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CENVEO, INC
Form 10-K
February 28, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER 1-12551

CENVEO, INC.

(Exact name of Registrant as specified in its charter.)

COLORADO
(State or other jurisdiction of
incorporation or organization)

84-1250533
(I.R.S. Employer Identification Number)

8310 S. VALLEY HIGHWAY, #400
ENGLEWOOD, CO
(Address of principal executive offices)

80112
(Zip Code)

303-790-8023
(Registrant's telephone number, including area code)

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

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

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

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10-K or any amendment to this Form 10-K. / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes /X/ No / /

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of February 22, 2005 was \$87,220,338.

As of February 22, 2005 the Registrant had 48,711,979 shares of Common Stock, \$0.01 par value, 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 Stockholders to be held on or about April 27, 2005.

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TABLE OF CONTENTS

PART I

	PAGE

Item 1.	
Business.....	1
The Company.....	1
Commercial.....	1
Resale.....	1
Our Industries.....	1
Our Products.....	1
Our Services.....	2
Our Marketing, Distribution and Customers.....	3
Printing and Manufacturing.....	4
Raw Materials.....	4
Patents, Trademarks and Brand Names.....	4
Competition.....	5
Backlog.....	5
Employees.....	5
Environmental.....	5
Available Information.....	6
Item 2.	6
Item 3.	6
Item 4.	6
Submission of Matters to a Vote of Security Holders.....	6

PART II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	7
Item 6.	Selected Financial Data.....	8
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....	22
Item 8.	Financial Statements and Supplementary Data.....	23
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	57

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Item 9A.	Controls and Procedures.....	57
Item 9B.	Other Information.....	57

PART III

Item 10.	Directors and Executive Officers of Registrant.....	58
Item 11.	Executive Compensation.....	61
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	61
Item 13.	Certain Relationships and Related Transactions.....	61
Item 14.	Principal Accountant Fees and Services.....	62

PART IV

Item 15.	Exhibits and Financial Statement Schedules.....	62
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PART I

ITEM 1. BUSINESS

THE COMPANY

Cenveo is one of North America's largest providers of visual communication solutions delivered through print and electronic media. Our products include offset and digital printing, custom and stock envelopes, and business documents and labels. We also provide communications consulting, end-to-end project management and eServices. Our operational footprint spans North America with 84 production facilities and five fulfillment and distribution centers strategically located in or near major urban centers throughout North America.

COMMERCIAL

Our commercial business had sales of \$1.33 billion in 2004. This business segment operates 64 manufacturing facilities and specializes in the printing of annual reports, car brochures, brand marketing collateral, financial communications, general commercial printing and the manufacturing and printing of customized envelopes for billing and remittance and direct mail advertising. In addition, we operate five distribution and fulfillment centers and provide our customers with other value added services such as eCommerce.

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RESALE

Our resale business had sales of \$413 million in 2004. This business segment operates 20 manufacturing facilities and produces business forms and labels, custom and stock envelopes and specialty packaging and mailers generally sold to third-party dealers such as print distributors, forms suppliers and office-products retail chains.

Refer to Note 19 of our consolidated financial statements included elsewhere in this report for additional information concerning our operating and geographic segments.

OUR INDUSTRIES

The printing industry is one of the largest and most fragmented industries in the United States with total estimated sales of \$157 billion in 2003 generated by more than 44,500 companies, according to Printing Industries of America, Inc. The printing industry includes general commercial printing, financial and legal printing, greeting cards, labels and wrappers, magazines, newspapers, books, other specialty and quick printing and related services such as prepress and finishing. We estimate that the market in which we primarily compete has total annual sales of approximately \$49 billion serviced by over 20,000 printing businesses.

Envelope printing and manufacturing combined constitutes an estimated \$3.6 billion market in North America according to the Envelope Manufacturer's Association. Products in the envelope industry include customized envelopes for direct mail, transactional envelopes, non-custom envelopes for resale, and specialty envelopes and filing products.

Printed office products constitutes an estimated \$15 billion market, with the short-run indirect segment of the market in which we compete estimated at \$3.4 billion.

OUR PRODUCTS

Commercial Printing. We serve two primary commercial printing markets and the growing market for visual communications products and services other than print. Our general commercial printing markets are: (1) high end color printed materials, such as annual reports and car brochures, which are longer run premium products for major national and regional companies and (2) general commercial printing products such as advertising and promotional materials for local markets. Our printing products also include advertising literature, corporate identity materials, calendars, greeting cards, brand marketing materials, catalogs, maps, CD packaging and direct mail. We also offer our

1

customers services such as design, fulfillment, eCommerce, inventory management and other enterprise solutions for companies seeking strategic partners for their branding and other communications priorities.

Envelopes. We serve two primary markets: (1) customized envelopes and packaging products, including Tyvek(R) mailers used by the U.S. Postal Service, sold directly to end users or to independent distributors who sell to end users; and (2) envelopes and other products sold to wholesalers, paper merchants, printers, contract stationers, independent retailers and office products superstores. In the customized envelope market, we offer printed customized conventional envelopes for billing and remittance,

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direct mail marketers, catalog orders and other end users, such as banks, brokerage firms and credit card companies. In the wholesale envelope market, we manufacture and print a broad line of stock and custom envelopes that are featured in national catalogs for the office products market or offered through office products retailers and contract stationers.

Business Forms and Labels. We print a diverse line of custom products for small and mid-size businesses including both traditional and specialty forms and labels for use with desktop PCs and laser printers. Our printed office products include business documents, specialty documents produced through VersaSeal(R), Hi-Reply(TM) and Pro-card(TM) brands and short-run secondary labels, which are made of paper or film affixed with pressure sensitive adhesive and are used for mailing, messaging, bar coding and other applications. These products are generally sold through independent value-added resellers of office products.

OUR SERVICES

We offer our customers a wide variety of related services to enhance the value of our printed products and assist them in using digital technologies to improve the effectiveness of their visual communications. Among our services are:

Cenveo ColorScience(TM). Cenveo ColorScience is our remote customer proofing solution. It is the first supply chain end-to-end process control solution that measures and controls color quality throughout the printing process from digital file creation to printed output. ColorScience offers the digital delivery of a hardcopy contract proof at the customer's location.

Delivery Systems. We offer a flexible "just-in-time" delivery program which allows customers to receive their products just prior to when they are needed.

Digital Archiving. We offer customers the option to store digitally rendered artwork on our file servers. The artwork can then be accessed and retrieved at any time for use by any authorized design or production group via high speed transmission links.

Direct-to-Plate and Direct Imaging Technology. We have both direct-to-plate and direct imaging technologies, which eliminate labor and material costs in the prepress stage of a printing job. Both technologies support a completely digital workflow, providing a better printed product, faster turnaround and in the case of direct imaging, reduced inventory, capability to print on demand and lower distribution costs.

eCENergy(TM). eCENergy is the Cenveo web portal providing access to a suite of eSolutions designed to automate and streamline transactions with customers. Current applications include an online ordering and fulfillment system called eCatalog, soft and remote proofing and digital asset management.

Electronic Prepress. We offer fully automated electronic prepress services that allow the customer to submit artwork and other data in hardcopy or digitally either on disk, CD or via high speed transmission line. Hardcopy artwork is digitally scanned and mastered to create a file for use either in direct-to-plate or direct-to-press applications. We also provide traditional prepress services to customers who require graphics and artwork to be photographed, composed and incorporated into files for plate or direct-to-press applications.

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Enterprise Solutions. Large national organizations looking for integrated, managed supply chain solutions can avail themselves of flexible solutions that connect them to their internal departments and external customers and suppliers. We have the supply chain management processes, techniques, systems and resources to manage, produce and deliver their products from our facilities strategically located across the U.S.

Fulfillment. We have full-service fulfillment centers with on-line order assembly and bar coding strategically located throughout the U.S. Many of these centers have digital presses to reduce the costs of inventory and obsolescence.

Inventory Management Systems. Large national organizations with centralized purchasing and supply departments serving multiple locations use our inventory management services. Included in these services are reports on usage by inventory unit (SKU), available warehouse supply and summary billing.

Warehousing Services. For customers who prefer to outsource the management of their printed product, storage and distribution we have the expertise and capacity to store finished product and drop ship in bulk or ship on an "as needed" basis.

OUR MARKETING, DISTRIBUTION AND CUSTOMERS

Because of the highly fragmented nature of the general commercial printing and envelope businesses, and the diversity in customer needs and preferences, we market most of our general commercial printing and envelopes locally and regionally. Given the project-oriented nature of these markets, sales to particular customers may vary significantly from year to year depending upon the number and size of their communications plans. Our customer supply agreements are typically on an order-by-order basis or for a specified period of time. Our sales team is supported by a technical service team that provides customers with highly customized printing solutions. Most of our facilities have customer service representatives that work with the sales team and the customers to manage orders efficiently and effectively. In some cases, the customer service representatives have direct responsibility for accounts.

Our marketing efforts for commercial printing differ between two broad product areas: high impact color products, such as auto brochures, annual reports and high-end catalogs, and general commercial work. We market high impact printing primarily on a regional basis, through sales representatives working out of sales offices across the United States. We utilize a team approach to customer service relationships that we believe is unique in the printing industry.

We believe our commercial segment has one of the largest sales forces in the industry, with approximately 700 sales representatives as of December 31, 2004. Most of our commercial printing and envelope products are sold through sales representatives who work directly with customers from the initial concept through prepress, proofing, production and delivery. Because our sales representatives are our primary contacts with our customers, our goal is to attract, train and retain an experienced, qualified sales force in each of our businesses. Sales representatives typically are compensated by commission, which generally depends on order size and type, prepress work, reruns or rework and overall profitability of the job. For our growing list of enterprise customers we have account teams, some members of which are located on the customer's premises.

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Through our "Strategic Sales" initiative, we offer customers our full spectrum of products and services such as design, fulfillment, eCommerce and inventory management. Our Strategic Sales team is organized to focus on vertical markets including travel and leisure, health services, financial services and technology and to offer customers in these markets customized solutions to their visual communications needs.

In our resale segment, our products are marketed under "Quality Park". The resale segment sells most of its products through 5 major channels; independent solution providers, commercial printers, ad specialty dealers, quick printers and office products distributors. Our resale segment sells its products

3

primarily through catalogs, telemarketing and the Internet to over 22,000 value-added resellers who distribute our products to end users.

We coordinate sales efforts among geographic regions within our operating segments, and among the operating businesses themselves, in order to compete for national account business, enhance the internal dissemination of successful new product ideas, efficiently allocate our production equipment, share technical expertise and increase company-wide selling of specialty products manufactured at selected facilities.

Our direct customer base totals approximately 30,000. The customers of our commercial segment include Fortune 500 companies, graphic designers and advertising agencies, regional and local businesses, insurance and finance companies, government agencies and not-for-profit organizations. The customers of our resale segment total over 22,000 distributors and office products retail businesses as well as the U.S. Postal Service. None of our customers accounted for more than 5% of revenue in 2004.

PRINTING AND MANUFACTURING

Our commercial segment operates 64 manufacturing facilities throughout the United States and Canada. Our 36 commercial printing plants combine advanced prepress technology with high-quality web and sheet-fed lithographic presses, digital presses and extensive binding and finishing operations. Our 28 envelope plants produce envelopes from either flat sheets which are die-cut into pre-shaped blanks or rolls of paper which are run on our web machines. The paper is folded into an envelope and is glued at the seams and on the flap. Flat sheets are often printed before the envelope is produced. Printing can also occur during the folding process or after the envelope is produced. Web machines are typically used for larger runs with multiple colors and numerous features. Die cut machines, which require a preliminary step to provide die cut envelope blanks from paper sheets, are used primarily for smaller orders typically including customized value-added features. The manufacturing process used is dependent upon the size of a particular order, custom features required, machine availability and delivery requirements. Some of our commercial facilities operate seven days a week, 24 hours a day to meet customer requirements.

In our resale segment, we operate 20 facilities in the United States. We design and print business forms and labels and envelopes for a wide range of businesses. A majority of the orders for these products are sent to us electronically. We perform prepress and plate making functions and print on proprietary presses. Six of our resale facilities manufacture stock envelopes that are sold to paper merchants and office products retail

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chains.

RAW MATERIALS

The primary materials used in each of our businesses are paper, ink, film, offset plates, chemicals and cartons, with paper accounting for the majority of total material costs. We purchase these materials from a number of suppliers and have not experienced any significant difficulties in obtaining the raw materials necessary for our operations. We have implemented an inventory management system in which a limited number of paper suppliers provide all of our paper needs. These suppliers are responsible for delivering paper on a "just-in-time" basis directly to our facilities. We believe that this system has allowed us to enhance the flexibility and speed with which we can serve customers, improve pricing on paper purchases, eliminate a significant amount of paper inventory and reduce costs by reducing warehousing capacity. We believe that we purchase our materials and supplies at competitive prices due to our volume leverage.

PATENTS, TRADEMARKS AND BRAND NAMES

We market products under a number of trademarks and brand names. We also hold or have rights to use various patents relating to our businesses, which expire at various times through 2012. Our sales do not materially depend upon any single or group of related patents.

4

COMPETITION

Commercial printing is highly competitive and fragmented. We compete against a diminishing number of large, diversified and financially strong printing companies, as well as regional and local commercial printers, many of which are capable of competing with us in both volume and production quality. Although there are a significant number of buyers who are price sensitive, we also believe that customer service and high quality products are important competitive factors, especially to companies seeking enterprise solutions and high impact color products. We believe we provide premium quality and superior customer service while maintaining competitive prices through stringent cost control efforts. The main competitive factors in our markets are customer service, product quality, reliability, flexibility, technical capability and price. We believe we compete effectively in each of these areas.

In selling our envelope products, we compete with a few multi-plant and many single-plant companies that primarily service regional and local markets. We also face competition from alternative sources of communication and information transfer such as electronic mail, the Internet, interactive videodisks, interactive television, electronic retailing and facsimile machines. Although these sources of communication and advertising may eliminate some domestic envelope sales in the future, we believe that we will experience continued demand for envelope products due to (1) the ability of our customers to obtain a relatively low-cost information delivery vehicle that may be customized with text, color, graphics and action devices to achieve the desired presentation effect, (2) the ability of our direct mail customers to penetrate desired markets as a result of the widespread delivery of mail to residences and businesses through the U.S. Postal Service and the Canada Post Corporation and (3) the ability of our direct mail customers to include return materials in their mail-outs. Principal competitive factors in the envelope business are quality, service

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and price. Although all three are equally important, various customers may emphasize one or more over the others. We believe we compete effectively in each of these areas.

In selling our printed business forms and labels products, we compete with other document and labels print facilities with nationwide manufacturing locations and regional and local printers, which typically sell within a 100- to 300-mile radius of their plants. We compete mainly on quick turn customization of products and unparalleled service levels.

BACKLOG

At December 31, 2004 and 2003, the backlog of customer orders to be produced or shipped in the next 120 days was approximately \$127.0 million and \$113.0 million, respectively.

EMPLOYEES

We employed approximately 10,000 people as of December 31, 2004, and approximately 1,800 of our employees at the various facilities are represented by unions affiliated with the AFL-CIO or Affiliated National Federation of Independent Unions. Collective bargaining agreements, each of which cover the workers at a particular facility, expire from time to time and are negotiated separately. Accordingly, we believe that no single collective bargaining agreement is material to our operations as a whole.

We are committed to employee development and increased organizational effectiveness. We operate Cenveo University, our in-house training program, which provides courses in process improvement, quality control, supervisory and management skills and increasing employee empowerment. Complementing our in-house initiatives, Cenveo contracts leading industry experts to provide skill-building courses to our sales representatives and managers.

ENVIRONMENTAL

Our operations are subject to federal, state and local environmental laws and regulations including those relating to air emissions, waste generation, handling, management and disposal, and remediation of contaminated sites. We have implemented environmental programs designed to ensure that we

5

operate in compliance with the applicable laws and regulations governing environmental protection. Our policy is that management at all levels be aware of the environmental impact of operations and direct such operations in compliance with applicable standards. We believe that we are in substantial compliance with applicable laws and regulations relating to environmental protection. We do not anticipate that material capital expenditures will be required to achieve or maintain compliance with environmental laws and regulations. However, there can be no assurance that newly discovered conditions or new or stricter interpretations of existing laws and regulations will not result in material expenses.

AVAILABLE INFORMATION

Our Internet address is: www.cenveo.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13 (a) or 15 (d) of the Exchange Act as

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soon as reasonably practicable after such documents are filed electronically with the Securities and Exchange Commission. In addition, our earnings conference calls are archived for replay on our website and presentations to securities analysts are also included on our website.

ITEM 2. PROPERTIES

We occupy 84 printing and manufacturing facilities in the United States and Canada and five print fulfillment and distribution centers, of which 36 are owned and 53 are leased. In addition to on-site storage at these facilities, we store products in 19 warehouses, of which four are owned, and we lease 21 sales offices. We also lease 47,153 square feet of office space in Englewood, Colorado for our corporate headquarters. We believe that we have adequate facilities for the conduct of our current and future operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time we may be involved in claims or lawsuits that arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, it is our opinion that the disposition or ultimate determination of such claims or lawsuits will not have a material adverse effect on the Company. In the case of administrative proceedings related to environmental matters involving governmental authorities, management does not believe that any imposition of monetary damages or fines would be material.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

6

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "CVO." At February 22, 2005, there were approximately 458 shareholders of record and, as of that date, we estimate that there were more than 7,534 beneficial owners holding stock in nominee or "street" name. The following table sets forth, for the periods indicated, the range of the high and low sales prices for our common stock as reported by the NYSE:

2004	HIGH	LOW
	----	---
First Quarter.....	\$5.00	\$3.53
Second Quarter.....	\$4.52	\$2.60
Third Quarter.....	\$3.70	\$2.40
Fourth Quarter.....	\$3.70	\$2.60

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2003	HIGH ----	LOW ---
First Quarter.....	\$2.55	\$1.85
Second Quarter.....	\$3.13	\$2.05
Third Quarter.....	\$3.60	\$2.76
Fourth Quarter.....	\$4.61	\$3.58

We have not paid a dividend on common stock since our incorporation and do not anticipate paying dividends in the foreseeable future because our senior secured credit facility, senior notes and senior subordinated notes limit our ability to pay common stock dividends.

No purchases of our common stock were made by or on behalf of the Company or any affiliated purchaser during the fourth quarter of 2004.

The section captioned "COMPENSATION OF EXECUTIVE OFFICERS--Equity Compensation Plan Information" appearing in the Company's Proxy Statement filed pursuant to Regulation 14A in connection with the 2005 Annual Meeting of Stockholders is incorporated herein by reference.

7

ITEM 6. SELECTED FINANCIAL DATA

The summary of historical financial data presented below is derived from the historical audited financial statements of the Company. The results of acquisitions have been included in the income statement data of the Company from their respective acquisition dates in accordance with purchase method accounting for acquisitions. The data presented below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes included elsewhere herein.

	YEAR ENDED DECEMBER 31			
	2004	2003 (1)	2002 (2)	2001 (3)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net sales.....	\$1,742,914	\$1,671,664	\$1,728,705	\$1,868,768
Income (loss) from continuing operations.....	\$ (20,938)	\$ 3,924	\$ (73,488)	\$ (45,213)
Income (loss) per diluted share from continuing operations.....	\$ (0.44)	\$ 0.08	\$ (1.54)	\$ (0.95)
Total assets.....	\$1,174,747	\$1,111,446	\$1,107,367	\$1,476,867
Total long-term debt, including current maturities.....	\$ 769,769	\$ 748,961	\$ 763,899	\$ 855,221