SANDERSON FARMS INC
Form 4
January 05, 2009

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
COCKRELL D MICHAEL

(Last) (First) (Middle)

127 FLYNT ROAD

(Street)

LAUREL, MS 39443

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SANDERSON FARMS INC [SAFM]

3. Date of Earliest Transaction (Month/Day/Year)
12/31/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Treasurer & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/31/2008		A		174	A	$ 34.56	34,338	D	
Common Stock	12/31/2008		A		43	A	$ 0 (1)	34,381	D	
Common Stock								3,527	I	Allocated to Reporting Persons account in Issuer ESOP

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
COCKRELL D MICHAEL 127 FLYNT ROAD LAUREL, MS 39443	X		Treasurer & CFO	

Signatures

/s/ D. Michael Cockrell	01/05/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares granted by the Issuer pursuant to the matching contribution provisions of the Issuer's Management Share Purchase Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. t> from our print segment, an increase in operating income from our envelope segment of $2.3 million and a decrease in corporate expenses of $1.3 million, partially offset by a decrease in operating income from our label segment of $7.6 million.

See Segment Operations below for a more detailed discussion of the primary factors for the changes in operating income by reportable segment.

Interest Expense

Interest expense decreased $4.8 million to $20.3 million in the third quarter of 2016, as compared to $25.1 million in the third quarter of 2015. The decrease was primarily due to the Exchange Offer; the partial retirement of our 11.5% Notes during 2015 and 2016 and the partial retirement of our 7% Notes during 2016. Interest expense in the third quarter of 2016 reflected average outstanding debt of approximately $1.1 billion and a weighted average interest rate of 6.6%. This compares to average outstanding debt of approximately $1.2 billion and a weighted average interest rate of 7.3% in the third quarter of 2015.

Interest expense decreased $10.1 million to $65.9 million in the first nine months of 2016, as compared to $76.0 million in the first nine months of 2015. The decrease was primarily due to the Exchange Offer, the partial retirement of our 11.5% Notes during 2015 and 2016 and the partial retirement of our 7% Notes during 2016. Interest expense in the first nine months of 2016 reflected average outstanding debt of approximately $1.1 billion and a weighted average interest rate of 6.9%. This compares to average outstanding debt of approximately $1.2 billion and a weighted average interest rate of 7.3% in the first nine months of 2015.

We expect interest expense for the remainder of 2016 will be lower than the same period in 2015, primarily due to the Exchange Offer and the partial retirement of our 11.5% Notes and our 7% Notes.

(Gain) Loss on Early Extinguishment of Debt

In the third quarter of 2016, we recorded a gain on early extinguishment of debt of $7.4 million related to the July 2016 Repurchase, of which $8.4 million related to a discount on the purchase price, partially offset by the fair value of the Warrants issued of $0.7 million, a write off of unamortized debt issuance costs of $0.2 million, and $0.1 million of transaction fees and expenses. The fair value of the Warrants was determined using the Black-Scholes-Merton option-pricing model.

In the second quarter of 2016, we recorded a gain on early extinguishment of debt of $46.1 million related to the Exchange Offer, of which $49.6 million related to a discount on the difference of the net carrying value of the extinguished 11.5% Notes and the fair value of the new 6.000% Unsecured Notes, partially offset by a write-off of unamortized debt issuance costs of $0.8 million, a write-off of original issuance discount of $1.2 million and $1.5 million of transaction fees and expenses.

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Additionally, during the second quarter of 2016, we recorded a gain on early extinguishment of debt of $5.4 million related to the repurchase of $16.5 million of our 7% Notes, of which $6.0 million related to a discount on the purchase price, partially offset by $0.5 million in fees paid to lenders, and a write off of unamortized debt issuance costs of $0.1 million.

Lastly, during the second quarter of 2016, in connection with ABL Amendment No. 4, we recorded a loss on early extinguishment of debt of $0.2 million related to the write off of unamortized debt issuance costs.

In the first quarter of 2016, we recorded a gain on early extinguishment of debt of $16.5 million related to the repurchase of $34.5 million of our 7% Notes, of which $16.8 million related to a discount on the purchase price, partially offset by a write-off of unamortized debt issuance costs of $0.3 million. Additionally, we recorded a gain on early extinguishment of debt of $5.1 million related to the repurchase of $10.0 million of our 11.5% Notes, of which $5.3 million related to a discount on the purchase, partially offset by a write-off of unamortized debt issuance costs of $0.1 million and a write-off of original issuance discount of $0.1 million.

In the second quarter of 2015, we recorded a loss on early extinguishment of debt of $0.1 million related to the repurchase of $6.8 million of our 11.5% Notes.

In the first quarter of 2015, we recorded a loss on early extinguishment of debt of $0.4 million related to the repurchase of $15.8 million of our 11.5% Notes, of which $0.2 million related to the write-off of unamortized debt issuance costs, and $0.2 million related to the write-off of original issuance discount.

We recognized a total gain on early extinguishment of debt of $7.4 million and $80.3 million during the three and nine months ended October 1, 2016, respectively, and a total loss on early extinguishment of debt of zero and $0.6 million during the three and nine months ended September 26, 2015, respectively.

Other Income, Net

During the three and nine months ended October 1, 2016, we recognized other income, net, of $1.7 million and $2.8 million, respectively. This is primarily comprised of a gain of approximately $2.1 million recognized in connection with a sale of a manufacturing facility within our envelope segment during the third quarter of 2016 and a gain of approximately $2.0 million during the second quarter of 2016 in connection with the 2016 Label Transaction, partially offset by non-operating expenses.

During the three and nine months ended September 26, 2015, we recognized other income, net, of $1.3 million and $0.8 million, respectively. Other income, net, for both periods in 2015 is primarily related to cash proceeds of $2.2 million received during the third quarter of 2015 related to the 2015 Label Transactions.

Income Taxes

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
	(in thousands)		(in thousands)	
Income tax expense (benefit) from U.S. operations	$934	$ (931)	$3,229	$ (2,218)
Income tax expense from foreign operations	53	246	831	498
Income tax expense (benefit)	$987	$ (685)	$4,060	$ (1,720)
Effective income tax rate	10.1 %	16.1 %	5.3 %	10.2 %

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Income Tax Expense

In the third quarter of 2016, we had an income tax expense of $1.0 million, compared to an income tax benefit of $0.7 million in the third quarter of 2015. The tax expense for the third quarter of 2016 and the tax benefit for the third quarter of 2015 primarily related to income taxes on our domestic operations.

In the first nine months of 2016, we had an income tax expense of $4.1 million, compared to an income tax benefit of $1.7 million in the first nine months of 2015. The tax expense for the first nine months of 2016 and the tax benefit for the first nine months of 2015 primarily related to income taxes on our domestic operations.

Our effective tax rate for the three and nine months ended 2016 and 2015 differed from the federal statutory rate, primarily as a result of having a full valuation allowance related to our net deferred tax assets in the U.S. We do not believe our unrecognized tax benefits will change significantly for the remainder of 2016. Our federal tax loss carryforward at the end of the third quarter 2016 was $207.2 million after utilization of $125.3 million during the first nine months of 2016, primarily due to the gain on early extinguishment of debt and the sale of our Packaging Business.

Valuation Allowance

We review the likelihood that we will realize the benefit of our deferred tax assets, and therefore the need for valuation allowances, on a quarterly basis, or more frequently if events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset is considered, along with all other available positive and negative evidence. The factors considered in our determination of the probability of the realization of the deferred tax assets include, but are not limited to: recent historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, the duration of statutory carryforward periods and tax planning strategies. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence which is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of pre-tax income or loss adjusted for significant permanent book to tax differences as a measure of our cumulative results in recent years. In the United States, our analysis indicates that we have cumulative three year historical losses on this basis. While there are significant impairment, restructuring and refinancing charges driving our cumulative three year loss, this is considered significant negative evidence which is objective and verifiable and, therefore, difficult to overcome. However, the three year loss position is not solely determinative and accordingly, we consider all other available positive and negative evidence in our analysis. During the current year, we have recorded significant taxable income as a result of our debt refinancing and repurchases during the first nine months of 2016, as well as the sale of our Packaging Business in the first quarter of 2016. Although significant taxable income will be realized during the current year related to these transactions, we considered our remaining operations to currently not rise to the level needed in order to overcome the negative evidence from the recent prior years to merit the reversal of the valuation allowance completely. Based upon our analysis, we believe it is more likely than not that the net deferred tax assets in the United States will not be fully realized in the future. Accordingly, we have a valuation allowance related to those net deferred tax assets of $131.6 million as of October 1, 2016. Our valuation allowance declined $31.6 million from January 2, 2016, primarily due to the gain on early extinguishment of debt and the sale of our Packaging Business. We will continue to closely monitor our position with respect to the full realization of our net deferred tax assets and the corresponding valuation allowances on those assets and make adjustments as needed in the future as our facts and circumstances dictate.

There is no corresponding income tax benefit recognized with respect to losses incurred and no corresponding income tax expense recognized with respect to earnings generated in jurisdictions with a valuation allowance. This causes variability in our effective tax rate. We intend to maintain the valuation allowances until it is more likely than not that the net deferred tax assets will be realized. If operating results improve on a sustained basis, or if certain tax planning strategies are implemented, our conclusions regarding the need for valuation allowances could change, resulting in the reversal of some or all of the valuation allowances in the future, which could have a significant impact on income tax expense or benefit in the period recognized and subsequent periods.

Income (Loss) from Discontinued Operations, Net of Taxes

On January 19, 2016, we completed the sale of our Packaging Business. We received total cash proceeds of approximately $88.1 million, net of transaction costs of $6.3 million. This resulted in the recognition of a total pre-tax loss of $5.1 million, of which a gain of $1.2 million and a loss of $0.1 million were recorded during the three and nine months ended October 1, 2016,

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respectively. In the fourth quarter of 2015, we recorded a non-cash loss on the sale of discontinued operations of $5.0 million. The loss was based on the executed purchase agreement and the net assets of the Packaging Business. During the fourth quarter of 2015, we recorded a non-cash goodwill impairment charge of $9.9 million related to this transaction. In addition to the proceeds, $5.0 million of purchase price consideration has been held in escrow and will be paid to us subject to the satisfaction of certain conditions.

In the third quarter of 2016, income from discontinued operations was $0.7 million, primarily attributable to the receipt of a portion of the purchase price consideration held in escrow.

In the first nine months of 2016, loss from discontinued operations was $4.4 million, primarily comprised of: (i) a loss from operations of $3.0 million primarily from our Packaging Business; (ii) a loss on sale of our Packaging Business of $0.1 million; and (iii) tax expense of $1.4 million.

In the third quarter of 2015, income from discontinued operations was $0.3 million, primarily comprised of income from operations of our Packaging Business of $0.9 million and tax expense of $0.5 million.

In the first nine months of 2015, income from discontinued operations was $1.8 million, primarily comprised of income from operations of our Packaging Business of $3.2 million and tax expense of $1.4 million.

Segment Operations

Our Chief Executive Officer monitors the performance of the ongoing operations of our three reportable segments. We assess performance based on net sales and operating income.

Envelope

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
	(in thousands)		(in thousands)	
Segment net sales	$212,578	$ 218,454	$654,115	$ 664,003
Segment operating income	$16,832	$ 17,746	$51,604	$ 49,297
Operating income margin	7.9 %	8.1 %	7.9 %	7.4 %
Restructuring and other charges	$496	$ 181	$1,202	$ 3,318

Segment Net Sales

Segment net sales for our envelope segment decreased $5.9 million, or 2.7%, in the third quarter of 2016, as compared to the third quarter of 2015, and decreased $9.9 million, or 1.5%, in the first nine months of 2016, as compared to the first nine months of 2015. These decreases were primarily due to: (i) lower sales volumes in our office products business line, primarily due to marketplace trends and certain customer inventory rationalization programs resulting in lower demand; and (ii) lower sales volumes from our wholesale and generic transactional envelope products. These decreases were partially offset by increased sales volumes within our direct mail platform, primarily driven by financial institutions.

Segment Operating Income

Segment operating income for our envelope segment decreased $0.9 million, or 5.2%, in the third quarter of 2016, as compared to the third quarter of 2015. The decrease was primarily due to: (i) lower gross margin of $1.0 million

primarily due to lower sales volumes from office products, wholesale and generic transactional products partially offset by higher sales volumes from direct mail products; and (ii) higher restructuring and other charges of $0.3 million due to overhead cost eliminations implemented during the third quarter of 2016. These decreases were partially offset by lower selling, general and administrative expenses of $0.4 million primarily due to cost reduction initiatives and lower commission expense due to lower sales volumes.

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Segment operating income for our envelope segment increased $2.3 million, or 4.7%, in the first nine months of 2016, as compared to the first nine months of 2015. The increase was primarily due to (i) lower restructuring and other charges of $2.1 million, primarily related to charges associated with the integration of certain assets of National with our operations in 2015; and (ii) lower selling, general and administrative expenses of $0.6 million primarily due to cost reduction initiatives and lower sales volumes. These increases were partially offset by lower gross margin of $0.4 million primarily due to lower sales volumes.

Print

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
	(in thousands)		(in thousands)	
Segment net sales	$121,739	$123,875	$360,879	$360,520
Segment operating income	$5,446	$1,541	$10,756	$6,207
Operating income margin	4.5 %	1.2 %	3.0 %	1.7 %
Restructuring and other charges	$477	$4,473	$1,319	$6,340

Segment Net Sales

Segment net sales for our print segment decreased $2.1 million, or 1.7%, in the third quarter of 2016, as compared to the third quarter of 2015, primarily due to: (i) lower sales volumes in our commercial print group, primarily driven by consumer products and educational customers and our publisher services group; and (ii) continued pricing pressures. These decreases were partially offset by: (i) higher sales volumes with our financial institution customers; and (ii) net sales generated from Asendia, as Asendia was only included in our 2015 results beginning on August 7, 2015, the date of acquisition.

Segment net sales for our print segment increased $0.4 million, or 0.1%, in the first nine months of 2016, as compared to the first nine months of 2015. These increases were primarily due to: (i) increased sales volume within our commercial print group, primarily driven by financial institutions; and (ii) net sales generated from Asendia, as Asendia was only included in our 2015 results beginning on August 7, 2015, the date of acquisition. These increases were partially offset by decreased sales volumes in our publisher services group and continued pricing pressures.

Segment Operating Income

Segment operating income for our print segment increased $3.9 million, or 253.4%, in the third quarter of 2016, as compared to the third quarter of 2015. The increase was primarily due to: (i) lower restructuring and other charges of $4.0 million due to the closure of a print facility during 2015; and (ii) higher gross margin of $0.6 million. These increases were partially offset by higher selling, general and administrative expenses of $0.7 million.

Segment operating income for our print segment increased $4.5 million, or 73.3%, in the first nine months of 2016, as compared to the first nine months of 2015. The increase was primarily due to lower restructuring and other charges of $5.0 million due to the closure of a print facility during 2015, partially offset by higher selling, general and administrative expenses of $0.7 million. Gross margin remained relatively flat.

Label

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015

	(in thousands)		(in thousands)	
Segment net sales	$71,638	$ 77,454	$227,763	$ 238,296
Segment operating income	$6,764	$ 10,146	$23,373	$ 31,000
Operating income margin	9.4 %	13.1 %	10.3 %	13.0 %
Restructuring and other charges	$36	$ 281	$4,132	$ 479

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Segment Net Sales

Segment net sales for our label segment decreased $5.8 million, or 7.5%, in the third quarter of 2016, as compared to the third quarter of 2015, primarily due to: (i) lower sales of $4.7 million related to the exit of our coating operation; and (ii) volume declines within certain of our existing long run label customers due to item rationalization.

Segment net sales for our label segment decreased $10.5 million, or 4.4%, in the first nine months of 2016, as compared to the first nine months of 2015, primarily due to: (i) lower sales of $6.5 million related to the exit of our coating operation; and (ii) volume declines within certain of our existing long run label customers, partially offset by: (i) increased volume within our custom label business, primarily due to our e-commerce initiatives; and (ii) one-time production incentives of $3.0 million related to the exit of our coating operation.

Segment Operating Income

Segment operating income for our label segment decreased $3.4 million, or 33.3%, in the third quarter of 2016, as compared to the third quarter of 2015. This decrease was primarily due to: (i) lower gross margin of $2.8 million primarily due to the exit of our coating operation and lower sales volumes; and (ii) higher selling, general and administrative expenses of $1.4 million primarily due to higher information technology depreciation and advertising expenses related to our e-commerce initiatives. These decreases were partially offset by lower amortization expense of $0.5 million due to an intangible asset being fully amortized during 2016.

Segment operating income for our label segment decreased $7.6 million, or 24.6%, in the first nine months of 2016, as compared to the first nine months of 2015. This decrease was primarily due to: (i) higher restructuring and other charges of $3.7 million related to our plans to exit our coating operation and the write down of an investment; (ii) higher selling, general and administrative expenses of $2.2 million, primarily due to higher information technology depreciation expense related to our e-commerce initiatives; and (iii) the impact on our gross margin due to the exit of our coating operation and lower sales volumes. These decreases were partially offset by: (i) production incentives of $3.0 million related to the exit of our coating operation; and (ii) decreased amortization expense of $1.3 million due to an intangible asset being fully amortized during 2016.

Corporate Expenses

Corporate expenses decreased $1.7 million in the third quarter of 2016, as compared to the third quarter of 2015, and decreased $1.3 million in the first nine months of 2016, as compared to the first nine months of 2015. These decreases were primarily due to: (i) lower selling, general and administrative expenses due to cost reduction initiatives; and (ii) income generated from our transition services agreement in connection with the sale of our Packaging Business. The decreases in corporate expenses were partially offset by increased restructuring and other charges due to overhead cost eliminations implemented during the third quarter of 2016.

Restructuring and Other Charges

Restructuring

We currently have two active cost savings, restructuring and integration plans, which are related to the implementation of cost savings initiatives focused on overhead cost eliminations, including headcount reductions and the closure of certain manufacturing facilities. We refer to these plans as the 2016 Plan and the 2015 Plan. During the first quarter of 2016, we began implementing the 2016 Plan and continued the 2015 Plan.

During 2015, we integrated certain assets of National, which we refer to as the National Plan, by completing the closure and consolidation of nine manufacturing facilities into our existing envelope operations and two new facilities.

We also currently have certain residual cost savings, restructuring and integration plans, which we refer to as the Residual Plans. As a result of these cost savings actions, over the last several years we have closed or consolidated a significant amount of manufacturing facilities and have had a significant number of headcount reductions. We do not anticipate any significant future expenses related to the Residual Plans, other than modifications to current assumptions for lease terminations, multi-employer pension withdrawal liabilities and ongoing expenses related to maintaining restructured assets.

During the third quarter of 2016, as a result of our restructuring and integration activities, we incurred $2.4 million of restructuring and other charges, which included $2.0 million of employee separation costs, multi-employer pension withdrawal expenses of $0.2 million, and building clean-up and other expenses of $0.2 million.

During the first nine months of 2016, as a result of our restructuring and integration activities, we incurred $8.3 million of restructuring and other charges, which included $2.9 million of employee separation costs, $2.4 million of net non-cash charges on long-lived assets, $0.3 million of equipment moving expenses, $0.2 million of lease termination expenses, multi-employer pension withdrawal expenses of $0.8 million, and building clean-up and other expenses of $1.7 million.

During the third quarter of 2015, as a result of our restructuring and integration activities, we incurred $5.5 million of restructuring and other charges, which included $0.7 million of employee separation costs, $0.1 million of equipment moving expenses, multi-employer pension withdrawal expenses of $4.2 million, and building clean-up and other expenses of $0.4 million.

During the first nine months of 2015, as a result of our restructuring and integration activities, we incurred $11.5 million of restructuring and other charges, which included $2.4 million of employee separation costs, $2.1 million of net non-cash charges on long-lived assets, $0.2 million of equipment moving expenses, $0.4 million of lease termination expenses, multi-employer pension withdrawal expenses of $4.6 million, and building clean-up and other expenses of $1.9 million.

As of October 1, 2016, our total restructuring liability was $20.2 million, of which $4.3 million is included in other current liabilities and $15.9 million, which is expected to be paid through 2032, is included in other liabilities in our condensed consolidated balance sheet. Our multi-employer pension withdrawal liabilities are $18.1 million of our remaining restructuring liabilities. We believe these liabilities represent our anticipated ultimate withdrawal liabilities; however, we are exposed to significant risks and uncertainties arising from our participation in these multi-employer pension plans. While it is not possible to quantify the potential impact of our future actions or the future actions of other participating employers from the multi-employer pension plans for which we have exited, our anticipated ultimate withdrawal liabilities may be significantly impacted in the future due to lower future contributions or increased withdrawals from other participating employers.

Goodwill and Intangible Asset Impairments

There were no goodwill or intangible asset impairments recorded in the three and nine months ended October 1, 2016, or September 26, 2015.

Liquidity and Capital Resources

Net Cash Provided By Operating Activities of Continuing Operations. Net cash provided by operating activities of continuing operations was $13.4 million in the first nine months of 2016, primarily due to: (i) a source of cash from accounts receivables due to the timing of collections from and sales to our customers; (ii) lower inventories as a result of our inventory management programs and (iii) our net income of $68.2 million adjusted for non-cash items of $28.6 million, primarily our gain on early extinguishment of debt of $80.3 million, offset by depreciation and amortization expense of $35.5 million. These inflows were partially offset by a use of cash of $64.0 million from (i) accounts payable primarily resulting from the timing of vendor payments due to lower volumes and (ii) other working capital changes, primarily resulting from the timing of customer related liabilities and lower freight activity due to lower volumes.

Net cash provided by operating activities of continuing operations was $1.5 million in the first nine months of 2015, primarily due to our net loss of $13.3 million adjusted for non-cash items of $47.9 million, partially offset by: (i) a use of cash of $23.1 million from working capital; and (ii) pension and other postretirement plan contributions of $5.6 million. The use of cash from working capital primarily resulted from: (i) a use of cash from inventory, due to the timing of orders from our customers; and (ii) the timing of interest payments on our long-term debt and timing of

payments to our vendors, partially offset by a source of cash from accounts receivables due to the timing of collections from and sales to our customers.

Cash provided by operating activities is generally sufficient to meet daily disbursement needs. On days when our cash receipts exceed disbursements, we reduce our credit facility balance or place excess funds in conservative, short-term investments until there is an opportunity to pay down debt. On days when our cash disbursements exceed cash receipts, we use invested cash balances and/or our credit facility to fund the difference. As a result, our daily credit facility balance fluctuates depending on working capital needs. Regardless, at all times we believe we have sufficient liquidity available to us to fund our cash needs.

Net Cash (Used In) Provided By Operating Activities of Discontinued Operations. Represents the net cash used in or provided by operating activities of our Discontinued Operations.

Net Cash Used In Investing Activities of Continuing Operations. Net cash used in investing activities of continuing operations was $20.9 million in the first nine months of 2016, primarily due to capital expenditures of $31.2 million, offset by

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proceeds of $8.3 million from the sale of property, plant and equipment and proceeds of $2.0 million related to the 2016 Label Transactions.

Net cash used in investing activities of continuing operations was $17.6 million in the first nine months of 2015, primarily resulting from capital expenditures of $19.2 million and $2.0 million of cash used in the acquisition of Asendia during the third quarter of 2015. This was partially offset by cash proceeds from the 2015 Label Transactions of $2.2 million, and the sale of property, plant and equipment of $1.5 million.

We estimate that we will spend approximately $35.0 to $45.0 million on capital expenditures in 2016, after considering proceeds from the sale of property, plant and equipment. Our primary sources for our capital expenditures are cash generated from operations, proceeds from the sale of property, plant and equipment, and financing capacity within our current debt arrangements. We plan to make additional investments in the business of our Company during 2016 using proceeds from the sale of our Packaging Business.

Net Cash Provided By (Used In) Investing Activities of Discontinued Operations. Represents the net cash used in or provided by our Discontinued Operations related to investing activities. In the first nine months of 2016, the cash provided by discontinued investing activities of $94.4 million is comprised of gross cash proceeds received related to the sale of our Packaging Business.

In the first nine months of 2015, the cash used in discontinued investing activities of $1.9 million is comprised of capital expenditures made by our Packaging Business.

Net Cash (Used In) Provided By Financing Activities. Net cash used by financing activities of continuing operations was $82.5 million in the first nine months of 2016 primarily due to: (i) net repayments of $73.1 million under our ABL Facility; (ii) cash paid of $40.2 million related to the extinguishment of $72.1 million of our 7% Notes; (iii) financing-related costs and expenses of $10.0 million, primarily related to the Exchange Offer; (iv) cash paid of $4.7 million related to the extinguishment of $10.0 million of our 11.5% Notes; and (iv) various repayments on other long-term debt totaling $4.1 million, partially offset by proceeds of $50.0 million from the 4% Secured Notes during the second quarter of 2016.

Net cash provided by financing activities of continuing operations was $2.8 million in the first nine months of 2015 primarily due to net borrowings of $30.4 million under our ABL Facility, partially offset by: (i) the extinguishment of $22.6 million of our 11.5% Notes; (ii) various repayments on other long-term debt totaling $3.3 million; and (iii) the payment of $1.3 million of financing-related costs and expenses.

Net Cash Used In Financing Activities of Discontinued Operations. Represents the net cash used in financing activities of our Discontinued Operations.

Long-Term Debt. Our total outstanding long-term debt, including current maturities, was approximately $1.0 billion as of October 1, 2016, a decrease of $164.5 million from January 2, 2016. The decrease was primarily due to: (i) the Exchange Offer, which resulted in a decrease of $62.6 million in debt, net of capitalized debt issuance costs and original issuance discount; (ii) net repayments of $73.1 million under our ABL Facility during the first nine months of 2016; (iii) the extinguishment of $72.1 million of our 7% Notes during the first nine months of 2016; and (iv) the first quarter extinguishment of $10.0 million of our 11.5% Notes, all of which is partially offset by the issuance of our 4% Secured Notes. As of October 1, 2016, approximately 93% of our debt outstanding was subject to fixed interest rates. As of October 31, 2016, we had approximately $91.7 million of borrowing availability under our ABL Facility. From time to time, we may seek to refinance our debt obligations, or purchase our outstanding notes in open market purchases, privately negotiated transactions or other means. Such transactions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Letters of Credit

As of October 1, 2016, we had outstanding letters of credit of approximately $17.7 million related to performance and payment guarantees. Based on our experience with these arrangements, we do not believe that any obligations that may arise will be significant.

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Credit Ratings

Our current credit ratings are as follows:

Rating Agency	Corporate Rating	6.000% Secured Notes	8.500% Notes	11.5% Notes	6.000% Unsecured Notes	Outlook	Last Update
Moody’s	Caa1	B3	Caa2	Caa3	NR	Stable	June 2016
Standard & Poor’s	CCC+	B-	CCC	NR	CCC-	Negative	July 2016

In June 2016, Moody's Investors Services, which we refer to as Moody's, upgraded our Corporate Rating and the ratings on our 6.000% Secured Notes and 8.500% Notes. Additionally, Moody's affirmed the ratings on our 11.5% Notes. In July 2016, Standard & Poor's Ratings Services, which we refer to as Standard & Poor's, upgraded our Corporate Rating, rated our 6.000% Unsecured Notes for the first time and withdrew the rating on our 11.5% Notes. Additionally, the ratings on our 6.000% Notes and 8.500% Notes remained unchanged. The detail of all current ratings has been provided in the table above.

The terms of our existing debt do not have any rating triggers that impact our funding availability or influence our daily operations, including planned capital expenditures. We do not believe that our current ratings will unduly influence our ability to raise additional capital if and/or when needed. Some of our constituents closely track rating agency actions and would note any raising or lowering of our credit ratings; however, we believe that along with reviewing our credit ratings, additional quantitative and qualitative analysis must be performed to accurately judge our financial condition.

As of October 1, 2016, we were in compliance with all covenants under our long-term debt.

We expect that our internally generated cash flows and financing available under our ABL Facility will be sufficient to fund our working capital needs for the next twelve months; however, this cannot be assured.

Seasonality

Our envelope market and certain segments of the direct mail market have historically experienced seasonality with a higher percentage of volume of products sold to these markets during the third and fourth quarters of the year, primarily related to back-to-school campaigns and holiday purchases.

Our print plants experience seasonal variations. Revenues associated with consumer publications, such as holiday catalogs and automobile brochures tend to be concentrated from July through October. Revenues associated with the educational and scholastic market and promotional materials tend to decline in the summer. As a result of these seasonal variations, some of our print operations operate at or near capacity at certain times throughout the year.

Our custom label business has historically experienced a seasonal increase in net sales during the first and second quarters of the year, primarily resulting from the release of our product catalogs to the trade channel customers and our customers’ spring advertising campaigns. Our prescription label business has historically experienced seasonality in net sales due to cold and flu seasons, generally concentrated in the fourth and first quarters of the year. As a result of these seasonal variations, some of our label operations operate at or near capacity at certain times throughout the year.

New Accounting Pronouncements

We are required to adopt certain new accounting pronouncements. See Note 1 to our condensed consolidated financial statements included herein.

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 SEC. In addition, our earnings conference calls are archived for replay on our website.

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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 our results of operations and financial position.

As of October 1, 2016, we had variable rate debt outstanding of $75.1 million. A change of 1% to the current London Interbank Offered Rate would have a minimal impact to our interest expense.

Our changes in foreign currency exchange rates are managed through normal operating and financing activities. Subsequent to the sale of the Packaging Business on January 19, 2016, we have minimal exposure to market risk for changes in foreign currency exchange rates. For the three and nine months ended October 1, 2016, a uniform 10% strengthening of the United States dollar relative to the local currency of our foreign operations would have had a minimal impact to our sales and operating income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of October 1, 2016. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 1, 2016, in order to provide reasonable assurance that information required to be disclosed in our filings under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in the Exchange Act Rule 13a-15(f) and 15d-15(f)) during the quarter ended October 1, 2016, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1. 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 effect on our consolidated financial statements.

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 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk factors" in our Annual Report on Form 10-K for the year ended January 2, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

As disclosed in prior filings, during the third quarter of 2016 the Company's wholly-owned subsidiary, Cenveo Corporation, repurchased an aggregate of $21.0 million of its 7% senior exchangeable notes due 2017 for an aggregate price of $13.0 million and warrants to purchase 1,255,485 shares of common stock, each such warrant being currently exercisable for 0.125 shares of Common Stock at $12.00 per share.

Item 6. Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement dated as of July 17, 2007, among Cenveo Corporation, Commercial Envelope Manufacturing Co. Inc. and its shareholders—incorporated by reference to Exhibit 2.1 to registrant's current report on Form 8-K filed July 20, 2007.
3.1	Articles of Incorporation—incorporated by reference to Exhibit 3(i) of the registrant's quarterly report on Form 10-Q for the quarter ended June 30, 1997, filed August 14, 1997.
3.2	Articles of Amendment to the Articles of Incorporation dated May 17, 2004—incorporated by reference to Exhibit 3.2 to registrant's quarterly report on Form 10-Q for the quarter ended June 30, 2004, filed August 2, 2004.
3.3	Amendment to Articles of Incorporation and Certificate of Designations of Series A Junior Participating Preferred Stock of the registrant dated April 20, 2005—incorporated by reference to Exhibit 3.1 to registrant's current report on Form 8-K, filed April 21, 2005.
3.4	Bylaws as amended and restated effective March 31, 2014—incorporated by reference to Exhibit 3.2 to registrant's current report on Form 8-K, filed April 4, 2014.

4.1	Indenture, dated as of March 28, 2012, among the Company, Cenveo Corporation, the other guarantors named therein and U.S. Bank National Association, as Trustee, relating to the 11.5% Notes—incorporated by reference to Exhibit 4.3 to registrant's current report on Form 8-K filed March 30, 2012.
4.2	Form of Guarantee issued by the Company and the other guarantors named therein relating to the 11.5% Notes—incorporated by reference to Exhibit 4.4 to registrant's current report on Form 8-K filed March 30, 2012.
4.3	Registration Rights Agreement, dated as of March 28, 2012, among the Company, Cenveo Corporation, the other guarantors named therein and the initial purchasers named therein relating to the 11.5% Notes—incorporated by reference to Exhibit 4.7 to registrant's current report on Form 8-K filed March 30, 2012.

Item 6. Exhibits

4.4	Indenture, dated as of March 28, 2012, by and among the Company, Cenveo Corporation, the other guarantors named therein and U.S. Bank National Association, as Trustee, relating to the 7% Notes—incorporated by reference to Exhibit 4.5 to registrant's current report on Form 8-K filed March 30, 2012.
4.5	Form of Guarantee issued by the Company and the other guarantors named therein relating to the 7% Notes—incorporated by reference to Exhibit 4.6 to registrant's current report on Form 8-K filed March 30, 2012.
4.6	Indenture, dated as of June 26, 2014, by and among Cenveo, Inc., Cenveo Corporation, the other guarantors named therein and The Bank of New York Mellon, as Trustee and Collateral Agent, relating to the 6.000% Senior Priority Secured Notes due 2019--incorporated by reference to Exhibit 4.1 to registrant's current report on Form 8-K filed July 1, 2014.
4.7	Form of Guarantee issued by Cenveo, Inc. and the other guarantors named therein relating to the 6.000% Senior Priority Secured Notes due 2019--incorporated by reference to Exhibit 4.2 to registrant's current report on Form 8-K filed July 1, 2014.
4.8	Indenture, dated as of June 26, 2014, by and among Cenveo, Inc., Cenveo Corporation, the other guarantors named therein and The Bank of New York Mellon, as Trustee and Collateral Agent, relating to the 8.500% Junior Priority Secured Notes due 2022--incorporated by reference to Exhibit 4.3 to registrant's current report on Form 8-K filed July 1, 2014.
4.9	Form of Guarantee issued by Cenveo, Inc. and the other guarantors named therein relating to the 8.500% Junior Priority Secured Notes due 2022--incorporated by reference to Exhibit 4.4 to registrant's current report on Form 8-K filed July 1, 2014.
4.10	Intercreditor Agreement, dated as of June 26, 2014, by and among Cenveo, Inc., Cenveo Corporation, the other guarantors named therein, Bank of America, N.A., as ABL Agent, and The Bank of New York Mellon, as Collateral Agent with respect to the 6.000% Senior Priority Notes due 2019--incorporated by reference to Exhibit 4.5 to registrant's current report on Form 8-K filed July 1, 2014.
4.11	Intercreditor Agreement, dated as of June 26, 2014, by and among Cenveo, Inc., Cenveo Corporation, the other guarantors named therein, Bank of America, N.A., as ABL Agent, The Bank of New York Mellon, as Collateral Agent with respect to the 6.000% Senior Priority Notes due 2019, and The Bank of New York Mellon, as Collateral Agent with respect to the 8.500% Junior Priority Secured Notes due 2022--incorporated by reference to Exhibit 4.6 to registrant's current report on Form 8-K filed July 1, 2014.
4.12	Indenture, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., the other guarantors party thereto and The Bank of New York Mellon, as trustee, relating to the 6.000% Senior Notes due 2024--incorporated by reference to Exhibit 4.1 to registrant's current report on Form 8-K filed June 16, 2016.
4.13	Form of Guarantee issued by Cenveo, Inc. and the other guarantors named therein relating to the 6.000% Senior Notes due 2024--incorporated by reference to Exhibit 4.2 to registrant's current report on Form 8-K filed June 16, 2016.

4.14	Warrant Agreement, dated as of June 10, 2016, between Cenveo, Inc. and Computershare Trust Company, N.A., as warrant agent--incorporated by reference to Exhibit 4.3 to registrant's current report on Form 8-K filed June 16, 2016.
4.15	Warrant Registration Rights Agreement, dated as of June 10, 2016, between Cenveo, Inc. and Allianz Global Investors U.S. LLC--incorporated by reference to Exhibit 4.4 to registrant's current report on Form 8-K filed June 16, 2016.
4.16	Indenture and Note Purchase Agreement, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., the other guarantors party thereto, AllianzGI US High Yield Fund and Allianz Income and Growth Fund, as purchasers, each other noteholder from time to time party thereto and The Bank of New York Mellon, as trustee and collateral agent, relating to the 4.000% Senior Secured Notes due 2021--incorporated by reference to Exhibit 4.5 to registrant's current report on Form 8-K filed June 16, 2016.
4.17	Intercreditor Agreement, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., certain other subsidiaries of Cenveo, Inc. that become party thereto from time to time as guarantors, Bank of America, N.A., as administrative agent for the holders of the senior priority obligations, and The Bank of New York Mellon, as collateral agent for the holders of the junior priority obligations--incorporated by reference to Exhibit 4.6 to registrant's current report on Form 8-K filed June 16, 2016.

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Item 6. Exhibits

4.18	Amendment No. 1 to the Intercreditor Agreement, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., certain other subsidiaries of Cenveo, Inc. as guarantors, Bank of America, N.A., as administrative agent for the holders of the revolving credit obligations, The Bank of New York Mellon, as collateral agent for the holders of the 2016 secured notes obligations, and The Bank of New York Mellon, as collateral agent for the holders of the fixed asset obligations--incorporated by reference to Exhibit 4.7 to registrant's current report on Form 8-K filed June 16, 2016.
4.19	Amendment No. 1 to the Intercreditor Agreement, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., certain other subsidiaries of Cenveo, Inc. as guarantors, Bank of America, N.A., as administrative agent for the holders of the revolving credit obligations, The Bank of New York Mellon, as collateral agent for the holders of the 2016 secured notes obligations, The Bank of New York Mellon, as collateral agent for the holders of the senior priority fixed asset obligations, and The Bank of New York Mellon, as collateral agent for the holders of the junior priority obligations--incorporated by reference to Exhibit 4.8 to registrant's current report on Form 8-K filed June 16, 2016.
10.1	Support Agreement, dated May 10, 2016, by and among Cenveo, Inc., Cenveo Corporation and Allianz Global Investors U.S. LLC--incorporated by reference to Exhibit 99.2 to registrant's current report on Form 8-K filed May 11, 2016.
10.2	Amendment No. 4 to the Credit Agreement, dated as of June 10, 2016, among Cenveo Corporation, Cenveo, Inc., the lenders party thereto, Bank of America, N.A., as issuing bank and swingline lender, and each of the other loan parties thereto, and acknowledged by Bank of America, N.A., as administrative agent--incorporated by reference to Exhibit 10.1 to registrant's current report on Form 8-K filed June 16, 2016.
31.1*	Certification by Robert G. Burton, Sr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Scott J. Goodwin, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Executive Officer and of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

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*Filed herewith.
**Furnished herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Englewood, State of Colorado, on November 3, 2016.

CENVEO, INC.

By: /s/ Robert G. Burton, Sr.
Robert G. Burton, Sr.
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Scott J. Goodwin
Scott J. Goodwin
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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