discontinued operations.....	(632)	(2,603)
	-----	-----
Net cash provided by (used in) investing activities of discontinued operations.....	210,897	(2,392)
	-----	-----
Net cash provided by (used in) investing activities.....	151,553	(25,978)
Cash flows from financing activities:		
Repayment of 9 5/8% senior notes.....	(339,502)	--
(Repayments) borrowings under senior secured revolving credit facility, net.....	(123,931)	45,490
Repayments of term loan.....	(813)	--
Repayments of other long-term debt.....	(13,095)	(3,123)
Payment of redemption premiums and expenses.....	(26,142)	--
Payment of debt issuance costs.....	(3,770)	--
Purchase and retirement of common stock and cancellation of RSUs.....	(1,786)	(187)
Proceeds from issuance of term loan.....	325,000	--
Borrowings under new revolving credit facility, net...	15,500	--
Proceeds from issuance of long-term debt.....	--	--
Proceeds from exercise of stock options.....	1,956	22,433
Proceeds from excess tax benefit from stock based compensation.....	1,168	--
	-----	-----
Net cash (used in) provided by financing activities.....	(165,415)	64,613
Effect of exchange rate changes on cash and cash equivalents of continuing operations.....	14	107
Effect of exchange rate changes on cash and cash equivalents of discontinued operations.....	15	170
	-----	-----
Net increase in cash and cash equivalents.....	9,523	239
Cash and cash equivalents at beginning of year.....	1,035	796
	-----	-----
Cash and cash equivalents at end of year.....	\$ 10,558	\$ 1,035
	=====	=====

See notes to consolidated financial statements.

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CENVEO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)  
(in thousands)

	COMMON STOCK	PAID-IN CAPITAL	RETAINED (DEFICIT)	DEFERRED COMPENSATION	CO IN
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2003.....	\$484	\$213,850	\$(150,331)	\$(1,714)	
Comprehensive income (loss):					
Net loss.....			(19,708)		

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Other comprehensive income (loss):			
Pension liability adjustment, net of tax			
benefit of \$1,186.....			
Currency translation adjustment.....			
Other comprehensive income.....			
Total comprehensive loss.....			
Issuance of restricted shares.....	3	1,004	(1,007)
Exercise of stock options.....		48	
Amortization of deferred compensation.....			718
	----	-----	-----
BALANCE AT DECEMBER 31, 2004.....	487	214,902	(170,039)
Comprehensive income (loss):			
Net loss.....			
Other comprehensive income (loss):			
Pension liability adjustment, net of tax			
benefit of \$743.....			
Currency translation adjustment.....			
Other comprehensive income.....			
Total comprehensive loss.....			
Cancellation of restricted shares.....	(4)	(1,993)	795
Issuance of restricted shares.....	5	4,030	(4,035)
Exercise of stock options.....	42	22,391	
Purchase and retirement of common stock.....		(187)	
Amortization of deferred compensation and			
restricted stock units.....		289	3,418
	----	-----	-----
BALANCE AT DECEMBER 31, 2005.....	530	239,432	(305,091)
Comprehensive income (loss):			
Net income.....			
Other comprehensive income (loss):			
Pension liability adjustment, net of tax			
expense of \$429.....			
Unrealized loss on cash flow hedges.....			
Currency translation adjustment.....			
Reclassifications to earnings on sale of			
discontinued operations:			
Currency translation adjustment.....			
Other comprehensive loss.....			
Total comprehensive income.....			
Reversal of unamortized deferred compensation			
on adoption of SFAS 123(R).....		(1,825)	1,825
Exercise of stock options.....	5	1,951	
Purchase and retirement of common stock and			
cancellation of RSUs.....		(1,786)	
Amortization of stock based compensation.....		5,954	
Excess tax benefit from stock based			
compensation.....		1,168	
	----	-----	-----
BALANCE AT DECEMBER 31, 2006.....	\$535	\$244,894	\$(186,436)
	=====	=====	=====

See notes to consolidated financial statements.

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## CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION.** Cenveo, Inc. and subsidiaries (collectively, the "Company" or "Cenveo") are engaged in the printing and manufacturing of envelopes, business forms and labels and commercial printing. The Company is headquartered in Stamford, Connecticut, is organized under Colorado law, and its common stock is traded on the New York Stock Exchange under the symbol "CVO".

The Company's reporting periods for 2006, 2005 and 2004 in this report consist of 52, 52, and 53-week periods, respectively, ending on the Saturday closest to the last day of the calendar month and ended on December 30, 2006, December 31, 2005, and January 1, 2005, respectively. The accompanying consolidated financial statements are presented as ending on December 31, since the effect of reporting periods not ending on that date are not material.

The consolidated financial statements include the accounts of Cenveo, Inc. and its wholly-owned subsidiaries. All intercompany transactions have been eliminated. On March 31, 2006, the Company sold to Supremex Income Fund, a new open-ended trust formed under the laws of the Province of Quebec (the "Fund"), all of the shares of Supremex Inc. ("Supremex"), a Canadian subsidiary of the Company, and certain other assets of the envelopes, forms and labels segment. Beginning in the fourth quarter of 2006, the financial results of Supremex and the other assets sold have been accounted for as a discontinued operation resulting in the Company's historical consolidated statements of operations and statements of cash flows being reclassified to reflect such discontinued operations separately from continuing operations (Notes 3, 13, 15 and 20).

**USE OF ESTIMATES.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and assumptions are used for, but not limited to, establishing the allowance for doubtful accounts, inventory obsolescence, depreciation and amortization lives, asset impairment evaluations, tax assets and liabilities, self-insurance accruals and other contingencies. Actual results could differ from estimates.

**CASH AND CASH EQUIVALENTS.** Cash and cash equivalents include cash on deposit and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

**ACCOUNTS RECEIVABLE.** Accounts receivable are recorded at invoiced amounts. As of December 31, 2006 and 2005, accounts receivable were reduced by an allowance for doubtful accounts of \$4.8 million and \$5.2 million, respectively.

**INVENTORIES.** Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out or average cost basis. Cost

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includes materials, labor and overhead related to the purchase and production of inventories. As of December 31, 2006 and 2005, inventory was reduced by an allowance for obsolescence of \$4.9 million and \$5.9 million, respectively.

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment are stated at cost. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations. Expenditures for repairs and maintenance are charged to expense as incurred, and expenditures that increase the capacity, efficiency or useful lives of existing assets are capitalized.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is provided using the straight-line method based on the estimated useful lives of 15 to 45 years for buildings and building improvements, 10 to 15 years for machinery and equipment and three to 10 years for furniture and fixtures.

COMPUTER SOFTWARE. The Company develops and purchases software for internal use. Software development costs incurred during the application development stage are capitalized. Once the software has been installed and tested and is ready for use, additional costs incurred in connection with the software are expensed as incurred. Capitalized computer software costs are amortized over the estimated useful life of the software, usually between three and seven years. Net computer software costs included in property, plant and equipment were \$7.9 million and \$10.1 million as of December 31, 2006 and 2005, respectively.

DEBT ISSUANCE COSTS. Direct expenses such as legal, accounting and underwriting fees incurred to issue or extend debt, are included in other assets, net in the consolidated balance sheets. Debt issuance costs were \$8.4 million and \$13.0 million as of December 31, 2006 and 2005, respectively, net of accumulated amortization, and are amortized over the term of the related debt as interest expense. In June of 2006, the Company refinanced certain of its long-term debt and wrote off approximately \$6.6 million of debt issuance costs associated with the debt retired and capitalized \$3.8 million of costs related to the Company's new debt (Note 9). Interest expense includes \$1.7 million, \$3.6 million and \$4.6 million of debt issuance costs amortized in 2006, 2005 and 2004, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is reviewed annually in the fourth quarter to determine if there is impairment, or more frequently if an indication of possible impairment exists. No impairment charges for goodwill or other intangible assets were recorded in 2006, 2005 or 2004.

Other intangible assets primarily arise from the purchase price allocations of businesses acquired and are based on independent appraisals or internal estimates. Intangible assets with determinable lives are

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amortized on a straight-line basis over the estimated useful life assigned to these assets. Intangible assets that are expected to generate cash flows indefinitely are not amortized, but are evaluated for impairment similar to goodwill.

**LONG-LIVED ASSETS.** Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised if necessary.

**SELF-INSURANCE.** The Company is self-insured for the majority of its workers' compensation costs and group health insurance costs, subject to specific retention levels. The Company records its liability for workers' compensation claims on a fully-developed basis. The Company's liability for health insurance claims includes an estimate for claims incurred but not reported.

**REVENUE RECOGNITION.** The Company recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured.

Since a significant portion of the Company's products are customer specific, it is common for customers to inspect the quality of the product at the Company's facility prior to its shipment. Products shipped are not subject to contractual right of return provisions.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company has rebate agreements with certain customers. These rebates are recorded as reductions of sales and are accrued using sales data and rebate percentages specific to each customer agreement. Accrued customer rebates are included in other current liabilities in the consolidated balance sheets (Note 8).

**FREIGHT COSTS.** The costs of delivering finished goods to customers are recorded as freight costs and included in cost of sales. Freight costs that are included in the price of the product are included in net sales.

**ADVERTISING COSTS.** All advertising costs are expensed as incurred. Advertising costs were \$2.6 million, \$4.0 million and \$5.2 million in 2006, 2005 and 2004, respectively.

**FOREIGN CURRENCY TRANSLATION.** Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than the U.S. dollar are translated at year-end exchange rates. The effects of translation are included as a component of accumulated other comprehensive income in shareholders' equity (deficit) in the consolidated balance sheet.

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Income and expense items are translated at the average monthly rate. Foreign currency transaction gains and losses are recorded in income.

**STOCK-BASED COMPENSATION.** Effective January 1, 2006, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which revised SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). As a result, the Company now measures the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant rather than its intrinsic value, the method the Company previously used (Note 12).

**INCOME TAXES.** Deferred income taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying statutory tax rates in effect for the year during which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent it is more likely than not that the deferred tax assets will not be realized (Note 10).

In addition, the Company's policy is to establish tax contingency liabilities for potential tax issues. The tax contingency liabilities are based on our estimate of the probable amount of additional taxes that may be due in the future. Any additional taxes due would be determined only upon completion of current and future federal, state and international tax audits. At December 31, 2006 and 2005, the Company had \$12.6 million and \$9.5 million, respectively, of tax contingency liabilities included in other liabilities in the consolidated balance sheets.

**NEW ACCOUNTING PRONOUNCEMENTS.** Effective January 1, 2006, the Company adopted SFAS No. 154, Accounting Changes and Error Corrections, ("SFAS 154"). SFAS 154 replaces Accounting Principles Board Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual case when specific transition provisions are not provided by the accounting pronouncement. SFAS 154 requires retrospective application to prior periods' financial statements for a change in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Under SFAS 154, a change in the method of applying an accounting principle would also be considered a change in accounting principle. The adoption of SFAS 154 did not have any immediate effect on the Company's

### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

consolidated financial position or results of operations, except for the adoption of SFAS 123(R), which provides specific transition provisions.

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In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--An Amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158") (Note 13).

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) ("FIN 48"), which was effective for the Company on January 1, 2007. FIN 48 was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is currently evaluating the potential impact of this interpretation.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. SFAS 157 is effective for the Company beginning on January 1, 2008. The Company is currently evaluating the potential impact SFAS 157 will have on its consolidated financial statements.

### 2. ACQUISITIONS

Acquisitions are accounted for under the purchase method of accounting; accordingly, the assets and liabilities of the acquired businesses have been recorded at estimated fair value at the date acquired with the excess of the purchase price over the estimated fair value recorded as goodwill (Note 20).

On July 12, 2006, the Company completed the acquisition of all of the common stock of Rx Label Technology Corporation, with annual sales of approximately \$35 million. This new subsidiary of the Company operates under the name Rx Technology Corporation ("Rx Technology"). Rx Technology specializes in providing pharmacies with labels used to dispense prescription drugs to consumers. The aggregate purchase price paid for Rx Technology by the Company was approximately \$49.4 million, which included \$0.6 million of fees and expenses. The fair values of property, plant and equipment and other intangible assets were determined in accordance with independent appraisals. The Rx Technology acquisition has preliminarily resulted in \$29.1 million of goodwill, of which approximately \$8.9 million is deductible for income tax purposes. The other identifiable intangible assets determined by the independent appraisal were \$12.9 million of customer relationships which is being amortized over their estimated weighted average useful life of 19 years and \$0.6 million of patent technology which is being amortized over six years (Note 7). Rx Technology's operations are included within the Company's envelopes, forms and labels segment results.

In May 2005, the Company purchased the assets of Digidel, Inc., a provider of pre-press services to commercial printing companies in Philadelphia, Pennsylvania with annual sales of approximately \$3.0 million. The purchase price was \$4.6 million (\$3.6 million paid in 2005 and \$1.0 million paid in 2006) of which \$0.7 million was allocated to tangible net assets, \$0.3 million to intangible assets and \$3.6 million to goodwill. The Company consolidated this operation with its commercial printing plant in Philadelphia, Pennsylvania.

In July 2004, the Company purchased the stock of Valco Graphics Inc., a commercial printing company in Seattle, Washington with annual sales of approximately \$18.0 million. The purchase price was \$9.6 million with \$5.1 million allocated to tangible net assets and \$4.5 million allocated to goodwill.

CENVEO, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACQUISITIONS (CONTINUED)

Valco Graphics Inc. was consolidated with the Company's existing commercial printing plant in Seattle, Washington.

In August 2004, the Company purchased the assets of WWP Property Management, Inc., a commercial printing company in San Francisco, California with annual sales of approximately \$14.0 million. The purchase price was \$2.8 million (\$1.4 million paid in each of 2004 and 2005) with \$2.7 million allocated to tangible net assets and \$0.1 million allocated to goodwill. The Company has consolidated this operation with its existing commercial printing plant in San Francisco, California and is operating the combined entity as Cenveo, San Francisco.

The results of the acquired businesses have been included in the Company's consolidated results from their respective acquisition dates. Pro forma results for 2006 and 2005, assuming the acquisitions had been made at the beginning of the applicable period, have not been presented since they would not be materially different from the Company's reported results.

3. DISCONTINUED OPERATIONS

Supremex

On March 31, 2006, the Company sold to the Fund all of the shares of Supremex, which operated the Company's Canadian envelope operations, and certain other assets. At closing, the Company received cash proceeds of approximately \$119.4 million, net of transaction expenses and subject to the finalization of a working capital adjustment, and approximately 11.4 million units of the Fund (representing a 36.5% economic and voting interest in the Fund). The March 31, 2006 sale resulted in a pre-tax gain of approximately \$124.1 million in the first quarter of 2006, after the allocation of \$55.8 million of goodwill to the business as required by SFAS 142, Goodwill and Other Intangible Assets. In addition, after closing, in April 2006 the Company received approximately (1) \$71.4 million of proceeds relating to the March 31, 2006 sale and recorded a pre-tax gain of approximately \$1.4 million as a result of the Canadian dollar strengthening against the U.S. dollar, and (2) \$20.7 million from the sale of 2.5 million units in the Fund relating to an over-allotment option to the underwriters and recorded a pre-tax gain of approximately \$9.3 million, which reduced the Company's economic and voting interest in the Fund to 28.6%. The Company used a significant portion of the above proceeds received to repay amounts outstanding under its senior secured credit facility on March 31, 2006 and to repay another credit facility in April 2006.

In December 2006, the Company decided to sell its remaining units in the Fund prior to the end of the first quarter of 2007 and determined it would not have any significant influence over its investment after the planned sale (Note 20). Accordingly, the operating revenues and expenses of these assets through March 31, 2006 have been classified as discontinued operations under SFAS 144, Accounting for the Impairment or Disposal of

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Long-Lived Assets, for all periods presented, beginning in the fourth quarter of 2006. Discontinued operations also includes equity income of \$6.2 million before withholding taxes of \$0.9 million related to the Company's retained investment in the Fund after the March 31, 2006 sale through December 31, 2006. From April 2006 through December 2006, the Company received \$6.2 million of distributions from the Fund. As a result of the finalization of the working capital adjustment in December 2006, the Company recorded an additional pre-tax gain on the sale of \$3.5 million and a reduction to the gain on sale of \$2.7 million as a result of finalization of 2005 tax returns. As of December 31, 2006, the Company's investment in the Fund was \$46.2 million, which is classified in assets held for sale on the consolidated balance sheet.

In 2006, the operating results of the discontinued operations are for the period from January 1, 2006 to March 31, 2006, the date of the sale, and includes equity income from April 1, 2006 through

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 3. DISCONTINUED OPERATIONS (CONTINUED)

December 31, 2006. The following table summarizes certain statement of operations data for discontinued operations (in thousands):

	2006	2005	2004
Net sales.....	\$ 41,391	\$154,600	\$145,000
Operating income.....	8,838	34,208	35,000
Income tax expense.....	(1,373)	(19,948)	(11,000)
Gain on sale of discontinued operations, net of taxes of \$8,495 and \$770 in 2006 and 2004, respectively.....	127,438	--	1,000
Income from discontinued operations, net of tax.....	140,480	13,049	25,000

#### Reconciliation of net earnings of the Fund to equity income

The table below presents a reconciliation of the audited Canadian GAAP net earnings of the Fund for the nine months ended December 31, 2006 to the \$6.2 million of equity income before withholding taxes reflected in discontinued operations in the Company's consolidated financial statements (in thousands). The adjustments relate to the difference between the basis of the assets in the Fund's financial statements which were recorded at fair value at the inception of the Fund and the historical cost basis of the assets in Cenveo's consolidated financial statements.

Net earnings of the Fund in Canadian dollars.....	\$19,431
Adjustments to earnings of the Fund resulting from the reversal of fair value adjustments in Canadian dollars:	
Amortization of intangibles.....	4,232

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Increased cost of sales on inventory step-up.....	4,304
Decreased amortization of property, plant & equipment.....	(549)
Income tax effect of above adjustments.....	(2,492)
Income tax recovery from change in tax rates relating to assets revaluations.....	(489)
	-----
Net earnings of the Fund adjusted to reflect Cenveo's carrying value under U.S. GAAP.....	\$24,437
Equity income in Fund at 28.6% in Canadian dollars.....	\$ 6,989
Canadian/U.S. exchange rate.....	1.13147
Equity income in Fund in U.S. dollars.....	\$ 6,177

### Other

In June 2004, the Company collected \$2.0 million of an unsecured note receivable from the sale of its extrusion coating and laminating business segment of American Business Products, Inc. in 2000, which was fully reserved at the time of the sale. The proceeds of \$2.0 million, net of tax of \$0.8 million, are recorded as a gain on disposal of discontinued operations in 2004.

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### 4. OTHER DIVESTITURES

During 2006, the Company sold three small non-strategic commercial printing businesses in Somerville, Massachusetts, Bloomfield Hills, Michigan and Memphis, Tennessee for net proceeds of \$3.2 million and recorded losses on sale of non-strategic businesses of \$2.0 million.

During 2005, the Company sold six small non-strategic businesses, including a fine papers business in Ontario, Canada, a mailing supplies business in Dekalb, Illinois, printing operations in Riviera Beach, Florida, Jacksonville, Illinois and Osage Beach, Missouri and a jet printing operation in Vancouver, Canada for net proceeds of \$8.4 million and recorded losses on sale of non-strategic businesses of \$4.5 million.

The following table summarizes the net sales and operating income (loss) of the businesses that were sold for the years ended December 31, (in thousands):

	2006	2005	2004
	-----	-----	-----
Net sales.....	\$ 9,355	\$43,773	\$75,000
Operating income.....	(1,375)	345	(1,000)

The dispositions of these non-strategic businesses have not been accounted for as discontinued operations in the consolidated financial statements, because either the Company has continuing involvement with these entities, migration of cash flows to other Cenveo locations has occurred or the operations are not material.

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## CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. INVENTORIES

Inventories by major category are as follows (in thousands):

	DECEMBER 31	
	2006	2005
Raw materials.....	\$28,247	\$ 32,586
Work in process.....	21,638	28,115
Finished goods.....	42,521	48,003
	-----	-----
	\$92,406	\$108,704
	=====	=====

### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (Note 11) are as follows (in thousands):

	DECEMBER 31	
	2006	2005
Land and land improvements.....	\$ 13,562	\$ 18,460
Buildings and improvements.....	80,740	108,229
Machinery and equipment.....	437,910	500,535
Furniture and fixtures.....	10,771	11,579
Construction in progress.....	6,974	14,532
	-----	-----
	549,957	653,335
Accumulated depreciation.....	(298,854)	(335,729)
	-----	-----
	\$ 251,103	\$ 317,606
	=====	=====

### 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for 2006 and 2005 by reportable segment (Note 18) are as follows (in thousands):

	ENVELOPES, FORMS AND LABELS	COMMERCIAL PRINTING	\$
	-----	-----	
Balance as of December 31, 2004.....	\$217,465	\$91,473	\$

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Acquisitions.....	--	2,725
Dispositions.....	(1,127)	(1,260)
Foreign currency translation.....	1,700	170
	-----	-----
Balance as of December 31, 2005.....	\$218,038	\$93,108
Acquisitions.....	29,122	--
Dispositions.....	(55,739)	(747)
Reclassified to assets held for sale.....	(25,749)	--
Foreign currency translation.....	--	103
	-----	-----
Balance as of December 31, 2006.....	\$165,672	\$92,464
	=====	=====

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CENVEO, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Other intangible assets are as follows (in thousands):

	DECEMBER 31				
	2006		2005		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----	-----
INTANGIBLE ASSETS WITH DETERMINABLE LIVES:					
Customer relationship.....	\$29,906	\$ (13,001)	\$16,905	\$17,006	\$ (8,333)
Trademarks and tradenames.....	14,551	(2,487)	12,064	14,551	(2,093)
Patents.....	3,028	(1,218)	1,810	2,428	(1,000)
Non-compete agreements.....	1,640	(1,591)	49	2,415	(2,193)
Other.....	768	(331)	437	768	(293)
	-----	-----	-----	-----	-----
	49,893	(18,628)	31,265	37,168	(13,923)
INTANGIBLE ASSETS WITH INDEFINITE LIVES:					
Pollution credits.....	720	--	720	720	--
	-----	-----	-----	-----	-----
Total.....	\$50,613	\$ (18,628)	\$31,985	\$37,888	\$ (13,923)
	=====	=====	=====	=====	=====

As of December 31, 2006, the weighted average remaining amortization period for customer relationships was 13 years, trademarks and tradenames was 33 years, patents was seven years and other was 27 years.

Total pre-tax amortization expense for the five years ending December 31, 2011 is estimated to be as follows: \$5.8 million, \$1.4 million, \$1.4

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million, \$1.4 million and \$1.4 million, respectively.

### 8. OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in thousands):

	DECEMBER 31	
	2006	2005
Accrued customer rebates.....	\$19,135	\$18,639
Accrued taxes.....	11,282	9,542
Accrued interest.....	5,267	16,003
Restructuring liabilities.....	4,521	7,964
Other accrued liabilities.....	23,404	26,903
	-----	-----
	\$63,609	\$79,051
	=====	=====

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. LONG-TERM DEBT

Long-term debt is as follows (in thousands):

	DECEMBER 31	
	2006	2005
Term Loan, due 2013.....	\$324,188	\$ --
7 7/8% Senior Subordinated Notes, due 2013.....	320,000	320,000
9 5/8% Senior Notes, due 2012.....	10,498	350,000
Revolving Credit Facility, due 2012.....	15,500	--
Senior Secured Credit Facility.....	--	123,931
Other.....	5,109	18,205
	-----	-----
	675,295	812,136
Less current maturities.....	(7,513)	(2,791)
	-----	-----
Long-term debt.....	\$667,782	\$809,345
	=====	=====

On June 23, 2006, the Company completed a tender offer and consent solicitation (the "Tender Offer") for any and all of its 9 5/8% Senior Notes due 2012 and extinguished approximately \$339.5 million in aggregate principal amount (approximately 97% of the outstanding amount) that were tendered and accepted for purchase under the terms of the Tender Offer. The

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Company may redeem the remaining outstanding 9 5/8% Senior Notes, in whole or in part, on or after March 15, 2007, at redemption prices from 104.8% to 100%, plus accrued and unpaid interest.

On June 21, 2006, the Company entered into a credit agreement that provides for \$525 million of senior secured credit facilities with a syndicate of lenders (the "Credit Facilities"). The Credit Facilities consist of a \$200 million six-year revolving credit facility ("Revolving Credit Facility") and a \$325 million seven-year term loan facility ("Term Loan"). The Credit Facilities contain customary financial covenants, including maintenance of a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. Borrowing rates under the Credit Facilities are determined at the Company's option at the time of each borrowing and are based on the London Interbank Offered Rate ("LIBOR") or the prime rate publicly announced from time to time, in each case plus a specified interest rate margin (see "Interest rate swaps"). The Credit Facilities are secured by substantially all of the Company's assets. Proceeds from the Credit Facilities and other available cash were used to fund the Tender Offer, to retire the Company's existing Senior Secured Credit Facility due 2008 (which had no amounts outstanding), and for \$3.8 million of debt issuance costs, which are being amortized over the maturities of the Credit Facilities.

In connection with the debt refinancing in June 2006, the Company incurred a \$32.7 million loss on early extinguishment of debt related to the Tender Offer and the retirement of the Senior Secured Credit Facility, which consisted of Tender Offer premiums of \$25.2 million, the write-off of previously unamortized deferred financing costs of \$6.6 million and Tender Offer expenses of \$0.9 million.

In January 2004, the Company issued \$320 million of 7 7/8% senior subordinated notes due 2013 ("Senior Subordinated Notes"). The interest on these notes is payable semi-annually. The Company may redeem these notes, in whole or in part, on or after December 1, 2008, at redemption prices from 103.9% to 100%, plus accrued and unpaid interest. The net proceeds from the sale of the Senior Subordinated Notes were used to fund the tender offer and redemption of the Company's 8 3/4% senior subordinated note which were due to mature in 2008. The loss recorded on the early extinguishment of

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 9. LONG-TERM DEBT (CONTINUED)

the 8 3/4% senior subordinated notes consisted of redemption premiums of \$13.5 million and unamortized debt issuance costs of \$4.2 million. The debt issuance costs for the Senior Subordinated Notes of \$7.2 million are being amortized over the term of the notes.

The interest rate on other long-term debt was 8.6% and 8.1% at December 31, 2006 and 2005, respectively.

The aggregate annual maturities for long-term debt are as follows (in thousands):

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2007.....	\$ 7,513
2008.....	4,082
2009.....	4,158
2010.....	4,243
2011.....	4,176
Thereafter.....	651,123
	-----
	\$675,295
	=====

Cash interest payments on long-term debt were \$68.0 million in 2006, \$68.9 million in 2005 and \$67.4 million in 2004.

The estimated fair value of the Company's long-term debt was \$665.9 million and \$828.4 million at December 31, 2006 and 2005, respectively.

The Credit Facilities contain certain restrictions that, among other things and with certain exceptions, limit the ability of the Company to incur additional indebtedness, prepay subordinated debt, transfer assets outside of the Company, pay dividends or repurchase shares of common stock. The Company is also required to comply with maximum consolidated leverage ratio and minimum consolidated interest coverage ratio financial covenants pertaining to the Credit Facilities. As of December 31, 2006, the Company was in compliance with all debt agreements.

Interest rate swaps

During June 2006, the Company entered into interest rate swap agreements to hedge interest rate exposure for \$220 million notional amount of floating rate debt. This hedge of interest rate risk was designated and documented at inception as a cash flow hedge and is evaluated for effectiveness at least quarterly. Effectiveness of this hedge is calculated by comparing the fair value of the derivative to a hypothetical derivative that would be a perfect hedge of floating rate debt. There was no ineffectiveness from this hedge through December 31, 2006. At December 31, 2006, the Company has recorded a liability of \$2.8 million, which represents the decrease in the current fair value of floating rate cash inflows that are less than the fixed cash outflows over the remaining term of the hedges. The decrease of cash inflows largely reflects the decrease in LIBOR as of December 31, 2006, as compared to LIBOR at the time that the Company entered into the swap agreements. The liability is included in other liabilities and the offsetting amount is included in accumulated other comprehensive income in the consolidated balance sheet as of December 31, 2006. The accounting for gains and losses associated with changes in the fair value of cash flow hedges and the effect on the Company's consolidated financial statements will depend on whether the hedge is highly effective in achieving offsetting changes in fair value of cash flows of the liability hedged. As of December 31, 2006, the Company does not anticipate reclassifying any ineffectiveness into its results of operations for the next twelve months.

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### 9. LONG-TERM DEBT (CONTINUED)

#### Guarantees

In conjunction with the sale of the prime label business in 2002, the Company guarantees a lease obligation assumed by the buyer of this business. The guarantee requires the lessor to pursue collection and other remedies against the buyer before demanding payment from the Company. The remaining payments under the lease term, which expires in April 2008, are approximately \$3.5 million. If the Company were required to honor its obligation under the guarantee, any loss would be reduced by the amount generated from the liquidation of the equipment.

### 10. INCOME TAXES

Loss from continuing operations before income taxes for the years ended December 31, was as follows (in thousands):

	2006	2005	2004
	-----	-----	-----
Domestic.....	\$ (30,691)	\$ (105,403)	\$ (59,333)
Foreign.....	1,689	(350)	3,000
	-----	-----	-----
	\$ (29,002)	\$ (105,753)	\$ (56,333)
	=====	=====	=====

Income tax (benefit) expense on loss from continuing operations for the years ended December 31, consisted of the following (in thousands):

	2006	2005	2004
	-----	-----	-----
Current tax expense (benefit):			
Federal.....	\$ 3,082	\$ 5,839	\$ 1,000
Foreign.....	247	595	1,000
State.....	375	249	1,000
	-----	-----	-----
	3,704	6,683	1,000
Deferred (benefit) expense:			
Federal.....	(9,392)	31,853	(11,000)
Foreign.....	33	(239)	(1,000)
State.....	(1,522)	4,051	(1,000)
	-----	-----	-----
	(10,881)	35,665	(12,000)
	-----	-----	-----
Income tax (benefit) expense.....	\$ (7,177)	\$42,348	\$ (11,000)
	=====	=====	=====

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 10. INCOME TAXES (CONTINUED)

A reconciliation of the expected tax (benefit) based on the federal statutory tax rate to the Company's actual income tax (benefit) expense for the years ended December 31, is summarized as follows (in thousands):

	2006	2005	2004
	-----	-----	-----
Expected tax benefit at federal statutory income tax rate.....	\$ (10,150)	\$ (37,013)	\$ (19,000)
State and local income tax benefit.....	(1,015)	(3,701)	(1,000)
Change in valuation allowance.....	1,108	79,951	20,000
Change in contingency reserves.....	--	2,073	(6,000)
Utilization of foreign tax credits, net.....	--	(91)	(4,000)
Non-U.S. tax rate differences.....	(306)	524	(1,000)
Non-deductible expenses.....	868	709	--
Non-deductible investment expense.....	1,248	254	--
Expiration of net operating losses.....	565	516	--
Other.....	505	(874)	--
	-----	-----	-----
Income tax (benefit) expense.....	\$ (7,177)	\$ 42,348	\$ (11,000)
	=====	=====	=====

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 10. INCOME TAXES (CONTINUED)

Deferred taxes are recorded to give recognition to temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The tax effects of these temporary differences are recorded as deferred tax assets and deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that have been deducted for tax purposes, but have not yet been recorded in the consolidated statements of operations. Valuation allowances are recorded to reduce deferred tax assets when it is not more likely than not that a tax benefit will be realized. The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities of the Company at December 31, are as follows (in thousands):

	2006	2005
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 72,830	\$ 127,436
Capital loss carryforwards.....	--	20,950

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Compensation and benefit related accruals.....	15,986	19,580
Foreign tax credit carryforwards.....	16,662	16,662
Alternative minimum tax credit carryforwards.....	9,180	4,650
Accounts receivable.....	1,288	1,858
Restructuring accruals.....	4,769	4,896
Gain on discontinued operations.....	13,879	--
Other.....	7,996	4,185
Valuation allowance.....	(54,482)	(113,854)
	-----	-----
Total deferred tax assets.....	88,108	86,363
Deferred tax liabilities:		
Property, plant and equipment.....	(48,697)	(70,788)
Goodwill and other intangible assets.....	(26,954)	(20,641)
Inventory.....	(2,659)	(2,372)
Other.....	(2,425)	(2,607)
	-----	-----
Total deferred tax liabilities.....	(80,735)	(96,408)
	-----	-----
Net deferred tax asset (liability).....	\$ 7,373	\$ (10,045)
	=====	=====

The net deferred tax asset (liability) as of December 31, includes the following (in thousands):

	2006	2005
	-----	-----
Current deferred tax asset (included in other current assets).....	\$ 4,070	\$ --
Long-term deferred tax asset (included in other assets, net).....	7,659	--
Long-term deferred tax liability.....	(4,356)	(10,045)
	-----	-----
Total.....	\$ 7,373	\$ (10,045)
	=====	=====

The Company has federal and state net operating loss carryforwards. The tax effect of these attributes was \$72.8 million as of December 31, 2006. The Company utilized all of its capital loss carryforwards in 2006. Net operating loss carryforwards of \$189.2 million will expire in 2023 through

CENVEO, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAXES (CONTINUED)

2025, foreign tax credit carryforwards of \$16.7 million will expire in 2012 through 2015 and alternative minimum tax credit carryforwards of \$9.2 million do not have an expiration date.

The Company assesses the recoverability of its deferred tax assets and, to

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the extent recoverability does not satisfy the "more likely than not" recognition criteria under SFAS 109, records a valuation allowance against its deferred tax assets. The Company considered its recent operating results and anticipated 2007 taxable income in assessing the need for its valuation allowance. As a result, in the fourth quarter of 2006, the Company adjusted its valuation allowance to reflect the realizability of deferred tax assets. In 2006, the Company decreased its valuation allowance by approximately \$59.4 million, primarily as a result of utilizing its net operating loss carryforwards, principally against the gain on sale of Supremex and certain other assets, which is reflected in discontinued operations (Note 3).

During 2005, due to insufficient positive evidence substantiating recoverability, the Company increased its valuation allowance against its net U.S. deferred tax assets by \$87.1 million, which included \$7.1 million relating to the tax benefit from stock-based compensation. This resulted from management determining that it would no longer implement prior identified tax planning strategies.

During 2004, the Company increased its valuation allowance by \$20.3 million. This increase resulted from the Company's belief that it would not be able to realize certain U.S. deferred tax assets through the reversal of taxable temporary differences and the execution of available tax planning strategies given the net operating losses from its U.S. operations.

The remaining portion of the Company's valuation allowance as of December 31, 2006 will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that the remaining deferred tax assets will be realized. When sufficient positive evidence exists, the Company's income tax expense will be reduced by the decrease in its valuation allowance. An increase or reversal of the Company's valuation allowance could have a significant negative or positive impact on the Company's future earnings. Any reversal of the valuation allowance related to stock-based compensation will be reflected as paid-in capital and will not affect the Company's future effective income tax rate.

The Company establishes tax contingency liabilities for potential tax issues, which are based on estimates of whether it is probable additional taxes will be due in the future. As of December 31, 2006 and 2005, the Company had tax contingency liabilities of \$12.6 million and \$9.5 million, respectively, which were included in other liabilities on its consolidated balance sheets. During 2004, the Internal Revenue Service ("IRS") completed the examination of the Company's tax years 1996 through 2002. The outcome of the tax audit resulted in the issuance of a "no change" letter by the IRS. As a result, the Company determined that tax contingency liabilities reserves of \$6.4 million were no longer necessary and released these reserves in 2004.

Net cash payments for income taxes were \$2.7 million in 2006, \$1.5 million in 2005 and \$4.3 million in 2004.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES

##### 2006 ACTIVITY

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During 2006, the senior management team of Cenveo substantially completed the implementation of its cost savings programs that it initiated in September 2005, including the consolidation of the Company's purchasing activities and manufacturing platform, corporate and field human resources reductions, streamlining information technology infrastructure and eliminating all discretionary spending. As a result of these actions in 2006, the Company reduced headcount by approximately 900 employees, consolidated seven manufacturing facilities and closed three printing operations in 2006.

Restructuring and impairment charges in 2006 are as follows (in thousands):

	ENVELOPES, FORMS AND LABELS -----	COMMERCIAL PRINTING -----	CORPORATE -----
Employee separation costs.....	\$ 6,746	\$11,663	\$1,438
Asset impairments, net of gains on sale.....	2,697	935	--
Equipment moving expenses.....	4,972	1,398	--
Lease termination expense (income), net.....	2,187	2,104	(276)
Building clean-up and other expenses.....	1,734	5,460	38
	-----	-----	-----
Total restructuring and impairment charges.....	\$18,336 =====	\$21,560 =====	\$1,200 =====

ENVELOPES, FORMS AND LABELS. In 2006, the envelopes, forms and labels segment closed plants in Denver, Colorado, Chestertown, Maryland, Kankakee, Illinois, Phoenix, Arizona, Terre Haute, Indiana and Atlanta, Georgia and consolidated their activities into other plants and closed an office location. As a result of these activities, the segment recorded employee separation costs of \$4.9 million related to workforce reductions, impairment charges of \$1.8 million, net of the gain on sale of a facility of \$1.9 million, and equipment moving expenses of \$4.2 million for the redeployment of equipment. In addition, the segment recorded lease termination expenses of \$2.2 million, representing the net present value of costs that are not expected to be recovered over the remaining terms of three leased facilities no longer in use and building clean-up and other expenses of \$1.3 million.

The segment incurred impairment charges of \$0.9 million related to equipment taken out of service, equipment moving expenses of \$0.8 million for the redeployment of equipment, and building clean-up and other expenses of \$0.4 million related to locations closed in the fourth quarter of 2005.

The segment incurred employee separation costs of \$1.8 million related to workforce reductions at other locations relating to the Company's cost savings programs.

COMMERCIAL PRINTING. In 2006, the commercial printing segment closed plants in Denver, Colorado, Phoenix, Arizona, Cambridge, Maryland, Glen Burnie, Maryland and Fenton, Missouri. As a result of these activities, the segment recorded employee separation costs of \$4.2 million related to workforce reductions, asset impairment charges of \$1.8 million related to equipment taken out of service at these locations, net of the gain on sale of a facility of \$1.3 million, equipment moving expenses of \$1.1 million

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for the redeployment of equipment, lease termination expenses of \$2.1 million representing the net present value of costs that are not expected to be recovered over the remaining terms of three leased facilities no longer in use and building clean-up and other expenses of \$3.3 million.

The segment incurred employee separation costs of \$2.4 million related to workforce reductions, equipment moving expenses of \$0.3 million, building clean-up and other expenses of \$2.2 million, and a

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES (CONTINUED)

reduction of asset impairment charges of \$0.9 million, relating to changes in its estimate of assets to be taken out of service for three plants to be closed or downsized in the fourth quarter of 2005.

The segment incurred employee separation costs of \$5.1 million related to workforce reductions at other locations relating to the Company's cost savings initiatives.

CORPORATE. The Company incurred employee separation costs of \$1.4 million and recorded lease termination income of \$0.3 million resulting from adjusting its estimate of the net present value of the cost of the lease that is not expected to be recovered over its remaining life, upon subleasing its former corporate headquarters.

#### 2005 ACTIVITY

The following table and discussion present the details of the expenses recognized in 2005 as a result of new senior management's cost savings plan, as well as, restructuring expenses incurred as a result of programs initiated by the Company prior to September 2005. As a result of these actions in 2005, the Company reduced headcount by approximately 1,900 employees, consolidated three manufacturing facilities and closed three printing facilities. In addition, the Company incurred charges during 2005 related to a special meeting of shareholders and the changes made to the board of directors and management. These expenses are also included in the table and the discussion that follow:

Restructuring, impairment and other charges in 2005 were as follows (in thousands):

	ENVELOPES, FORMS AND LABELS	COMMERCIAL PRINTING	CORPORATE
	-----	-----	-----
Employee separation costs.....	\$ 6,487	\$ 9,348	\$10,572
Asset impairments.....	5,066	20,340	853
Equipment moving expenses.....	338	454	--
Lease termination expenses.....	41	1,586	4,124
Multi-employer pension withdrawal expenses...	541	409	--

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Building clean-up and other expenses.....	67	313	--
	-----	-----	-----
Total restructuring charges.....	12,540	32,450	15,549
Other charges.....	--	3,917	12,798
	-----	-----	-----
Total restructuring, impairment and other charges.....	\$12,540	\$36,367	\$28,347
	=====	=====	=====

ENVELOPES, FORMS AND LABELS. The envelopes, forms and labels segment closed plants in Philadelphia, Pennsylvania, Eugene, Oregon and Marshall, Texas. As a result of these plant closures, the segment recorded impairment charges of \$2.3 million for equipment taken out of service, employee separation costs of \$0.9 million, a pension withdrawal liability of \$0.5 million and equipment moving expenses of \$0.3 million to redeploy equipment.

For additional plant closures planned for 2006, the segment incurred \$0.1 million in employee separation costs, recorded impairment charges of \$2.8 million related to equipment at these plants that it expected to take out of service in 2006 and equipment moving expenses of \$0.1 million.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES (CONTINUED)

The segment incurred employee separation costs of \$5.5 million at other locations relating to the Company's cost savings programs.

COMMERCIAL PRINTING. The commercial printing segment completed the merger of its two plants in Seattle, Washington and its two plants in San Francisco, California. The cost to complete these mergers was \$0.3 million.

The segment closed two plants in Atlanta, Georgia and a plant in Waterbury, Connecticut and a small operation in Phoenix, Arizona. The segment recorded impairment charges of \$3.8 million for equipment taken out of service or sold for less than its carrying value. Employee separation costs incurred for these four plant closures were \$1.9 million. The cost incurred to redeploy equipment was \$0.4 million. In addition, during 2005, the segment ceased use of three leased buildings and recorded lease termination expenses of \$1.5 million.

For additional plant closures planned for 2006, the segment recorded impairment charges of \$12.5 million related to the equipment at the plants that it expected to take out of service or sell in 2006.

The segment also incurred withdrawal liabilities of \$0.4 million from several multi-employer pension plans in 2005.

The segment incurred employee separation costs of \$7.4 million at other locations relating to the Company's cost savings programs. In addition, new senior management terminated the implementation of a segment wide information system, for which a portion of the investment and other related information technology projects of \$3.9 million was written-off. Other

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charges recorded by the segment include the settlement of a legal matter and the cost of legal matters that were settled in 2006.

CORPORATE. In 2005, the Company made significant changes to its corporate management team and staff and moved its corporate headquarters from Denver, Colorado to Stamford, Connecticut. As a result, the Company incurred employee separation costs of \$10.6 million. In addition, in December 2005, the Company ceased use of office space in Denver and recorded a \$4.1 million charge representing the net present value of the cost of the lease that was not expected to be recovered over its remaining term and a \$0.9 million charge for the net book value of leasehold improvements and furniture and fixtures.

Other charges include the following:

- \* In April 2005, the Company engaged an investment banking firm as a financial advisor to assist the then current board of directors in its evaluation of the Company's strategic alternatives and incurred fees of \$3.2 million.
- \* Legal and other fees incurred in connection with the special meeting of shareholders of \$4.9 million.
- \* In January 2005, the Company's Chief Executive Officer resigned and the cost incurred as a result of this resignation was \$2.1 million.
- \* Under the Company's Long-Term Incentive Plan, the change in the board of directors in September 2005 constituted a change of control and accelerated the vesting of the restricted stock issued to certain executives. The compensation expense recognized by the Company as a result of the vesting of this restricted stock totaled \$2.6 million.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES (CONTINUED)

##### 2004 ACTIVITY

Restructuring and impairment charges in 2004 were as follows (in thousands):

	ENVELOPES, FORMS AND LABELS -----	COMMERCIAL PRINTING -----	CORPORATE -----
Employee separation costs.....	\$ 683	\$ 25	\$ --
Asset impairments (net of gain on sale).....	(360)	2,670	295
Equipment moving expenses.....	157	169	--
Lease termination expenses.....	--	130	954
Building clean-up and other expenses.....	684	--	--
	-----	-----	-----
Total restructuring and impairment			

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charges.....	\$1,164	\$2,994	\$1,249
	=====	=====	=====

ENVELOPES, FORMS AND LABELS. The envelopes, forms and labels segment closed its envelope plant in Bensalem, Pennsylvania. The cost of this plant closure was \$1.2 million and included employee separation costs of \$0.7 million, expenses incurred to relocate equipment of \$0.2 million, and building clean-up and other expenses of \$0.7 million. The net gain recognized on the sale of the plant building exceeded the impairment charge recorded for assets taken out of service by \$0.4 million.

COMMERCIAL PRINTING. The commercial printing segment merged its two plants in Seattle, Washington and its two plants in San Francisco, California. The cost of these plant consolidations totaled \$1.1 million and included impairment charges of \$0.8 million for equipment taken out of service and other expenses of \$0.3 million.

At the end of 2004, the segment made the decision to close a small printing operation in Phoenix, Arizona and recorded a \$1.4 million impairment charge for equipment taken out of service in 2005.

The segment incurred other equipment impairments of \$0.4 million recorded in 2004.

CORPORATE. The Company negotiated the termination of a lease on a building in New York City that had been used by an operation that was closed in 2002. The cost to terminate the lease and write-off the unamortized value of leasehold improvements was \$1.2 million.

A summary of the activity charged to the restructuring liabilities is as follows (in thousands):

	LEASE TERMINATION COSTS	EMPLOYEE SEPARATION COSTS	PENSION WITHDRAWAL LIABILITIES	OTHER
	-----	-----	-----	-----
Balance at December 31, 2004.....	\$ 1,079	\$ --	\$ --	\$ 14
Accruals.....	5,751	26,407	950	--
Payments.....	(763)	(22,673)	--	(4)
Reversal of unused accrual...	--	--	--	(10)
	-----	-----	-----	-----
Balance at December 31, 2005.....	6,067	3,734	950	--
Accruals, net.....	4,015	19,847	--	--
Payments.....	(4,541)	(22,154)	(308)	--
	-----	-----	-----	-----
Balance at December 31, 2006.....	\$ 5,541	\$ 1,427	\$ 642	\$ --
	=====	=====	=====	=====

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### 12. STOCK-BASED COMPENSATION

The Company's 2001 Long-Term Incentive Plan (the "Plan") provides for the grant of stock options, restricted shares and stock appreciation rights of the Company's common stock and restricted share units ("RSUs") based on the Company's common stock to certain officers, other key employees, non-employee directors and consultants.

The Company's outstanding nonvested stock options have maximum contractual terms of up to ten years, principally vest ratably over four years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company's outstanding restricted shares vest ratably over four years. The Company has no outstanding stock appreciation rights. The Company's outstanding restricted share units principally vest ratably over four years. Upon vesting, the restricted share units are convertible into shares of the Company's common stock.

Effective January 1, 2006, the Company adopted SFAS 123(R). As a result, the Company now measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, restricted stock and restricted share units, based on the fair value of the award at the date of grant rather than its intrinsic value, the method the Company previously used. The Company is using the modified prospective application method under SFAS 123(R) and has elected not to use the retrospective application method. Thus, amortization of the fair value of all nonvested grants as of January 1, 2006, as determined under the previous pro forma disclosure provisions of SFAS 123, except as adjusted for estimated forfeitures, is included in the Company's results of operations commencing January 1, 2006, and prior periods have not been restated. As required under SFAS 123(R), the Company has reversed the unearned compensation component of shareholders' equity (deficit) with an equal offsetting reduction of paid-in capital as of January 1, 2006 and is now increasing paid-in capital for share-based compensation costs recognized during the period. Additionally, effective with the adoption of SFAS 123(R), the Company recognizes share-based compensation expense net of estimated forfeitures, rather than as forfeitures occur as presented under the previous pro forma disclosure provisions of SFAS 123 subsequently set forth in this footnote. Employee stock compensation grants or grants modified, repurchased or cancelled on or after January 1, 2006 are valued in accordance with SFAS 123(R). Under SFAS 123(R), the Company has chosen (1) the Black-Scholes-Merton option pricing model (the "Black-Scholes Model") for purposes of determining the fair value of stock options granted commencing January 1, 2006 and (2) to continue recognizing compensation costs ratably over the requisite service period for each separately vesting portion of the award.

Total share-based compensation expense recognized in selling, general and administrative expenses in the Company's consolidated statements of operations was \$6.0 million, \$2.5 million and \$0.7 million in 2006, 2005 and 2004, respectively. Total share-based compensation expense recognized in restructuring, impairment and other charges in the Company's consolidated statements of operations was \$2.7 million in 2005.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's income from continuing operations before income taxes and net income in 2006 was \$3.3 million lower than if it had continued to account for share based compensation under Accounting Principles Board Opinion 25 ("APB 25"). Basic and diluted income per share in 2006 was \$0.06 lower than if the Company had to account for share-based compensation under APB 25. Net cash used in operating and financing activities in 2006 were the same as if the

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Company had continued to account for share-based compensation under APB 25.

As of December 31, 2006, there was approximately \$29.1 million of total unrecognized compensation cost related to nonvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 2.2 years.

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### CENVEO, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 12. STOCK-BASED COMPENSATION (CONTINUED)

##### Stock Options

A summary of the Company's outstanding stock options as of and for the year ended December 31, 2006 is as follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACT TERM (IN YEARS)
	-----	-----	-----
Outstanding at January 1, 2006.....	2,365,961	\$ 8.95	
Granted.....	1,570,000	20.55	
Exercised.....	(329,814)	6.03	
Forfeited.....	(279,367)	8.99	
	-----		
Outstanding at December 31, 2006.....	3,326,780	14.71	5.7
	=====		
Exercisable at December 31, 2006.....	549,280	9.32	5.4
	=====		