CENVEO, INC
Form 10-Q
November 03, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

COMMISSION FILE NUMBER 1-12551

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

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

8310 S. VALLEY HIGHWAY, #400 ENGLEWOOD, CO	80112
(Address of principal executive offices)	(Zip Code)

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

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

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

As of October 31, 2005 the Registrant had 52,849,769 shares of Common Stock, $0.01 par value, outstanding.

CENVEO, INC. AND SUBSIDIARIES

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENVEO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2005	DECEMBER 3
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents..........................	$ 883	$
Accounts receivable................................	259,756	252,
Inventories..	125,006	112,
Other current assets...............................	43,706	46,
TOTAL CURRENT ASSETS...........................	429,351	411,
Property, plant and equipment, net.....................	339,154	367,

Goodwill	311,697	308,
Other intangible assets, net	25,232	28,
Other assets	40,219	58,
TOTAL ASSETS	$1,145,653	$1,174,
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 173,086	$ 172,
Accrued compensation and related liabilities	59,624	58,
Other current liabilities	66,785	64,
Current maturities of long-term debt	2,821	2,
TOTAL CURRENT LIABILITIES	302,316	298,
Long-term debt, less current maturities	789,613	767,
Deferred income taxes	27,214	10,
Other liabilities	38,655	40,
TOTAL LIABILITIES	1,157,798	1,117,
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 25,000 shares authorized, none issued	--	
Common stock, $0.01 par value; 100,000,000 shares authorized, 52,758,052 and 48,702,832 shares issued and outstanding as of September 30, 2005 and December 31, 2004, respectively	530	
Paid-in capital	236,083	214,
Accumulated deficit	(267,285)	(170,
Deferred compensation	--	(2,
Accumulated other comprehensive income	18,527	14,
TOTAL SHAREHOLDERS' EQUITY	(12,145)	57,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,145,653	$1,174,

See notes to condensed consolidated financial statements.

CENVEO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except earnings per share amounts)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30,	
	2005	2004	2005	
Net sales	$430,823	$428,099	$1,302,161	$1,
Cost of sales	347,610	343,596	1,048,885	1,

Gross profit	83,213	84,503	253,276	
Selling, general and administrative expenses	62,615	62,315	197,741	
Amortization of intangible assets	1,272	1,313	3,878	
Loss on sale of non-strategic businesses	759	--	2,019	
Restructuring and other charges	24,378	(269)	39,467	
Operating income (loss)	(5,811)	21,144	10,171	
Interest expense	18,079	17,859	55,074	
Loss from the early extinguishment of debt	--	--	--	
Other	768	787	1,203	
Income (loss) from continuing operations before income taxes	(24,658)	2,498	(46,106)	
Income tax expense (benefit)	39,420	8	51,140	
Loss from continuing operations before discontinued operations	(64,078)	2,490	(97,246)	
Gain on disposal of discontinued operations, net of $770 in income taxes	--	--	--	
Net income (loss)	$(64,078)	$ 2,490	$ (97,246)	$
Earnings (loss) per share--basic:				
Continuing operations	$ (1.28)	$ 0.05	$ (1.99)	$
Discontinued operations	--	--	--	
Net income (loss)	$ (1.28)	$ 0.05	$ (1.99)	$
Weighted average shares--basic	50,212	47,753	48,932	
Earnings (loss) per share--diluted:				
Continuing operations	$ (1.28)	$ 0.05	$ (1.99)	$
Discontinued operations	--	--	--	
Net income (loss)	$ (1.28)	$ 0.05	$ (1.99)	$
Weighted average shares--diluted	50,212	48,504	48,932	

See notes to condensed consolidated financial statements.

CENVEO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004

Cash flows from operating activities:		
Net loss from continuing operations	$ (97,246)	$ (17,341)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation	34,900	35,014
Amortization	6,864	7,513
Deferred income tax expense (benefit)	35,970	(9,718)
Impairment charges	9,801	--
Loss on sale of non-strategic businesses	2,019	--
Write-off of deferred financing fees	--	4,220
Other non-cash charges, net	3,247	(1,520)
Changes in operating assets and liabilities, excluding the effects of operations acquired and sold:		
Accounts receivable	(5,423)	(23,941)
Inventories	(11,861)	(21,893)
Accounts payable	(712)	40,863
Other, net	(4,860)	800
Net cash provided by (used in) operating activities	(27,301)	13,997
Cash flows from investing activities:		
Aquisitions, net of cash acquired	(3,980)	(9,803)
Capital expenditures	(19,698)	(20,246)
Proceeds from divestitures	6,514	2,000
Proceeds from sales of property, plant and equipment	724	1,475
Net cash used in investing activities	(16,440)	(26,574)
Cash flows from financing activities:		
Increase in borrowings under credit facility	25,200	4,666
Proceeds from issuance of long-term debt	--	320,000
Repayments of long-term debt	(2,535)	(303,644)
Proceeds from issuance of common stock	21,087	1,053
Capitalized loan fees	--	(9,076)
Net cash provided by financing activities	43,752	12,999
Effect of exchange rate changes on cash and cash equivalents	76	(350)
Net increase in cash and cash equivalents	87	72
Cash and cash equivalents at beginning of year	796	307
Cash and cash equivalents at end of quarter	$ 883	$ 379

See notes to condensed consolidated financial statements.

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Cenveo, Inc. and subsidiaries (collectively, "Cenveo", or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Cenveo at September 30, 2005, the results of operations for the three and nine months ended September 30, 2005, and the cash flows for the nine months ended September 30, 2005. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The condensed consolidated balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnote disclosures required by generally accepted accounting principles for complete financial statements.

It has been the Company's practice to close its quarters on the Saturday closest to the last day of the calendar month so that each quarter has the same number of days and 13 full weeks. The financial statements and other financial information in this report are presented using a calendar convention. The reporting periods, which consist of 13 and 39 weeks ending on October 1, 2005 and September 25, 2004, are reported as ending on September 30, 2005 and 2004, respectively. The effects of this practice are generally not significant.

The financial statements and other financial information presented in this report should be read in conjunction with the financial statements contained in the Company's Annual Report on Form 10-K for 2004.

2. CHANGE IN BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In 2005, a group of shareholders called for a special meeting of shareholders to elect a new board of directors. On September 9, 2005, the shareholder group and the board of directors of the Company reached an agreement pursuant to which the board of directors was reconstituted and a new Chairman and Chief Executive Officer appointed effective September 12, 2005. As a result of the appointment of the new Chief Executive Officer, there have been significant changes in the management of the Company.

The Company has reimbursed Burton Capital Management, LLC $0.8 million for expenses it incurred in its efforts to elect a new board of directors. The Company's newly appointed Chairman and Chief Executive Officer is also the Chairman, Chief Executive Officer and Managing Member of Burton Capital Management, LLC.

3. STOCK-BASED COMPENSATION

The Company accounts for employee stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). Since the Company awards stock options to its employees with an exercise price equal to the market value of the underlying stock on the grant date, the Company is not required by APB 25 to recognize compensation expense.

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. STOCK-BASED COMPENSATION (CONTINUED)

SFAS 123 requires the Company to disclose on a pro forma basis the effect on net income (loss) and earnings (loss) per share of applying the fair value method of determining stock-based compensation. The following table represents the disclosure required by SFAS 123 (in thousands, except per share data):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS EN SEPTEMBER 30	
	2005	2004	2005	
Net income (loss), as reported..........	$(64,078)	$ 2,490	$ (97,246)	$
Add: Stock-based compensation expense included in reported net income (loss)......................	2,885	226	2,138	
Deduct: Stock-based compensation expense determined under fair value method......................	(8,853)	(1,422)	(10,233)	
Pro forma net income (loss).............	$(70,046)	$ 1,294	$(105,341)	$
Earnings (loss) per share--basic and diluted:				
As reported..........................	$ (1.28)	$ 0.05	$ (1.99)	$
Pro forma............................	$ (1.40)	$ 0.03	$ (2.15)	$

Under the Company's 2001 Long-Term Incentive Plan (the "Plan"), the change in the Company's board of directors triggered the change of control provision of the Plan. Accordingly, all outstanding stock options and restricted stock vested on September 12, 2005. The amount of stock-based compensation expense reflected in the pro forma calculation of loss per share for the three and nine months ended September 30, 2005 is primarily the result of the acceleration in the vesting of the outstanding stock-options and restricted stock.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments: an amendment of FASB Statements No. 123 and 95 ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized in the financial statements based on their fair value. The Company expects to implement SFAS 123R in the first quarter of 2006 and use the modified-prospective transition method of implementation. Under the modified-prospective transition method, the Company will recognize compensation expense in the financial statements issued subsequent to the date of adoption, which will be January 1, 2006, for all share-based payments granted, modified or settled after January 1, 2006 as well as for any awards that were granted prior to January 1, 2006 for which the requisite service has not been provided as of January 1, 2006. The Company will recognize compensation expense on awards granted subsequent to January 1, 2006 using the fair values determined by a valuation model prescribed by SFAS 123R. As of September 30, 2005 there were no stock option grants that had not fully vested; however, should the Company grant additional stock option awards prior to January 1, 2006, the compensation expense on these awards will be determined using the fair values determined for the pro forma disclosures on stock-based compensation as prescribed by SFAS 123. The Company has not determined the impact of its adoption of SFAS 123R.

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVENTORIES

Inventories consist of the following (in thousands):

	SEPTEMBER 30, 2005	DECEMBER 2004
Raw materials	$ 34,965	$ 36,44
Work in process	39,344	30,35
Finished goods	55,845	50,12
	130,154	116,91
Reserves	(5,148)	(4,70
	$125,006	$112,21

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	SEPTEMBER 30, 2005	DECEMBER 2004
Land and land improvements	$ 19,159	$ 19,4
Buildings and building improvements	110,621	109,8
Machinery and equipment	529,121	532,4
Furniture and fixtures	12,639	13,9
Construction in progress	8,510	9,8
	680,050	685,6
Accumulated depreciation	(340,896)	(318,3
	$ 339,154	$ 367,2

6. COMPREHENSIVE INCOME (LOSS)

A summary of the comprehensive income (loss) is as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2005	2004	2005	
Net income (loss)......................	$ (64,078)	$ 2,490	$(97,246)	$
Other comprehensive income:				
Currency translation adjustment..	8,961	7,495	4,520	
Comprehensive income (loss)...........	$ (55,117)	$ 9,985	$(92,726)	$

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CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	SEPTEMBER 30, 2005	DECEMBER 2004
Senior Secured Credit Facility, due 2008................	$103,641	$ 78,44
Senior Notes, due 2012..................................	350,000	350,00
Senior Subordinated Notes, due 2013.....................	320,000	320,00
Other...	18,793	21,32
	792,434	769,76
Less current maturities.................................	(2,821)	(2,27
Long-term debt......................................	$789,613	$767,49

As of September 30, 2005, the Company was in compliance with all currently operative covenants of its various debt agreements.

In conjunction with the sale of the Company's prime label business in 2002, the Company continued to guarantee 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 April 2008, total approximately $5.0 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.

8. INCOME TAXES

As required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, ("SFAS 109"), the Company evaluates the realizability of its deferred tax assets on a quarterly basis. SFAS 109 requires a valuation allowance to be established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. Because the Company's U.S. operations have incurred substantial net operating losses over the last four years, it established a valuation allowance of $26.8 million prior to 2005 to cover a portion of the deferred tax asset arising from the net operating losses in the U.S. and a portion of its U.S. capital loss carry forwards. The Company has increased the valuation allowance by $38.3 million during the nine months ended September 30, 2005 as a result of continuing losses by its U.S. operations during the period.

As of December 31, 2004 and through June 30, 2005, the Company believed the remaining U.S. deferred tax assets would be realized through the reversal of existing temporary differences and the execution of available tax planning strategies. In September 2005, the Company determined that it would no longer implement the identified strategies that could have been used to realize the net deferred tax benefit. The Company recorded an additional valuation allowance of $35.3 million to eliminate the remaining net U.S. deferred tax asset.

In addition, the Company provides income taxes for its operations in Canada which are expected to generate taxable income in 2005.

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges recorded during the three and nine months ended September 30, 2005 were $24.4 million and $39.5 million, respectively. The following table and discussion present the details of these charges.

	THREE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS SEPTEMBER 30
Employee termination and related expenses:		
Envelopes, Forms and Labels..................	$ 1,460	$ 3,480
Commercial Printing..........................	3,064	5,065
Corporate....................................	7,917	8,153
Impairments:		
Envelopes, Forms and Labels..................	2,111	2,663
Commercial Printing..........................	--	7,137
Exit costs:		
Envelopes, Forms and Labels..................	--	(14
Commercial Printing..........................	17	488
Total restructuring charges...............	14,569	26,972
Other charges....................................	9,809	12,495
Total restructuring and other charges.....	$24,378	$39,467

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In September 2005, as a result of significant changes in management and personnel reductions in the Company's corporate office, the Company recognized employee termination benefits of $8.4 million. Additional management changes and staff reductions are expected during the remainder of 2005 and additional severance expense will be incurred.

In June 2005, the Company implemented a corporate-wide initiative to reduce selling, general and administrative expenses. The Company has recorded a charge of $7.4 million of which $3.4 million was recorded in the third quarter to cover the cost of 91 employees terminated in connection with this initiative.

In March 2005, management began conducting a comprehensive evaluation of the Company's operations with the objective of rationalizing capacity and improving utilization. During the nine months ended September 30, 2005, the Company recorded impairment charges of $9.8 million, including $2.1 million recorded in the third quarter, as a result of this evaluation. The Company expects to recognize additional restructuring and impairment charges when this evaluation is completed.

During the nine months ended September 30, 2005, the Company closed a small printing operation located in Phoenix, Arizona and consolidated its production into its Los Angeles, California printing plant, closed one of its printing operations in Atlanta, Georgia and consolidated its production into plants in Jacksonville, Illinois, St. Louis, Missouri and Cambridge, Maryland, and completed the consolidations of the printing operations in Seattle, Washington and San Francisco, California. Severance expenses of $0.9 million, including $0.6 million in the third quarter, and other exit costs of $0.5 million were recorded in connections with these plant consolidations.

9. RESTRUCTURING AND OTHER CHARGES (CONTINUED)

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. The fees incurred were $3.2 million.

* Legal and other fees incurred in connection with the special meeting of shareholders totaled $3.6 million.

* The Company reimbursed the shareholder group that initiated the special meeting of shareholders $0.8 million for expenses incurred in connection with the special meeting.

* In January 2005, the Company's Chief Executive Officer resigned. The cost incurred as a result of this resignation was $2.2 million.

* Under the Company's Long-Term Incentive Plan, the change in the board

of directors on September 12, 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 $2.7 million.

The following is a summary of the activity recorded in the Company's restructuring liability during the nine months ended September 30, 2005:

Balance, December 31, 2004	$1,093
Payments for lease termination and property exit costs	(617)
Payments for other exit costs	(151)
Reversal of unused accrual	(14)
Severance accrual	1,769
Balance, September 30, 2005	$2,080

10. LOSS ON SALE OF NON-STRATEGIC BUSINESSES

The following is a summary of the losses incurred on sales of non-strategic businesses during 2005 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS SEPTEMBER 30
Printing operations in Riviera Beach, FL and Osage Beach, MO	$ --	$ 868
Envelope operations in Ontario and British Columbia, Canada	759	925
Mailing supplies business in Dekalb, IL	--	226
	$759	$2,019

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. LOSS ON SALE OF NON-STRATEGIC BUSINESSES (CONTINUED)

The proceeds recorded as a result of these divestitures totaled $6.5 million. The following table summarizes the net sales and operating losses of these businesses that are included in the condensed consolidated statements of operations (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS E SEPTEMBER 3

	2005	2004	2005	
Net sales....................................	$1,226	$7,834	$11,571	$
Operating losses.............................	$ (71)	$ (22)	$ (650)	$

The Company has ongoing supply agreements with these entities; accordingly, the dispositions of these non-strategic businesses have not been accounted for as discontinued operations in the condensed consolidated statements of operations.

11. PENSION PLANS

The components of the net periodic pension expense for the Company's pension plans and the supplemental executive retirement plans are as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2005	2004	2005	
Service cost.................................	$ 522	$ 670	$ 1,833	$
Interest cost................................	894	529	2,612	
Expected return on plan assets...............	(968)	(557)	(2,866)	
Net amortization and deferral................	160	167	459	
Net periodic pension expense.................	$ 608	$ 809	$ 2,038	$

The Company expects to contribute $2.8 million to its pension plans in 2005. As of September 30, 2005, contributions of $2.2 million had been made.

CENVEO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. EARNING (LOSS) PER SHARE

The computations of basic and diluted earnings (loss) per share from continuing operations are as follows (in thousands, except per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS EN SEPTEMBER 30	
	2005	2004	2005	

Numerator:				
Numerator for basic and diluted earnings (loss) per share from continuing operations................................	$(64,078)	$ 2,490	$(97,246)	$(
Denominator:				
Denominator for basic earnings (loss) per share from continuing operations...........	50,212	47,753	48,932	
Dilutive effect of stock options and restricted stock..........................	--	751	--	
Denominator for diluted earnings (loss) per share from continuing operations...........	50,212	48,504	48,932	
Earnings (loss) from continuing operations per share:				
Basic....................................	$ (1.28)	$ 0.05	$ (1.99)	$
Diluted..................................	$ (1.28)	$ 0.05	$ (1.99)	$

During the three and nine months ended September 30, 2005 and the nine months ended September 30, 2004, outstanding options to purchase approximately 1.8 million and 8.3 million shares of common stock, respectively, were excluded from the calculation of diluted loss from continuing operations per share because the effect would be antidilutive. During the three months ended September 30, 2004, outstanding options to purchase approximately 7.5 million shares of common stock were excluded from the calculation of diluted earnings per share because the exercise prices of these options exceeded the average market price of the stock during the period.

13. SEGMENT INFORMATION

In September 2005, the Company changed its management structure and realigned its manufacturing operations into two operating segments--the Envelope, Forms and Labels Segment and the Commercial Printing Segment. The Envelope, Forms and Labels Segment is in the business of manufacturing customized envelopes and packaging products, stock envelopes, traditional and specialty business forms, and labels used for such applications as mailing, messaging and bar coding. The Commercial Printing Segment is in the business of designing, manufacturing and distributing printed products which include advertising literature, corporate identity materials, financial printing, calendars, greeting cards, brand marketing materials, catalogs, maps, CD packaging and direct mail. Segment data for 2004 has been restated to reflect the new operating segments.

Operating income of each segment includes all costs and expenses directly related to the segment's operations. Corporate expenses include corporate general and administrative expenses. Inter-company sales for the three months ended September 30, 2005 and 2004 were $10.6 million and $8.0 million, respectively. Inter-company sales for the nine months ended September 30, 2005 and 2004 were $36.2 and $26.3 million, respectively. These amounts were eliminated in consolidation and excluded from reported net sales.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. SEGMENT INFORMATION (CONTINUED)

The following tables present certain segment information for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30,	
	2005	2004	2005	
Net sales:				
Envelopes, Forms and Labels.	$ 230,844	$ 217,769	$ 695,892	$
Commercial Printing.........	199,979	210,330	606,269	
Total......................	$ 430,823	$ 428,099	$1,302,161	$1,
Operating income (expense):				
Envelopes, Forms and Labels.	$ 17,313	$ 20,943	$ 53,785	$
Commercial Printing.........	(869)	4,890	(9,100)	
Corporate..................	(22,255)	(4,689)	(34,514)	
Total......................	$ (5,811)	$ 21,144	$ 10,171	$
Restructuring and other charges included in operating income:				
Envelopes, Forms and Labels.	$ 3,571	$ (294)	$ 6,129	$
Commercial Printing.........	3,081	25	12,690	
Corporate..................	17,726	--	20,648	
Total......................	$ 24,378	$ (269)	$ 39,467	$
Net sales by product line:				
Envelopes..................	$ 183,676	$ 170,507	$ 552,506	$
Commercial Printing.........	199,979	210,330	606,269	
Forms and Labels...........	47,168	47,262	143,386	
Total......................	$ 430,823	$ 428,099	$1,302,161	$1,

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
Identifiable assets:		
Envelopes, Forms and Labels.	$ 609,539	$ 615,347
Commercial Printing.........	484,885	486,187
Corporate..................	51,229	73,213
Total......................	$1,145,653	$1,174,747

14. SUBSEQUENT EVENT

On November 2, 2005, the Company announced that it was evaluating the potential sale of its Canadian operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

Cenveo is one of North America's leading 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. We have production facilities and fulfillment and distribution centers strategically located throughout North America.

In 2005, a group of shareholders called for a special meeting of shareholders to elect a new board of directors. On September 9, 2005, the shareholder group and the board of directors of the Company reached an agreement pursuant to which the board of directors was reconstituted and a new Chairman and Chief Executive Officer appointed effective September 12, 2005. The new Chief Executive Officer has made significant changes in the senior management of the Company and has realigned the Company's manufacturing operations into two new operating segments--Envelopes, Forms and Labels and Commercial Printing.

Our Envelopes, Forms and Labels Segment is in the business of manufacturing customized envelopes and packaging products, stock envelopes, traditional and specialty business forms, and labels used for such applications as mailing, messaging and bar coding. The segment operates 35 envelope plants, six business forms plants and three business labels plants.

Our Commercial Printing Segment is in the business of designing, manufacturing and distributing printed products which include advertising literature, corporate identity materials, financial printing, calendars, greeting cards, brand marketing materials, catalogs, maps, CD packaging and direct mail. The segment operates 33 printing facilities and five distribution and fulfillment centers.

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide an update on the financial condition of Cenveo since December 31, 2004 and to discuss operating trends to the extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2004.

REVIEW OF RESULTS

The discussion and analysis of the results of operations includes an overview of our consolidated results for the third quarter and the nine months ended September 30, 2005 followed by a discussion of the results of our two business segments.

A summary of our condensed consolidated statements of operations is presented below. The summary presents reported net sales and operating income as well as the net sales and operating income data of our business segments used internally to assess operating performance. Division sales exclude sales of divested operations and division operating income excludes the costs associated with our corporate headquarters, operating results of divested operations, losses incurred on the divestitures of non-strategic businesses, charges related to restructuring and expenses incurred that are unrelated to operations.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30,	
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2005	2004	2005	
Division net sales	$429,597	$420,265	$1,290,590	$1,
Divested operations	1,226	7,834	11,571	
Net sales	$430,823	$428,099	$1,302,161	$1,
Division operating income	$ 23,925	$ 25,586	$ 66,173	$
Less:				
Unallocated corporate expenses	4,528	4,689	13,866	
Restructuring and other charges	24,378	(269)	39,467	
Divested operations	71	22	650	
Loss on sale of non-strategic businesses	759	--	2,019	
Operating income (loss)	(5,811)	21,144	10,171	
Interest expense	18,079	17,859	55,074	
Loss on early extinguishment of debt	--	--	--	
Other	768	787	1,203	
Income (loss) before income taxes	(24,658)	2,498	(46,106)	
Income tax expense (benefit)	39,420	8	51,140	
Income (loss) from continuing operations	(64,078)	2,490	(97,246)	
Gain on disposal of discontinued operations	--	--	--	
Net income (loss)	$(64,078)	$ 2,490	$ (97,246)	$
Income (loss) per share from continuing operations--diluted	$ (1.28)	$ 0.05	$ (1.99)	$

NET SALES

Consolidated net sales in the third quarter of 2005 were slightly higher than the third quarter of 2004. For the nine months ended September 30, 2005, consolidated net sales increased $40.9 million, or 3%, over the comparable period of 2004. Division net sales were 2% higher in the third quarter and 4% higher on a year-to-date basis. Sales growth in 2005 was primarily the result of strong sales of our envelope products.

OPERATING INCOME (LOSS)

We reported an operating loss of $5.8 million in the third quarter and operating income of $10.2 million for the nine months ended September 30, 2005. These results were significantly lower than those reported during the comparable periods of 2004 primarily due to significant restructuring and other charges that have been incurred during 2005.

DIVISION OPERATING INCOME. Division operating income was $1.7 million lower in the third quarter of 2005 and $6.6 million lower for the nine months ended September 30, 2005, than the comparable periods of 2004 due to the following:

* The increase in the cost of paper and other materials used to produce envelopes has had a negative impact on the margins of our envelope products in 2005 as we have been unable to fully recover these higher costs.

* As expected, the profits of our retail and wholesale office products business were lower in the first half of 2005 compared to 2004 due to pricing concessions made in the second half of 2004 to maintain our share in the office products retail and wholesale markets.

* The performance of several of our commercial printing plants has deteriorated in 2005 relative to 2004.

UNALLOCATED CORPORATE EXPENSES. Unallocated corporate expenses include the costs of our corporate headquarters and certain expenses not allocated to our segments. Unallocated corporate expenses in 2004 reflected a $2.0 million charge related to a change in our estimate of the cost of workers' compensation claims which is the primary reason unallocated corporate expenses are lower in 2005.

RESTRUCTURING AND OTHER CHARGES. A summary of the restructuring and other charges recorded in the third quarter and nine months ended September 30, 2005 follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS SEPTEMBER 30
Employee termination and related expenses:		
Envelopes, Forms and Labels..................	$ 1,460	$ 3,480
Commercial Printing..........................	3,064	5,065
Corporate....................................	7,917	8,153
Asset impairments:		
Envelopes, Forms and Labels..................	2,111	2,663
Commercial Printing..........................	--	7,137
Exit costs:		
Envelopes, Forms and Labels..................	--	(14
Commercial Printing..........................	17	488
Total restructuring charges...............	14,569	26,972
Other charges....................................	9,809	12,495
Total restructuring and other charges.....	$24,378	$39,467

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In September 2005, as a result of significant changes in management as well as personnel reductions in the Company's corporate office, the Company recorded $8.4 million in employee termination benefits. Additional changes in management and personnel reductions are expected during the remainder of 2005 and additional severance expenses will be incurred.

In June 2005, the Company implemented a corporate-wide initiative to reduce selling, general and administrative expenses. The Company recorded a charge of $7.4 million of which $3.4 million was recorded in the third quarter to cover the cost of 91 employees terminated in connection with this initiative.

In March 2005, management began a comprehensive evaluation of the Company's operations with the objective of rationalizing capacity and improving utilization. During the nine months ended September 30, 2005, the Company recorded impairment charges of $9.8 million, including $2.1 million recorded in the third quarter, as a result of this evaluation. The Company expects to recognize additional restructuring and impairment charges when this evaluation is completed.

During the nine months ended September 30, 2005, the Company closed a small printing operation located in Phoenix, Arizona and consolidated its production into its Los Angeles, California printing plant, closed one of its printing operations in Atlanta, Georgia and consolidated its production into plants in Jacksonville, Illinois, St. Louis, Missouri and Cambridge, Maryland, and completed the consolidations of the printing operations in Seattle, Washington and San Francisco, California. We have recorded severance expenses of $0.9 million, including $0.6 million in the third quarter, and other exit costs of $0.5 million in connections with these plant consolidations.

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. The fees incurred were $3.2 million.

* Legal and other fees incurred in connection with the special meeting of shareholders totaled $3.6 million.

* The Company reimbursed the shareholder group that initiated the special meeting of shareholders $0.8 million for expenses incurred in connection with the special meeting (see Note 2 to the condensed consolidated financial statements).

* In January 2005, the Company's Chief Executive Officer resigned. The cost incurred as a result of this resignation was $2.2 million.

* Under the Company's Long-Term Incentive Plan, the change in the board of directors on September 12, 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 $2.7 million.

LOSS ON SALE OF NON-STRATEGIC BUSINESSES

During 2005, we have sold five non-strategic businesses. In the third quarter, we sold a fine papers business in Ontario, Canada. Earlier in the year we sold our mailing supplies business in Dekalb, Illinois, printing operations in Riviera Beach, Florida and Osage Beach, Missouri and a jet printing operation in Canada. A summary of the net sales and operating income included in the condensed consolidated statements of operations for these businesses follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2005	2004	2005	
Sales	$1,226	$7,834	$11,571	$
Operating income	$ (71)	$ (22)	$ (650)	$

The loss of $2.0 million for the nine months ended September 30, 2005 recorded as a result of the divestitures of these non-strategic businesses was primarily due to the write-off of the goodwill allocated to these businesses as required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

INTEREST EXPENSE

Interest expense increased slightly to $18.1 million in the third quarter of 2005 from $17.9 million in the third quarter of 2004. Interest expense in the third quarter reflects average outstanding debt of $812.5 million during the quarter and a weighted average interest rate of 8.4% compared to average outstanding debt of $802.9 million during the third quarter of 2004 and a weighted average interest rate of 8.10%.

Interest expense increased $1.3 million to $55.1 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Interest expense during this period

reflects our average outstanding debt of $819.5 million and a weighted average interest rate of 8.30% compared to the average outstanding debt of $809.2 million and a weighted average interest rate of 8.16% during 2004.

LOSS FROM THE EARLY EXTINGUISHMENT OF DEBT

In January 2004, we sold $320 million of 7 7/8% senior subordinated notes due 2013. The proceeds from the sale of these notes were used to redeem our 8 3/4% senior subordinated notes due 2008. The premium paid to redeem the 8 3/4% notes and the unamortized debt issuance costs on the 8 3/4% notes, which were written off, totaled $17.7 million.

INCOME TAXES

As required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, ("SFAS 109"), the Company evaluates the realizability of its deferred tax assets on a quarterly basis. SFAS 109 requires a valuation allowance to be established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. Because the Company's U.S. operations have incurred substantial net operating losses over the last four years, it established a valuation allowance of $26.8 million prior to 2005 to cover a portion of the deferred tax asset arising from the net operating losses in the U.S. and a portion of its U.S. capital loss carry forwards. The Company has increased the valuation allowance by $38.3 million during the nine months ended September 30, 2005 as a result of continuing losses by its U.S. operations.

Through June 30, 2005, the Company believed the remaining U.S. deferred tax assets would be realized through the reversal of existing temporary differences and the execution of available tax planning strategies. In September 2005, the Company determined that it would no longer implement the identified strategies that could have been used to realize the net deferred tax benefit. The Company recorded an additional valuation allowance of $35.3 million to eliminate the remaining net U.S. deferred tax asset.

In addition, the Company provides income taxes for its operations in Canada which are expected to generate taxable income in 2005.

GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS

In September 2000, we sold the extrusion coating and laminating business segment of American Business Products, Inc., a company we acquired in February 2000. The consideration received for this business included an unsecured note which was fully reserved at the time of the sale. This note was redeemed by the issuer in June 2004 for $2.0 million. The proceeds, net of tax, were recorded as a gain on disposal of discontinued operations.

NET LOSS AND NET LOSS PER SHARE

The net loss of $64.1 million, or $1.28 per share, for the third quarter of 2005 and the net loss of $97.2 million, or $1.99 per share, for the nine months ended September 30, 2005 reflect lower division operating income, significantly higher restructuring and other charges, and higher interest expense than during the comparable periods of 2004 as well as the $35.3 million increase in the deferred tax valuation allowance.

RELEVANT NON-GAAP MEASURE--EBITDA

We use EBITDA, a non-GAAP measure, internally to monitor our overall performance and the performance of our segments. We define EBITDA as earnings before interest, taxes, depreciation and amortization, and we exclude the impact of restructuring and related charges, losses incurred on the dispositions of non-strategic businesses and the EBITDA of divested operations. In 2004, we excluded the loss incurred on the early extinguishment of debt. We believe EBITDA, as defined, provides useful supplemental information for comparative purposes since it excludes the impact of investing and financing transactions as well as the effect of restructuring, including dispositions, and related charges on our operating results. A reconciliation of net income to EBITDA, as defined, is presented below (in thousands):

	THREE MONTHS ENDED	NINE MONTHS EN

	SEPTEMBER 30,		SEPTEMBER 30	
	2005	2004	2005	
Net income (loss)............................	$(64,078)	$ 2,490	$(97,246)	$(
Interest................................	18,079	17,859	55,074	
Income taxes............................	39,420	8	51,140	
Depreciation............................	11,611	12,171	34,900	
Amortization............................	1,329	1,343	3,995	
Retructuring and other charges...........	24,378	(269)	39,467	
Loss on sale of non-strategic businesses............................	759	--	2,019	
Divested operations......................	28	(67)	320	
Loss from the early extinguishment of debt..................................	--	--	--	
Tax on discontinued operations...........	--	--	--	
EBITDA, as defined..........................	$ 31,526	$33,535	$ 89,669	$
EBITDA, as defined, by segment:				
Envelopes, Forms and Labels..............	$ 27,077	$25,996	$ 77,387	$
Commercial Printing......................	9,659	12,658	27,330	
Corporate...............................	(5,210)	(5,119)	(15,048)	(
	$ 31,526	$33,535	$ 89,669	$

SEGMENT OPERATIONS

Our Chief Executive Officer monitors the performance of the ongoing operations of each of our business segments. The summaries of sales and operating income of our two segments have been presented to show each segment without the sales of divested operations ("Division net sales") and to show the operating income of each segment without the operating income of divested operations, restructuring charges and the losses incurred on divestitures ("Division operating income"). Net sales and operating income of the operations divested, restructuring charges and the losses incurred on divestitures have been included in the tables that follow to reconcile segment sales and segment operating income reported in Note 13 to our condensed consolidated financial statements to division net sales and division operating income on which our segments are evaluated.

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ENVELOPES, FORMS AND LABELS

(IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30, 2005	2004	NINE MONTHS EN SEPTEMBER 30 2005	
Segment sales...............................	$230,844	$217,769	$695,892	$6
Divested operations.....................	(1,226)	(5,128)	(8,502)	(
Division net sales..........................	$229,618	$212,641	$687,390	$6

Segment operating income....................	$ 17,313	$ 20,943	$ 53,785	$
Restructuring charges...................	3,571	(294)	6,129	
Loss on sale of non-strategic businesses............................	758	--	1,151	
Divested operations.....................	71	(198)	361	
Division operating income...................	$ 21,713	$ 20,451	$ 61,426	$
Division operating income margin............	9%	10%	9%	

Net sales of our Envelopes, Forms and Labels Segment were 6% higher in the third quarter and 7% higher during the nine months ended September 30, 2005 than the comparable periods of 2004. The strong sales performance of this segment in 2005 was driven by the following:

* Envelope and related products sold to our strategic accounts were higher in the third quarter and on a year-to-date basis.

* Envelopes and related products sold to our retail, wholesale and trade customers were lower in the third quarter, but were higher than the prior year on a year-to-date basis. We expected sales in these markets to be higher in the first half of the year since we increased our share of these markets during the second half of 2004.

* Sales of business forms and labels were flat in the third quarter but were lower for the year. This decline was due to the continued erosion in sales of traditional business documents.

* Sales have increased during the year due to the favorable impact foreign currency translation had on the sales of our Canadian envelope operations.

The operating income of our Envelopes, Forms and Labels Segment declined $3.6 million, or 17%, in the third quarter of 2005. Division operating income increased $1.3 million, or 6%. For the nine months ended September 30, 2005 operating income declined $8.0 million, or 13%, while division operating income declined $0.9 million, or 2%.

* The margins on our envelope products in 2005 are below 2004 due to the higher cost of paper and other materials. In the third quarter, the contribution from higher sales offset the impact of the lower margins. On a year-to-date basis, the impact of lower margins has exceeded the profits contributed by the increase in sales.

* Profits of our business that sells into the retail and wholesale office products markets improved in the third quarter of 2005. In the third quarter of 2004, this business experienced operational problems in its preparations to serve several new large customers. Lower net selling prices and higher distribution expenses for products sold to retail and wholesale markets, however, have contributed to lower profits on a year-to-date basis than in 2004.

COMMERCIAL PRINTING

(IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30, 2005	2004	NINE MONTHS EN[DED] SEPTEMBER 30[,] 2005	
Segment sales	$199,979	$210,330	$606,269	$6
Divested operations	--	(2,706)	(3,069)	
Division net sales	$199,979	$207,624	$603,200	$6
Segment operating income (loss)	$ (870)	$ 4,890	$ (9,100)	$
Restructuring charges	3,081	25	12,690	
Loss on sale of non-strategic businesses	1	--	868	
Divested operations	--	220	289	
Division operating income	$ 2,212	$ 5,135	$ 4,747	$
Division operating income margin	1%	2%	1%	

Net sales of our Commercial Printing Segment were $10.3 million, or 5%, lower in the third quarter of 2005 and $4.8 million, or 1%, lower on a year-to-date basis compared to the corresponding periods of 2004. Division net sales were $7.6 million lower, or 4%, in the third quarter and up slightly on a year-to-date basis. The decline in division net sales in the third quarter of 2005 was due to the following:

* As a result of the closure of one of our plants in Atlanta during the third quarter, we did not retain low margin business that could not be produced profitably at other operations.

* Sales to several of our large customers were lower than in the third quarter of 2004.

Operating income of the Commercial Printing Segment declined $5.8 million in the third quarter of 2005 and $18.9 million during the nine months ended September 30, 2005 compared to the corresponding periods of 2004. These declines were primarily the result of restructuring charges and losses related to the dispositions of non-strategic businesses. Division operating income declined $2.9 million in the third quarter and $5.7 million on a year-to-date basis. Performance at several of our commercial printing plants deteriorated during 2005 relative to 2004. As mentioned earlier, we are evaluating whether we should close, consolidate or sell these under-performing operations. In addition, lower sales contributed to the decline in profits in the third quarter.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operating, investing and financing activities, as reflected in the condensed consolidated statements of cash flows, are summarized as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30, 2005	2004

Cash provided by (used for):		
Operating activities....................................	$(27,301)	$ 13,997
Investing activities....................................	(16,440)	(26,574)
Financing activities....................................	43,752	12,999
Effect of exchange rate changes on cash.................	76	(350)
Net increase in cash and cash equivalents..................	$ 87	$ 72

OPERATING ACTIVITIES. During the nine months ended September 30, 2005, our operations consumed cash of $27.3 million. This use of cash was primarily due to the restructuring and other charges that have been incurred in 2005 and an increase in working capital.

INVESTING ACTIVITIES. Capital expenditures were $19.7 million during the nine months ended September 30, 2005 compared to $20.2 million during the nine months ended September 30, 2004. Proceeds from divestitures were $6.5 million in 2005 compared to $2.0 million in 2004. Acquisition spending in 2005 included a $1.4 million payment on an acquisition completed in 2004 and $2.6 million paid to acquire a small operation that has been consolidated with our printing operation in Philadelphia, Pennsylvania.

FINANCING ACTIVITIES. Our outstanding debt was $792.4 million at September 30, 2005, an increase of $22.7 million from December 31, 2004. Proceeds received from the exercise of stock options during the nine months ended September 30, 2005 totaled $21.1 million.

On September 30, 2005, we had outstanding letters of credit of approximately $27.6 million related to performance and payment guarantees. In addition, we have issued letters of credit of $1.0 million as credit enhancements in conjunction with other debt. Based on our experience with these arrangements, we do not believe that any obligations that may arise will be significant.

Our current credit ratings are as follows:

REVIEW AGENCY	SENIOR SECURED CREDIT FACILITY	SENIOR NOTES	SENIOR SUBORDINATED NOTES	LA
Standard & Poor's..................	BB-	B+	B-	Au
Moody's............................	Ba3	B1	B3	Ap

The terms of our existing debt do not have any rating triggers, and we do not believe that our current ratings will impact our ability to raise additional capital.

We expect internally generated cash flow and the financing available under our senior secured credit facility will be sufficient to fund our working capital needs and long-term growth; however, this cannot be assured.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated condensed financial statements, we make estimates based on 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. We evaluate these estimates on an ongoing basis. We base our estimates on historical experience and various other assumptions that are considered reasonable in view of relevant facts and circumstances. Because these accounting estimates and assumptions inherently involve significant judgments and the most uncertainty, the nature of these accounting estimates and assumptions are important to an understanding of our financial statements. Because future events rarely develop exactly as anticipated, even the best estimates routinely require adjustment.

We have engaged and will continue to engage in restructuring actions and activities associated with productivity improvement initiatives and expense reduction measures, which require us to make significant estimates in several areas including realizable values of assets and expenses for severance and other employee separation costs. The amounts we have accrued represent our best estimate as of September 30, 2005 of the obligations incurred as of that date in connection with these actions, but could be subject to change due to various factors. As of September 30, 2005, the Company had accrued a liability of $0.2 million for termination benefits that will be paid to certain employees that have been retained to render future service. This liability will be adjusted to the extent there is a change in the estimated future service period in accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). In addition, the Company expects to record additional estimates of severance and other restructuring charges during the fourth quarter of 2005 as required by SFAS 146.

Except for the additional valuation allowance recorded to eliminate the Company's net U.S. deferred tax asset (see Note 8 to the condensed consolidated financial statements), there were no significant changes in the application of the critical accounting policies and estimates in preparing our consolidated condensed financial statements for the third quarter of 2005 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2004. The critical accounting policies and estimates disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations were allowances for losses on accounts receivable, impairment of long-lived assets, goodwill, self-insurance and accounting for income taxes.

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments: an amendment of FASB Statements No. 123 and 95 ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized in the financial statements based on their fair value. The Company expects to implement SFAS 123R in the first quarter of 2006 and use the modified-prospective transition method of implementation. Under the modified-prospective transition method, the Company will recognize compensation expense in the financial statements issued subsequent to the date of adoption, which will be January 1, 2006, for all share-based payments granted, modified or settled after January 1, 2006 as well as for any awards that were granted prior to January 1, 2006 for which the requisite service has not been provided as of January 1, 2006. As of September 30, 2005, there were no stock option grants that had not fully vested; however, should the Company grant additional stock option awards prior to January 1, 2006, the compensation expense on these awards will be recognized using the fair values determined for the pro forma disclosures on stock-based compensation as prescribed by SFAS 123. The Company has not determined the impact of its adoption of SFAS 123R.

SEASONALITY AND ENVIRONMENT

Our commercial printing plants experience seasonal variations. Revenues from annual reports are generally concentrated from February through April. Revenues associated with holiday catalogs and automobile brochures tend to be concentrated from July through October. As a result of these seasonal variations, some of our commercial printing operations are at or near capacity at certain times during these periods.

In addition, several envelope market segments and certain segments of the direct mail market experience seasonality, with a higher percentage of the volume of products sold to these markets occurring during the fourth quarter of the year. This seasonality is due to the increase in sales to the direct mail market due to holiday purchases.

Seasonality is offset by the diversity of our other products and markets, which are not materially affected by seasonal conditions.

Environmental matters have not had a material financial impact on our historical operations and are not expected to have a material impact in the future.

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 Securities Exchange Act of 1934 as 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.

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 can be estimated. 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 us.

CAUTIONARY STATEMENTS

Certain statements in this report, and in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We believe these forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of the Company. All such statements involve risks and uncertainties, and as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including but not limited to, general economic, business and labor conditions; the ability to be profitable on a consistent basis; the impact of a new CEO and changes in management and strategic direction that have been or will be made; the ability to effectively execute cost reduction programs and management reorganizations; dependence on sales that are not subject to long-term contracts; dependence on suppliers; the ability to recover the rising cost of key raw materials in markets that are highly price competitive; the ability to meet customer demand for additional value-added products and services; fluctuations in currency exchange rates, particularly with respect to the Canadian dollar; the ability to timely or adequately respond to technological changes in the industry; the impact of the Internet and other electronic media on the demand for envelopes and printed material; postage rates; the ability to manage operating expenses; the ability to manage financing costs and interest rate risk; a decline in business volume and profitability that could result in a further impairment of goodwill; the ability to retain key management personnel; the ability to identify, manage or integrate future acquisitions; the costs associated with and the outcome of outstanding and future litigation; and changes in government regulations.

In view of such uncertainties, investors should not place undue reliance on our forward-looking statements since such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks such as changes in interest and foreign currency exchange rates, which may adversely affect results of our operations and our financial position. Risks from interest and foreign currency exchange rate fluctuations are managed through normal operating and financing activities. We do not utilize derivatives for speculative purposes, nor have we hedged interest rate exposure through the use of swaps and options or foreign exchange exposure through the use of forward contracts.

Exposure to market risk from changes in interest rates relates primarily to our variable rate debt obligations. The interest on this debt is the London Interbank Offered Rate ("LIBOR") plus a margin. At September 30, 2005, we had variable rate debt outstanding of $115.7 million. A 1% increase in LIBOR on the maximum amount of debt subject to variable interest rates, which was $312.1 million, would increase our annual interest expense by $3.1 million.

We have operations in Canada, and thus are exposed to market risk for changes in foreign currency exchange rates of the Canadian dollar. In the three and nine months ended September 30, 2005, a uniform 10% strengthening of the U.S. dollar relative to the Canadian dollar would have resulted in a decrease in sales of approximately $5.1 million and $15.1 million, respectively, and a decrease in net income of approximately $0.5 and $2.2 million, respectively. The effects of foreign currency exchange rates on future results would also be impacted by changes in sales levels or local currency prices.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to any material information relating to the Company and its subsidiaries required to be included in the Company's Exchange Act filings.

CHANGES IN INTERNAL CONTROLS. During September 2005, the Company made changes in its senior financial management. There were, however, no changes made in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II

ITEM 2. ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	(a) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED*	(b) AVERAGE PRICE PAID PER SHARE (OR UNIT)	(c) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	(SHA MA U
05/01/05 - 05/31/05	24,733	$7.56/share		
06/01/2005 - 06/30/2005				
07/01/2005 - 07/31/2005				
TOTAL	24,733	$7.56/SHARE		