CENVEO, INC
Form 10-K
February 28, 2007

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, 2006

COMMISSION FILE NUMBER 1-12551

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

COLORADO	84-1250533
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ONE CANTERBURY GREEN 201 BROAD STREET STAMFORD, CT	06901
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

As of February 14, 2007 the registrant had 53,670,182 shares of common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS

THE COMPANY

We are a leading provider of print and visual communications, with one-stop services from design through fulfillment. According to Printing Impressions, we are the fifth largest diversified printing company in North America. During 2006, we substantially completed the major restructuring program that we initiated in September 2005. We operate our businesses in two complimentary operating segments: Envelopes, Forms and Labels and Commercial Printing. Our broad portfolio of services and products includes envelopes, forms and labels, packaging, business documents and commercial printing, provided through a network of 46 production, fulfillment and distribution facilities, which we refer to as manufacturing facilities, throughout North America.

Our envelopes, forms and labels segment operates 22 manufacturing facilities and specializes in the manufacturing and printing of customized envelopes for billing and remittance and direct mail advertising. This segment also produces business forms and labels, custom and stock envelopes, and mailers generally sold to third-party dealers such as print distributors, office products suppliers and office-products retail chains. Envelopes, forms and labels had net sales of $780.7 million, $767.4 million and $754.6 million, in 2006, 2005 and 2004, respectively. Total assets for envelopes, forms and labels were $484.4 million and $613.6 million, as of December 31, 2006 and 2005, respectively.

In March 2006, we sold our Canadian envelope operations and certain other assets to the Supremex Income Fund, which we refer to as the Fund, a Canadian open-ended trust (see Sale and Closure of Non-Strategic or Underperforming Assets).

Our commercial printing segment operates 20 manufacturing facilities and specializes in the printing of annual reports, car brochures, brand marketing collateral, specialty packaging, and general commercial printing. Commercial printing had net sales of $730.5 million, $827.4 million and $843.0 million, in 2006, 2005 and 2004, respectively. Total assets for commercial printing were $394.0 million and $438.9 million, as of December 31, 2006 and 2005, respectively.

See Note 18 of our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

OUR STRATEGY

The key elements of our strategy are:

FOCUS ON QUALITY AND ACCOUNTABILITY. We have taken several actions to improve the quality and accountability of our management and employees. Our senior management team has extensive experience in the printing industry and in turning around underperforming businesses. We also realigned our employee compensation and performance incentives with shareholder objectives.

COST REDUCTIONS. Since 2005, we have implemented cost savings programs including the consolidation of our purchasing activities and manufacturing platform, the reduction of corporate and field human resources, streamlining information technology infrastructure and eliminating all discretionary spending. As a result of these and prior actions, we reduced headcount by approximately 2,800 employees and consolidated 11 manufacturing facilities during 2006 and 2005. We believe that these programs, once fully implemented by the end of 2007, will eliminate at least $100 million in annual costs.

SALE AND CLOSURE OF NON-STRATEGIC OR UNDERPERFORMING ASSETS. We have assessed our operations with a view toward eliminating operations that are not aligned with our core operations or are underperforming. For example, on March 31, 2006, we sold our Canadian envelope business, Supremex, and certain other assets to the Fund. In addition, in 2006 and 2005, we sold three and six operations, respectively, that were small and not strategic to us, and closed three facilities in both years

that were underperforming. We continue to evaluate the sale or closure of facilities that no longer meet our strategic goals or performance targets.

STRATEGIC ACQUISITIONS. We continuously review acquisition opportunities and pursue acquisitions to diversify our product offerings, and increase our economies of scale, which we believe will favorably impact our margins and profitability. We focus on opportunities that permit us to expand our product and service offerings or achieve operating efficiencies such as increased utilization of our assets. In July 2006, we acquired Rx Technology Corporation, which we refer to as Rx Technology, a leading manufacturer of prescription drug labels to supplement our existing labels platform. During 2006, we fully integrated Rx Technology into our envelopes, forms and labels segment. On February 12, 2007, we acquired PC Ink Corp., which we refer to as Printegra, a leading producer of printed business communication documents, labels and envelopes regularly used by small and large businesses. With the acquisition of Printegra, we have increased our offering of products to our existing base of customers, by including short run documents, labels, and envelope products. At the same time, customers of Printegra are now able to access our broad offering of products and services. In December 2006, we entered into a definitive merger agreement with Cadmus Communications Corporation, which we refer to as Cadmus. We believe that when fully integrated, the addition of Cadmus will create significant benefits for us. For example, we expect to realize significant economies of scale resulting from the increased volume of business and believe that this will enable us to purchase raw materials, primarily paper and ink and other supplies, on more favorable terms and ensure better availability of these materials in tight markets. The purchase of Cadmus is subject to customary closing conditions that include, among other things, approval from Cadmus shareholders and closing of our required financing. We expect the purchase of Cadmus to close in March 2007, subject to the above closing conditions.

REDUCTION OF DEBT AND DEBT REFINANCING. As of December 31, 2006, we reduced our total outstanding debt by $136.8 million as compared to December 31, 2005. We accomplished this by using a significant amount of the $212 million of proceeds from the sale of Supremex, and certain other assets, to pay down the entire outstanding balance of the senior secured credit facility and another credit facility, and from our debt refinancing in June 2006. In June 2006, we entered into a new credit facility agreement that provides for $525 million of senior secured credit facilities consisting of a $200 million, six-year revolving credit facility and a $325 million seven-year term loan facility, which we refer to as the Credit Facilities. Proceeds from the Credit Facilities and other available cash were used to fund the tender offer and extinguish approximately $339.5 million in aggregate principal amount of the 9 5/8% Senior Notes due 2012 or 97% of the amount outstanding, and to retire the Company's existing senior secured credit facility (which had no amounts outstanding). The Cadmus and Printegra acquisitions are expected to increase our revenue, earnings and cash flow along with our asset base; however, these transactions will also increase our debt levels. The Printegra acquisition was financed using our revolving credit facility. The Cadmus acquisition is expected to be financed through an increase to our term loan, additional revolving credit facility borrowing, and the assumption of some of Cadmus' debt, offset in part by our cash on hand, which will include $67 million of estimated net proceeds from the sale of our remaining units in the Fund. See Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K.

PARTNERING WITH OUR SUPPLIERS TO REDUCE COSTS AND INCREASE EFFICIENCY. We continue to partner with our key suppliers to improve our pricing, payment terms, and inventory management, as well as to ensure a stable source of supply.

OUR PRODUCTS AND SERVICES

ENVELOPES, FORMS AND LABELS. We serve two primary envelope markets: (1) customized envelopes and packaging products, including Tyvek 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 use with billing and remittance, direct mail marketers, catalog orders to 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, offered through office products retailers or contract stationers. For our small and mid-size business forms and labels customers, we print a diverse line of custom products, including both traditional and specialty forms and labels for use with desktop PCs and laser printers. Through Rx Technology, we produce and sell pressure sensitive prescription labels to the U.S. retail pharmacy market. Our printed office products include business documents, specialty documents 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.

COMMERCIAL PRINTING. We serve two primary commercial printing markets as well as 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. Additionally, we offer our 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.

OUR INDUSTRIES

Envelope printing and manufacturing combined constitute an estimated $4 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.

The printing industry in the U.S. is highly fragmented with over 34,000 printing businesses and total estimated sales of $90 billion, according to the U.S. Census Bureau. 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 $50 billion serviced by over 15,000 printing businesses.

RAW MATERIALS

The primary materials used in 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 key suppliers and have not experienced any difficulties in obtaining the raw materials necessary for our operations. We believe that we purchase our materials and supplies at competitive prices due to our volume leverage.

The printing industry continues to experience some pricing pressure related to increases in the cost of materials used in the manufacture of our products. During 2005 and 2006, the industry experienced increases in the price of materials, however, for 2007 we expect to see some changes in materials pricing but not to the degree we saw in the previous two years.

Costs for uncoated paper, which is the primary raw material used in envelope manufacturing, increased in early 2005 as well as the first and second quarters of 2006. Industry prices for certain grades of coated paper, the primary raw material used by our commercial print operations, increased twice in 2005 and once in the first quarter of 2006. One coated paper supplier has announced an increase in the first quarter of 2007. We expect pricing to be somewhat uncertain for the first half of the year since we believe that the recently announced increase would not appear to be supportable given current paper market conditions.

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In 2006, we also saw industry price increases in other materials that we use in the manufacturing of envelopes and commercial printed materials. These price increases were primarily driven by the surging costs of energy and petrochemical-based products. Window film, used in envelope production, experienced two increases in 2005 and one in 2006. The increases in 2005 were due to availability of polystyrene resin and the effects of U.S. gulf region hurricanes. In the fourth quarter of 2006, another increase took effect due to the rising costs of polystyrene resin and benzene. Prices for ink, used in both of our segments, rose in the first quarters of both 2006 and 2007.

Adhesives, used in the manufacturing of envelopes, are another petrochemical-based product that has experienced price increases. There were two adhesive price increases in 2005 and two in 2006, caused primarily by the rising price of corn and vinyl acetate monomer. In 2005, the major printing plate manufacturers announced increases primarily due to the increased price of aluminum, caused by supply shortages and an energy intensive production process.

We expect to pass on a substantial portion of the price increases we receive for raw materials through the pricing of our products.

PATENTS, TRADEMARKS AND TRADE NAMES

We market products under a number of trademarks and trade names. We also hold or have rights to use various patents relating to our businesses. Our patents and trademarks expire at various times through 2023. Our sales do not materially depend upon any single patent or group of related patents.

COMPETITION

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 video disks, 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 (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 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 label 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 service levels.

We principally operate in the commercial print portion of the print industry, with related service offerings designed to provide customers complete solutions for communicating their messages to targeted audiences. The environment is highly competitive in most of our product categories and geographic regions. Competition is based largely on price, quality and servicing the special needs of customers. Management believes that overcapacity exists in most commercial printing markets. Therefore, competition is intense. In this competitive pricing environment, companies have focused on reducing costs in order to preserve operating margins. Management believes this environment will continue to lead to more consolidation within the commercial print industry as companies seek economies of scale, broader customer relationships, geographic coverage and product breadth to overcome or offset excess industry capacity and pricing pressures.

BACKLOG

At December 31, 2006 and 2005, the backlog of customer orders to be produced or shipped was approximately $78 million and $100 million, respectively.

EMPLOYEES

We employed approximately 6,600 people as of December 31, 2006, including approximately 1,300 union employees 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.

ENVIRONMENTAL REGULATIONS

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 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, new or more stringent interpretations of existing laws and regulations will not result in material expenses.

CAUTIONARY STATEMENTS

Certain statements in this report, particularly statements found in "Risk Factors," "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" and similar expressions, or as other statements that do not relate solely to historical facts. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Management believes these statements to be reasonable when made. However, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. As a result, these statements speak only as of the date they were 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. In view of such uncertainties, investors should not place undue reliance on our forward-looking statements.

Such forward-looking statements involve known and unknown risks, including, but not limited to, those identified in Item 1A. Risk Factors and changes in general economic, business and labor conditions. More information regarding these and other risks can be found below under "Risk Factors," "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this report.

AVAILABLE INFORMATION

Our Internet address is: www.cenveo.com. References to our website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document. 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 soon as reasonably practicable after such documents are filed electronically with the Securities and Exchange

Commission. Our Code of Business Conduct and Ethics is also posted on our website. In addition, our earnings conference calls are archived for replay on our website, and presentations to securities analysts are also included on our website. In August 2006, we submitted to the New York Stock Exchange a certificate of our Chief Executive Officer certifying that he is not aware of any violation by us of New York Stock Exchange corporate governance listing standards. We also filed as exhibits to our annual report on Form 10-K for the fiscal year ended December 31, 2005 certificates of the Chief Executive Officer and Chief Financial Officer as required under Section 302 of the Sarbanes-Oxley Act.

ITEM 1A. RISK FACTORS

Many of the factors that affect our business and operations involve risks and uncertainties. The factors described below are some of the risks that could materially harm our business, financial conditions, results of operations or prospects.

OUR SUBSTANTIAL LEVEL OF INDEBTEDNESS COULD IMPAIR OUR FINANCIAL CONDITION, OUR ABILITY TO FULFILL OBLIGATIONS UNDER OUR INDEBTEDNESS, AND OUR ABILITY TO INCUR ADDITIONAL DEBT TO FUND FUTURE NEEDS.

We have incurred substantial amounts of debt, and our level of debt may affect our operations and our ability to make payments required by our debt agreements. As of December 31, 2006, our total indebtedness was approximately $675.3 million.

Our level of indebtedness could affect our future operations. For example:

* our ability to obtain additional financing for working capital, capital expenditures, acquisitions or other corporate purposes in the future may be limited;

* a substantial portion of our cash flow from operations will be dedicated to the payment of principal and interest on indebtedness, and will not be available to fund working capital, capital expenditures, acquisitions and other business purposes;

* we may be more vulnerable to economic downturns or other adverse developments than less leveraged competitors; and

* borrowings under a portion of our debt facilities bear interest at short-term market rates, which could result in higher interest expense in the event of increases in interest rates.

Our ability to make scheduled payments of principal or interest on, or to reduce or refinance, indebtedness will depend on our future operating performance and resulting cash flow. To a certain extent, our future performance will be subject to prevailing economic conditions and financial, competitive and other factors beyond our control. We cannot be certain that our business, or businesses that we may acquire in the future, will generate sufficient cash flow from operations to enable us to service all of our debt. We may need additional funding from either debt or equity offerings in the future in order to refinance our existing debt or to continue to grow our business. We cannot be sure that we will have access to any such sources of funding on satisfactory terms or on a timely basis or at all.

THE TERMS OF OUR INDEBTEDNESS IMPOSE SIGNIFICANT RESTRICTIONS ON OUR OPERATING AND FINANCIAL FLEXIBILITY.

The indentures governing our outstanding senior subordinated notes and the agreement governing our credit facility contain various covenants that limit our ability, to, among other things:

* incur or guarantee additional indebtedness;

* make restricted payments, including dividends;

* create or permit to exist certain liens;

* enter into business combinations and asset sale transactions;

* make investments;

* enter into transactions with affiliates; and

* enter into new businesses.

These restrictions could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. Our credit facility also contains maximum leverage and minimum interest coverage financial ratios that we must comply with on a quarterly basis. Our ability to meet these financial ratios may be affected by events beyond our control, such as general economic conditions. Our failure to maintain applicable financial ratios, in certain circumstances, would prevent us from borrowing additional amounts under our credit facility, and could result in a default under that facility. A default could cause the indebtedness outstanding under the facility and, by reason of cross-acceleration or cross-default provisions, the senior subordinated notes and any other indebtedness we may then have, to become immediately due and payable. If we are unable to repay those amounts, the lenders under our credit facility could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral granted to them which secures that indebtedness. If the lenders under our credit facility were to accelerate the repayment of outstanding borrowings, we might not have sufficient assets to repay our indebtedness.

THERE ARE ADDITIONAL BORROWINGS AVAILABLE TO US THAT COULD FURTHER EXACERBATE THE RISKS DESCRIBED ABOVE.

Despite current indebtedness levels, we may incur substantial additional indebtedness in the future. The credit facility agreement and the terms of the indenture governing the senior subordinated notes limit, but do not prohibit us from doing so. After funding the Printegra acquisition on February 12, 2007, our revolving credit facility would permit additional borrowings of up to $92 million, after considering letters of credit issued against our revolving credit facility, the majority of which support our workers compensation programs. We expect to fund the acquisition of Cadmus by incurring approximately $440 million of additional debt, including assuming a portion of existing Cadmus debt. If this additional debt is added to our current debt levels, the related risks that we now face could intensify.

THE INSTRUMENTS GOVERNING OUR CURRENT DEBT CONTAIN CROSS-DEFAULT PROVISIONS THAT MAY CAUSE ALL OF THE DEBT ISSUED UNDER SUCH INSTRUMENTS TO BECOME IMMEDIATELY DUE AND PAYABLE AS A RESULT OF A DEFAULT UNDER AN UNRELATED DEBT INSTRUMENT.

Our credit facility and the indenture pursuant to which our existing senior subordinated notes were issued contain several financial and operating covenants and require us to meet certain financial ratios and tests.

Our failure to comply with the obligations contained in the credit facility or the indenture governing the senior subordinated notes could result in an event of default under our credit facility, or the senior subordinated notes indenture, which could result in the related debt and the debt issued under other instruments to become immediately due and payable. In such event, we would need to raise funds through any number of alternative available sources, which funds may not be available to us on favorable terms, on a timely basis, or at all. Alternatively, such a default would require us to sell our assets and otherwise curtail operations in order to pay our creditors.

TO THE EXTENT THAT WE MAKE SELECT ACQUISITIONS, WE MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE THE ACQUIRED BUSINESSES INTO OUR BUSINESS.

In the past, we have grown rapidly through acquisitions. In July 2006, we acquired Rx Technology and in February 2007, we acquired Printegra. We expect to close the purchase of Cadmus in March 2007. In addition, we intend to pursue additional favorable acquisition opportunities. Although we believe that our experience in making acquisitions is an important capability, the terms governing our current indebtedness limit the acquisitions that we may currently pursue. In addition, to the extent that we pursue additional acquisitions, we cannot be certain that we will be able to identify and acquire other businesses on favorable terms or that, if we are able to acquire businesses on favorable terms, we will be able to successfully integrate the acquired businesses into our current business, or profitably manage them.

OUR INDUSTRY IS HIGHLY COMPETITIVE.

The printing industry in which we compete is extremely fragmented and highly competitive. In the commercial printing market, we compete against large, diversified and financially stronger printing companies, as well as regional and local commercial printers, many of which are capable of competing with us on volume, price and production quality. In the envelope market, we compete primarily with a few multi-plant and many single-plant companies servicing regional and local markets. In the printed office products market, we compete primarily with document printers with nationwide manufacturing locations and regional or local printers. We believe there currently is excess capacity in the printing industry, which has resulted in excessive price competition that may continue. We are constantly seeking ways to reduce our costs, become more efficient and attract customers. However, we cannot be certain that these efforts will be successful, or that our competitors will not be more successful in their similar efforts. If we fail to reduce costs and increase productivity, or to meet customer demand for new value-added products, services or technologies, we may face decreased revenues and profit margins in markets where we encounter price competition, which in turn could reduce our cash flow and profitability.

THE PRINTING BUSINESS WE COMPETE IN GENERALLY DOES NOT HAVE LONG-TERM CUSTOMER AGREEMENTS, AND OUR PRINTING OPERATIONS MAY BE SUBJECT TO QUARTERLY AND CYCLICAL FLUCTUATIONS.

The printing industry in which we compete is generally characterized by individual orders from customers or short-term contracts. Most of our customers are not contractually obligated to purchase products or services from us. Most customer orders are for specific printing jobs, and repeat business largely depends on our customers' satisfaction with the work we do. Although our business does not depend on any one customer or group of customers, we cannot be sure that any particular customer will continue to do business with us for any period of time. In addition, the timing of particular jobs or types of jobs at particular times of year may cause significant fluctuations in the operating results of our various printing operations in any given quarter. We depend to some extent on sales to certain industries, such as the advertising and automotive industries and a sizeable percentage of our commercial printing sales are related to advertising. To the extent these industries experience downturns; the results of our operations are adversely affected.

FACTORS AFFECTING THE UNITED STATES (U.S.) POSTAL SERVICE CAN IMPACT DEMAND FOR OUR PRODUCTS.

Most envelopes used in the U.S. are sent through the mail and, as a result, postal rates can significantly affect envelope usage. Historically, increases in postal rates, relative to changes in the cost of alternative delivery means and/or advertising media, have resulted in temporary reductions in the growth rate of mail sent, including direct mail, which is a meaningful portion of our envelope volume. A postal rate increase is expected in 2007. We cannot be sure that direct mail marketers will not reduce their volume as a result of any such increases. Because postal rate increases in the U.S. are outside our control, we can provide no assurance that any increases in U.S. postal rates will not have a negative effect on the level of mail sent, or the volume of envelopes purchased. In such event, we may experience a decrease in cash flow, profitability or financial position.

Factors other than postal rates that detrimentally affect the volume of mail sent through the U.S. postal system may also negatively affect our business. Congress enacted a federal "Do Not Call" registry in response to consumer backlash against telemarketers and is contemplating enacting so-called "anti-spam" legislation in response to consumer complaints about unsolicited e-mail advertisements. If similar legislation becomes directed at direct mail advertisers, our business could be negatively affected.

INCREASES IN PAPER COSTS AND ANY DECREASES IN THE AVAILABILITY OF PAPER COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Paper costs represent a significant portion of our cost of materials. Changes in paper pricing generally do not affect the operating margins of our commercial printing business because the

transactional nature of the business provides the ability to pass on any announced paper price increases, dependent upon the competitive environment. Paper pricing does, however, impact the operating margins of our envelope business as price increases for those paper grades traditionally have not been as easy to pass on due to the contractual nature of the relationships with that customer base and the market expectations surrounding that business. Moreover, rising paper costs and their consequent impact on our pricing could lead to a decrease in our volume of units sold. Although we have been successful in negotiating favorable pricing terms with paper vendors, we cannot be certain we will be successful in negotiating favorable pricing terms in the future. This may result in decreased sales volumes as well as decreased cash flow and profitability.

We depend on the availability of paper in manufacturing most of our products. During periods of tight paper supply, many paper producers allocate shipments of paper based on the historical purchase levels of customers. As a result of our large volume paper purchases from several paper producers, we generally have not experienced difficulty in obtaining adequate quantities of paper, although we have occasionally experienced minor delays in delivery. Although we believe that our attractiveness to vendors as a large volume paper purchaser will continue to enable us to receive adequate supplies of paper in the future, unforeseen developments in world paper markets coupled with shortages of raw paper could result in a decrease in supply, which in turn would cause a decrease in the volume of products we could produce and sell and a corresponding decrease in our cash flow and profitability.

WE REPORTED LOSSES FROM CONTINUING OPERATIONS IN 2006, 2005 AND 2004, AND IT IS UNCERTAIN WHETHER OUR RETURN TO PROFITABILITY CAN BE ASSURED.

We reported a loss in 2006 from continuing operations primarily as a result of expenses related to our restructuring initiatives and our loss on early extinguishment of debt, in 2005 primarily as a result of expenses related to our restructuring initiatives, as well as the change in the composition of our board of directors in September 2005, and in 2004, primarily as a result of the loss on early extinguishment of debt. Our ability to return to profitability depends on the continued realization of the benefits of our restructuring initiatives and our ability to implement our current strategic plan.

THE AVAILABILITY OF THE INTERNET AND OTHER ELECTRONIC MEDIA MAY ADVERSELY AFFECT OUR BUSINESS.

Our business is highly dependent upon the demand for envelopes sent through the mail. Such demand comes from utility companies, banks and other financial institutions, among other companies. Our printing business also depends upon demand for printed advertising and business forms, among other products. Consumers increasingly use the internet and other electronic media to purchase goods and services, and for other purposes such as paying utility and credit card bills. Advertisers use the internet and other electronic media for targeted campaigns directed at specific electronic user groups. Large and small businesses use electronic media to conduct business, send invoices and collect bills. As a result, we expect the demand for envelopes and other printed materials for these purposes to decline over time. In addition, companies have begun to deliver annual reports electronically rather than in printed form, which could reduce demand for our high impact color printing.

Although we expect other trends, such as the growth of targeted direct mail campaigns based upon mailing lists generated by electronic purchases, to cause overall demand for envelopes and other printed materials to continue growing at rates comparable to recent historical levels, we cannot be certain that the acceleration of the trend towards electronic media will not cause a decrease in the demand for our products. If demand for our products decreases, our cash flow or profitability could materially decrease.

WE DEPEND ON GOOD LABOR RELATIONS.

As of December 31, 2006, we had approximately 6,600 employees, of which approximately 1,300 were members of various local labor unions. If our unionized employees were to engage in a concerted strike or other work stoppage, or if other employees were to become unionized, we could experience a disruption of operations, higher labor costs or both. A lengthy strike could result in a material decrease in our cash flow or profitability.

ENVIRONMENTAL LAWS MAY AFFECT OUR BUSINESS.

Our operations are subject to federal, state, local and foreign environmental laws and regulations, including those relating to air emissions, wastewater discharge, waste generation, handling, management and disposal, and remediation of contaminated sites. In addition, some of the sellers from which we have bought businesses in the past have been designated as potentially responsible parties under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, or similar legislation in Canada. CERCLA imposes strict, and in certain circumstances joint and several liability for response costs. Liability may also include damages to natural resources. We believe that we have minimal exposure as a result of such designations, either because indemnities were obtained in the course of acquisitions or because of the de minimis nature of the claims, or both. We also believe that our current operations are in compliance with applicable environmental laws and regulations. We cannot be certain, however, that available indemnities will be adequate to cover all costs or that currently unknown conditions or matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not have a material adverse effect on our business or operations in the future.

WE ARE DEPENDENT ON KEY MANAGEMENT PERSONNEL.

Our success will continue to depend to a significant extent on our executive officers and other key management personnel. We cannot be certain that we will be able to retain our executive officers and key personnel, or attract additional qualified management in the future. In addition, the success of any acquisitions we may pursue may depend, in part, on our ability to retain management personnel of the acquired companies. We do not carry key person insurance on any of our managerial personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently occupy 42 printing and manufacturing facilities in the United States and in Canada and four print fulfillment and distribution centers, of which 24 are owned and 22 are leased. In addition to on-site storage at these facilities, we store products in 11 warehouses, of which two are owned and nine are leased, and we have nine sales offices. We have 10 facilities that have ceased operations; four of which are on the market for sale, four that are available for sublease and two currently being sublet. We lease 46,474 square feet of office space in Stamford, Connecticut, 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 us. In the case of administrative proceedings related to environmental matters involving governmental authorities, we do not believe that any imposition of monetary damages or fines would be material.

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

No matters were submitted to a vote of security holders during the three months ended December 31, 2006.

PART II

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

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "CVO." As of February 14, 2007, there were 326 shareholders of record and, as of that date, we estimate that there were 12,500 beneficial owners holding stock in nominee or "street" name. The following table sets forth, for the periods indicated, the range of the intraday high and low sales prices for our common stock as reported by the NYSE:

2006	HIGH	LOW
First Quarter	$16.58	$12.75
Second Quarter	19.96	15.01
Third Quarter	21.70	17.32
Fourth Quarter	21.86	17.79

2005	HIGH	LOW
First Quarter	$ 5.86	$2.85
Second Quarter	10.00	5.25
Third Quarter	10.50	7.37
Fourth Quarter	14.23	9.31

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

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data has been derived from, and should be read in conjunction with, the related consolidated financial statements, either elsewhere in this report or in reports we have previously filed with the Securities and Exchange Commission.

	YEARS ENDED DECEMBER 31,			
	2006	2005	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net sales	$1,511,224	$1,594,781	$1,597,652	$1,531,486
Restructuring, impairment and other charges	(41,096)	(77,254)	(5,407)	(6,860)
Operating income (loss)	66,679	(26,310)	37,428	47,798
Loss on early extinguishment of debt	(32,744)	--	(17,748)	--
Loss from continuing operations	(21,825)	(148,101)	(44,708)	(17,884)
Income from discontinued operations, net of taxes	140,480(1)	13,049	25,000	23,356
Cumulative effect of change in accounting principle	--	--	--	(322)
Net income (loss)	118,655(1)	(135,052)	(19,708)	5,150
Basic and diluted loss per share from continuing operations	(0.41)	(2.96)	(0.94)	(0.38)
Basic and diluted income per share from discontinued operations	2.64	0.26	0.53	0.49
Basic and diluted income (loss) per share	2.23	(2.70)	(0.41)	0.11
Total assets	1,001,950	1,079,564	1,174,747	1,111,446
Total long-term debt, including current maturities	675,295	812,136	769,769	748,961