

CONSOLIDATED GRAPHICS INC /TX/

Form 10-K

May 29, 2008

Table of Contents

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

FORM 10-K

(MARK ONE)

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MARCH 31, 2008
OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 001-12631**

CONSOLIDATED GRAPHICS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

TEXAS
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

76-0190827
(IRS EMPLOYER IDENTIFICATION NO.)

**5858 WESTHEIMER, SUITE 200
HOUSTON, TEXAS**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

77057
(ZIP CODE)

(713) 787-0977
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12(b) of the
Act:

**COMMON STOCK, PAR VALUE \$.01 PER
SHARE**
(TITLE OF CLASS)

NEW YORK STOCK EXCHANGE
(NAME OF EACH EXCHANGE
ON WHICH REGISTERED)

Securities registered pursuant to Section 12(g) of the
Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act.

Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Act.

Yes ☐ No ☐

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 ☒ 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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of September 30, 2007 (last business day of Consolidated Graphics, Inc.'s most recently completed second fiscal quarter):

COMMON STOCK, \$.01 PAR VALUE \$744,320,446

The number of shares outstanding of the registrant's common stock as of April 30, 2008:

COMMON STOCK, \$.01 PAR VALUE 11,081,158

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Shareholders' Meeting to be held on or about August 7, 2008, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this Form 10-K. Such Proxy Statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed filed for the purposes of this Form 10-K.

CONSOLIDATED GRAPHICS, INC.
FORM 10-K
FOR THE YEAR ENDED MARCH 31, 2008
INDEX

<u>Forward Looking Statements</u>	3
-----------------------------------	---

PART I

<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	9
<u>Item 1B. Unresolved Staff Comments</u>	12
<u>Item 2. Properties</u>	12
<u>Item 3. Legal Proceedings</u>	12
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	12

PART II

<u>Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	13
<u>Item 6. Selected Consolidated Financial Data</u>	14
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 7A. Quantitative and Qualitative Disclosure About Market Risk</u>	22
<u>Item 8. Financial Statements and Supplementary Data</u>	23
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	43
<u>Item 9A. Controls and Procedures</u>	43
<u>Item 9B. Other Information</u>	43

PART III

<u>Item 10. Directors and Executive Officers of the Registrant</u>	44
<u>Item 11. Executive Compensation</u>	44
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	44
<u>Item 13. Certain Relationships and Related Transactions</u>	44
<u>Item 14. Principal Accountant Fees and Services</u>	44

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	44
<u>Signatures</u>	47
<u>Exhibit Index</u>	48

<u>Exhibit 10.1</u>
<u>Exhibit 10.8</u>
<u>Exhibit 10.13</u>
<u>Exhibit 10.14</u>
<u>Exhibit 10.15</u>
<u>Exhibit 21</u>
<u>Exhibit 23</u>
<u>Exhibit 24</u>
<u>Exhibit 31.1</u>
<u>Exhibit 31.2</u>
<u>Exhibit 32.1</u>
<u>Exhibit 32.2</u>

Table of Contents

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, in which the Company discusses factors it believes may affect its performance or results in the future. Forward-looking statements are all statements other than historical facts, such as statements regarding assumptions, expectations, beliefs and projections about future events or conditions. You can generally identify forward-looking statements by the appearance in such a statement of words like anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, forecast, project, should or will or other comparable words or the negative of such words. The accuracy of the Company's assumptions, expectations, beliefs and projections depend on events or conditions that change over time and are thus susceptible to change based on actual experience, new developments and known and unknown risks, including those created by general market conditions, competition and the possibility that events may occur beyond the Company's control, which may limit its ability to maintain or improve its operating results or financial condition or acquire additional printing businesses. The Company gives no assurance that the forward-looking statements will prove to be correct and does not undertake any duty to update them. The Company's actual future results might differ from the forward-looking statements made in this Annual Report on Form 10-K for a variety of reasons, which include, stability in the economy and reasonable growth in the demand for its products, the continued availability of raw materials at affordable prices and retention of its key management and operating personnel, satisfactory labor relations, its ability to identify new acquisition opportunities, negotiate and finance such acquisitions on acceptable terms and successfully absorb and manage such acquisitions, as well as other risks described under the heading Risk Factors of this Annual Report on Form 10-K. You should pay particular attention to and review the important risk factors and cautionary statements described in the Risk Factors section, as well as the risk factors and cautionary statements described in the other documents the Company files or furnishes from time to time with the Securities and Exchange Commission, including its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Should one or more of the foregoing risks or uncertainties materialize, or should the Company's underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated in its forward-looking statements, and its business, financial condition and results of operations could be materially and adversely affected.

PART I

Item 1. Business

In this annual report, the words Consolidated Graphics, CGX, the Company, we, our and us refer to Consolidated Graphics, Inc, including our consolidated subsidiaries, unless the context indicates otherwise. Our fiscal year ends on March 31st.

Company Overview

Consolidated Graphics, headquartered in Houston, Texas, is a leading U.S. and Canadian general commercial printing company, with 70 printing businesses strategically located across 27 states plus one Canadian province. Each of our printing businesses has a well-established operating history, more than 25 years in most cases. Complementing the printing services we provide, we also offer (i) state-of-the-art fulfillment services from 13 fulfillment centers located at or near one of our printing businesses and (ii) proprietary digital technology solutions and e-commerce capabilities from two technology hubs located at our corporate headquarters and at one of our printing businesses in the Baltimore/Washington D.C. area.

Our sales are derived from providing commercial printing and print-related services. These services consist of (i) traditional print services, including electronic prepress, digital and offset printing, finishing, storage and delivery of high-quality printed documents which are custom manufactured to our customers' design specifications; (ii) fulfillment and mailing services for such printed materials; and (iii) digital technology solutions and e-commerce capabilities that enable our customers to more efficiently procure and manage printed materials and/or design, procure, distribute, track and analyze results of printing-based marketing programs and activities. Examples of the types of documents we print for our customers include high-quality, multi-color marketing materials, product and capability brochures, point-of-purchase displays, direct mail pieces, shareholder communications, trading cards, catalogs and training manuals.

The scope and extent of services provided to our customers typically varies for each individual order we receive, depending on customer-specific factors, including the intended uses for the printed materials. Furthermore, each of our printing businesses generally is capable of providing the complete range of our services to its customers. Accordingly, we do not operate our business in a manner that differentiates among our respective capabilities and services for financial or management reporting purposes, rather each of our printing businesses define a distinct reporting unit.

Table of Contents

The Company was incorporated in Texas in 1985. Our website address is www.cgx.com. We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (Exchange Act) and other filings as soon as reasonably practicable after we electronically file such reports with or furnish such reports to the Securities and Exchange Commission (SEC). In addition, the current forms of our Corporate Governance Guidelines, Code of Ethics, and the charters of the respective committees of our Board of Directors, and contact information for our Presiding Director for purposes of shareholder communications, are all available on our website. We will also provide printed copies of these materials to any shareholder upon request directed to Consolidated Graphics, Inc., Attn: Secretary, 5858 Westheimer, Suite 200, Houston, Texas 77057. We intend to disclose on our website any changes to or waivers from the Code of Ethics that are also required under SEC rules and regulations to be disclosed under Item 5.05 of Form 8-K. The information on our website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any other filings we make with the SEC.

Industry Background

The printing industry is one of the largest industries in the U.S. and is comprised of many segments, including general commercial printing, newspapers, directories, book and magazine publishing, financial printing, business forms, greeting cards and stationery-type products. We operate in the general commercial printing segment of the industry which generates in the U.S. over \$50 billion in annual sales based on available industry data. Most of the general commercial printing businesses operating in the U.S. today are privately-owned and individually generate less than \$35 million in annual sales.

A consolidation trend in the general commercial printing industry emerged in the 1990 s as owners of medium-sized printing businesses (those with annual sales of \$2 million to \$35 million) sought to evaluate exit strategies and address new industry challenges, a trend that has continued to date. In order to limit personal financial risk, increase personal financial liquidity, facilitate retirement goals or obtain access to additional resources that would support the continued growth of their businesses, owners of these printing businesses became more willing to sell their companies to larger, better-capitalized companies. We have been an industry-leader in the consolidation trend since our initial public offering in 1994. We believe that there are very few companies that currently possess the comparable objectives, financial strength and management expertise necessary to acquire such printing businesses.

Primary industry challenges faced by printing business owners include the need to make on-going investments in new technology and equipment and downturns in the economy. For example, most printing design and prepress activities are now accomplished in a digital environment. Prepress computer equipment based on a complete digital workflow, along with more sophisticated printing presses and finishing equipment, are more efficient, operate faster and require less labor than the equipment they typically replace. General commercial printing businesses must make substantial capital investments over time in new equipment and technology in order to remain competitive in the industry, but they may not have the financial resources to do so.

Because of the development and on-going advancement in digital technology, print buyers have increasingly sought shorter print runs, the ability to personalize more sophisticated marketing materials to strategically target certain markets or demographics, and e-commerce solutions for executing and controlling the print procurement and printed materials management processes. This factor has also contributed substantially to the burden on companies in our industry to invest in new technology and equipment to remain competitive. Additionally, large corporations have increasingly sought to achieve a reduction in operating costs by streamlining their print-related processes and limiting their number of suppliers. To accomplish these objectives, these large customers frequently seek to align themselves with printing companies that have a significant national presence and offer a wide range of commercial print capabilities and services, putting additional pressure on single-location, privately-held printing companies.

In general, changes in prevailing U.S. economic conditions significantly impact the general commercial printing industry (approximately 96% of our fiscal 2008 revenues were U.S.-based). To the extent weakness in the U.S. economy causes local and national corporations to reduce their spending on advertising and marketing materials, the demand for commercial printing services may be adversely affected. Further compounding a potential decline in demand, competitive pricing pressures may occur and negatively impact the level of sales and profit margins

throughout the industry. Beginning in 2000, industry conditions experienced a significant downturn due in part to overcapacity caused by a high rate of investment by the overall industry in new technology and equipment, which was subsequently followed by a broad deterioration in the U.S. economy. This downturn continued through 2003 and many printing businesses failed. The combination of these failures, and a subsequent strengthening in the U.S. economy, have resulted in generally stable industry conditions in recent years.

Table of Contents

Competition

The general commercial printing industry in the U.S. is highly fragmented and most customers procure print services from local sources. Therefore, we compete primarily with locally-based printing companies for most print projects. Most of our competitors are privately-held, single location operations; however, some competitors are large corporations, both publicly and privately owned.

The major competitive factors in our business are:

Extent and quality of customer service, including ability to meet customer deadlines

Quality of finished materials

Cost structure and sales pricing strategy

Financial strength

The ability to provide high-quality customer service is often dependent on production and distribution capabilities, along with the availability of equipment that is appropriate in size and function for a given project. We believe that our broad range of printing capabilities and services, along with our ability to use our leading geographic footprint to serve customers on local, regional and national levels, gives us a competitive advantage over smaller, local printing companies. Furthermore, the economic advantages created by our purchasing power, advanced technological capabilities and ability to utilize available production capacity throughout our organization, enable our printing businesses to compete more effectively and provide faster turnaround times than many of our competitors. Our strong financial position enables us to invest in newer, more efficient technology and equipment and to make strategic acquisitions, which expands our industry-leading position in terms of locations, capabilities, and services.

Business Strategy

Our overall business strategy is to be the market leader in the commercial printing industry by combining the customer service and responsiveness of well-managed, local printing businesses with the competitive advantages provided by a large national organization. Management at each of our printing businesses maintains responsibility for the day-to-day operations and profitability of their business, while continuing to strengthen and build new customer relationships in their respective markets. At the same time, our printing businesses are supported by the management expertise, purchasing power, technology investments, including infrastructure and support, national sales and marketing and other operating advantages that exist because they are part of a large national organization.

Internal Sales Growth Our printing businesses have numerous opportunities, individually and collectively, to achieve consistent, long-term sales growth at a rate that exceeds industry averages. Our current initiatives to drive internal sales growth include:

Aggressively pursuing new business opportunities and experienced sales professionals to gain market share and strengthen our competitive position going forward.

Continuing to invest in new equipment and technology that enables us to provide increasingly higher levels of service and a broader range of capabilities.

Capitalizing on our national presence and wide range of capabilities, including our technology related offerings (see *Printing Operations* *Print-Related Services* below) to pursue sole or preferred-source opportunities with national accounts.

Providing information and training to our sales professionals (688 currently) to ensure they are knowledgeable about the complete range of services and capabilities we offer.

Disciplined Acquisition Program We are actively seeking to grow a leading U.S. and Canadian geographic footprint through additional acquisitions of medium and large-sized general commercial printing businesses, typically ones that are well-managed, profitable and that generally have an excellent reputation and quality customer base. We may also acquire smaller and/or distressed printing businesses whose operations can be merged into one of our existing

locations. This type of transaction is commonly referred to as a tuck-in acquisition.

Cost Savings Because of our size and national presence, we leverage our economies of scale to obtain preferential pricing for paper and supplies used in the printing process and for newer, more efficient equipment. We have various national purchasing contracts in place with major suppliers and manufacturers. Our purchasing support staff continually monitor market conditions and negotiate pricing and other contractual terms with these vendors to maximize the cost savings we achieve under these agreements. In addition, we have centralized certain administrative services, such as human resources, treasury, tax and risk management, to generate cost savings.

Table of Contents

Best Practices/Benchmarking Management teams at our printing businesses have access to strategic counsel and professional management techniques in such areas as planning, organization, and controls. We provide a forum for them to share their knowledge of technical processes and their best practices with one another through periodic group meetings attended by top management and other key personnel. We utilize our wide-area network and management information systems to benchmark financial and operational data, and share such information across our printing businesses to help their management teams identify and respond to changes in operating trends.

Leadership Development Our program to recruit, train and develop recent college graduates as printing sales and management professionals is an integral component of our growth strategy. Participants in our Leadership Development Program follow a curriculum that provides them with technical industry knowledge, coupled with general business, managerial, sales and best practices training. Our Leadership Development Program is unique to the industry, and we believe it is a key factor in our ability to provide a high degree of quality customer service, as well as provide a pool of talent for future management positions at our printing businesses. As of April 30, 2008 we had 305 employees who were current participants in or graduates of this program, 21 of whom serve as the president of the printing business at which they are employed, representing 30% of our printing company presidents.

Printing Operations

We currently operate 70 printing businesses in 27 states and one Canadian province, plus 13 fulfillment centers and two technology hubs. Each printing business is operated as a wholly-owned subsidiary of our Company. We produce high-quality, custom-designed printed materials for a large base of customers in a broad cross-section of industries, the majority of which are located in the markets where our printing businesses are based. In addition to providing a full range of prepress, digital and offset printing and finishing services, our printing businesses offer fulfillment and mailing services, as well as e-commerce software solutions and other print-related, value-added services.

Commercial Printing Services

In general, commercial printing includes developing printable content through electronic prepress services, reproducing images on paper using printing presses and providing comprehensive finishing and delivery services. We maintain flexible production schedules in order to react swiftly to our customers' requirements. Many printing projects require fast turnaround times, from conception through delivery, and our printing businesses must be able to absorb unexpected or short-notice demands for our services when called upon to do so. Consequently, our printing businesses do not generally operate at full capacity.

Our electronic prepress services include all of the steps necessary to prepare media (photographs, artwork, and typed copy) for printing. This process involves converting the media into digital images, separating digital color images into process colors, and in some cases preparing a proof for customer approval. Most of our printing businesses produce printing plates using computer-to-plate technology, whereby digitized text, graphic images and line art are transferred directly from digital files onto printing plates. In addition, our printing businesses have adopted recent advances in technology that enable delivery of a high-quality proof for customer approval electronically via the Internet, eliminating the cost of producing and delivering a proof, or multiple rounds of proofs, in hard copy format. Computer-to-plate and remote proofing technology reduces costs, shortens turnaround times and improves product quality. We continually evaluate our existing electronic prepress capabilities and closely monitor the development of newer technology that may be used to increase productivity and improve quality to better serve our customers.

We primarily use offset lithography to reproduce images on paper, which is the process that generally provides the highest quality, lowest cost printed materials for most commercial printing projects. Short and medium-run projects are generally printed on sheetfed presses, while longer-run projects are typically printed on web presses. Our printing businesses primarily use sheetfed printing presses, which are generally capable of printing up to 16 pages of letter-sized finished product on a 28 by 40 inch sheet of paper with eight pages on each side (known as a 16-page signature). Currently our printing businesses operate a total of 289 sheetfed presses capable of simultaneously printing from one to 12 colors and are capable of running at speeds of up to 15,000 impressions an hour. We operate 63 half and full-size web printing presses which print up to eight colors on a continuous roll of paper, print up to 32-page signatures on both sides of the paper at speeds of up to 50,000 impressions an hour and are also capable of folding, gluing and/or perforating the printed material in a single pass.

Digital printing is a smaller but rapidly-growing component of the general commercial printing industry that enables high quality, variable data customization (such as personalization by name, relationship or interests) on very short to medium-run projects. We operate a total of 164 digital presses, including 64 high capacity, ultra high quality presses such as Kodak Nexpress, Xerox iGen3 and HP Indigo. Digital presses enable variable information printing and automatic personalization of printed materials.

Table of Contents

Our finishing services include cutting, folding, binding and other operations necessary to finish printed materials according to customer specifications. Many of our printing businesses also offer specialty finishing capabilities, such as die-cutting, embossing, uv coating, and foil stamping.

Print-related Services

By offering innovative print-related capabilities and e-commerce solutions that respond to the needs of our customers, we believe that our Company has a competitive advantage that will help us generate additional sales. We provide a variety of fulfillment services, which primarily include assembling, packaging, storing, and distributing printed promotional, educational, and training documents and materials on behalf of our customers. Many corporations utilize our fulfillment capabilities to help manage their inventories of printed materials, as well as to provide just in time assembly and delivery of printed materials to end users. Orders for fulfillment services are commonly received via proprietary, Internet-based print procurement and inventory management systems maintained by our printing businesses, as discussed below. Additionally, we provide extensive mailing services for printed materials, particularly consumer-direct marketing, advertising and promotional pieces produced for our customers. We also offer a number of options for sorting, packaging, inkjet labeling and shipping of printed materials.

Utilizing our information technology infrastructure and resources, as well as our expertise in digital technology, we offer print-related e-commerce solutions that enable our customers to (i) streamline their print procurement process and improve their ability to manage the printed materials they order and (ii) design, procure, distribute, track and analyze results of printing-based marketing programs and activities. Most of these e-commerce solutions are Internet-based, and like the printed materials we produce, are customized to the specific needs of our customers. For marketing purposes, we refer to our e-commerce capabilities using the CGXSolutions trademark. The key e-commerce capabilities we offer include:

StoreFront

A fully customizable online system with an array of tools that streamline the purchase, management and distribution of the customer's entire range of marketing materials

CrossMedia

A unique capability that enables the customer to create highly engaging personalized one-to-one direct mail campaigns designed to increase response rates

Digital asset management

A powerful online system that provides the customer limitless means to organize, protect and facilitate proper use of their vast library of digital assets

Digital print solutions

Provides print on demand capabilities giving the customer the flexibility to respond to market changes and manage inventories more efficiently. Our distribute and print system receives orders electronically, prepares them for production and distributes them across our network of digital presses across the U.S., reducing time to market and delivering product more efficiently.

Other e-commerce and electronic media services we offer include Internet services such as designing websites and programming interactive tools, CD-ROM development and production, foreign language translation services in over 100 different languages, composition and typesetting, and database management for customer-retention programs.

Under our national sales organization (which is discussed below), sales support for CGXSolutions is provided to our printing businesses to assist them in identifying prospective customers and marketing our suite of CGXSolutions capabilities and services. We maintain CGXSolutions project management and staff to design and develop customized solutions in response to the specific needs of each customer. We also utilize support staff at each of our printing

businesses who are trained and able to serve our customers' needs related to our CGXSolutions capabilities and services.

Sales and Marketing

Most of our sales are generated by individual orders through commissioned sales personnel. As of April 30, 2008 we employed 688 sales professionals. In addition to soliciting business from existing and prospective customers, our sales personnel act as liaisons between customers and our production departments and also provide technical advice and assistance to customers throughout the printing process.

The nature of commercial printing requires a substantial amount of interaction with customers, including personal sales calls, reviews of color proofs and press checks (customer approval of printed materials during the printing process). Our sales professionals and customer service personnel maintain strict control of the printing process for every job we produce as it moves through our scheduling, prepress, printing, and finishing operations.

Table of Contents

A significant element of our marketing focus is to ensure rapid response to customer requirements and produce high-quality printed materials at competitive prices. Rapid responsiveness is essential because of the short lead time on most commercial printing projects. Our printing operations are designed to maintain maximum flexibility to meet customer needs, both on scheduled and short-notice bases. Each of our printing businesses generally seek projects that it believes will best utilize its respective equipment and expertise; however, each has access to and is encouraged to offer its customers the broad range of capabilities we offer throughout our organization.

We also actively pursue opportunities to establish sole- or preferred-source, printing relationships with large corporations that are seeking to leverage their print spending and limit their number of commercial print providers. We refer to these customers as national accounts and aggregate sales to these customers as National Sales. To better position ourselves to capitalize on future national account opportunities, as well as to provide more sales training and support to our printing businesses, our national sales organization consists of an executive level team of sales and marketing professionals who play a key support role to the efforts of our printing businesses to identify and develop national account opportunities.

In fiscal 2008, our Strategic Sales (consisting of National Sales and CGXSolutions sales) grew by 28% and represented 18% of our total revenues. We expect Strategic Sales to be a significant component of our overall future internal sales growth.

Customers

Our diverse customer base includes both national and local corporations in the U.S. and Canada operating in a wide range of industries, as well as mutual fund companies, advertising agencies, graphic design firms, catalog retailers, direct mail marketers, state and local governments and quasi-governmental agencies, education institutions, not-for-profit associations, and political campaign organizations. During fiscal 2008, we served over 20,000 customers, and our top ten customers accounted for approximately 9% of total sales, with none representing more than 3% individually. We believe that our large and diverse customer base, broad geographic coverage of U.S. and Canada and extensive range of printing and print-related capabilities may lessen our exposure to economic slowdowns or other adverse consequences that may generally affect any particular industry or any particular geographic region. However, because we typically produce a large number of advertising and marketing materials for our customers, to the extent that advertising and marketing spending is reduced during an economic downturn, our consolidated financial condition or results of operations may be adversely affected.

Our customers generally are not contractually obligated to purchase printing services from us. Typically, we receive discrete orders from our customers for each printing project or service. Consequently, our continued engagement to provide additional commercial printing services largely depends upon, among other things, the customer's satisfaction with the quality of services we provide. Although we do not depend on any one customer, group of customers or type of customer, our sales to many of our largest customers may fluctuate from year to year depending upon the number, size and complexity of projects they initiate and award us.

Suppliers

We purchase raw materials used in the commercial printing process (such as paper, prepress supplies, ink, and boxes) from a number of major U.S. and Canadian, as well as many local, suppliers. We are not materially dependent on any one supplier and the raw materials we utilize are generally readily available. We use a two-tiered approach to purchasing in order to maximize the economies associated with our size, while maintaining the local efficiencies and time sensitivity required to meet customer demands. We negotiate master purchasing arrangements centrally with major suppliers and manufacturers to obtain preferential pricing terms, and then communicate the terms of these arrangements to our individual printing businesses. Each printing business orders goods and services through our major vendors as needed based on the terms set forth in our master purchasing agreements or, when appropriate, purchases locally. We continually monitor market conditions and product developments, as well as regularly review the contractual terms of our master purchasing agreements, to take advantage of our increasing buying power and maximize the benefits associated with these agreements. None of our supplier contracts obligate us to minimum purchase requirements that would result in us having to purchase excessive quantities of goods or incur a financial penalty.

We incur significant costs to purchase paper used in the printing process. However, fluctuations in paper pricing generally do not materially impact our operating margins because we typically quote, and subsequently purchase, paper for each specific printing project we are awarded. As a result, any changes in paper pricing are effectively passed through to customers by our printing businesses. The majority of our paper supply is obtained through merchant distributors. There are relatively few merchants that are considered national in scope in the U.S. and Canada, with numerous regional organizations that serve one or more of our printing businesses. We have negotiated master purchasing agreements with certain mills, which produce paper, and certain merchants, who distribute the paper produced by the mills. These agreements typically provide for volume-related discounts and additional periodic rebates based on the total amount of purchases made by our

Table of Contents

printing businesses from each mill and/or merchant. Certain of our mill suppliers produce a Consolidated Graphics branded paper we named Inspire, under arrangements generally similar to our other major vendor agreements. Inspire enables us to further leverage our purchasing power and differentiate ourselves to customers in the marketplace. During 2008, we introduced Inspire Earth. This branded paper features the same overall quality characteristics of

Inspire, is Forest Stewardship Council Certified, the global benchmark for responsible forest management, and contains 10% post-consumer waste.

We also purchase a large quantity of prepress supplies, consisting mainly of plates and proofing materials. There are a limited number of key manufacturers of these materials, and we generally purchase prepress supplies from both major and regional distributors. We have obtained volume-related discounts and incentive arrangements from these manufacturers and receive periodic rebates based on the total amount of prepress supplies we purchase through these distributors.

Employees

As of April 30, 2008, we had 6,757 employees throughout our organization. Of this total, 807 were employed subject to the terms of various collective bargaining agreements, 462 of which are under collective bargaining agreements that have expired or will expire within one year. We are currently in negotiations for new collective bargaining agreements with unions at five of our printing businesses with expired collective bargaining agreements. We believe that our relations with our employees are generally satisfactory.

Government Regulation and Environmental Matters

Our printing businesses are subject to the environmental laws and regulations of the U.S. and Canada as well as state, provincial and local laws and regulations concerning emissions into the air, discharges into waterways and the generation, handling and disposal of waste materials. The commercial printing process generates substantial quantities of inks, solvents and other waste products requiring disposal under the numerous laws and regulations relating to the environment. Our printing businesses typically recycle waste paper and contract for the removal of waste products. We believe our Company is in material compliance with all applicable air quality, waste disposal and other environmental-related rules and regulations, as well as with other general employee health and safety laws and regulations. We do not anticipate any material future capital expenditures for environmental control facilities. There can be no assurance, however, that future changes in environmental laws and regulations will not have a material effect on our consolidated financial condition or results of operations.

Item 1A. Risk Factors

Our consolidated results of operations, financial condition and cash flows can be adversely affected by various risks. These risks include, but are not limited to, the principal factors listed below. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business operations. You should carefully consider all of these risks.

Fluctuations in the costs of paper, ink, energy, postage and other raw materials may adversely impact us.

Purchases of paper, ink, energy, postage and other raw materials and goods and services represent a large portion of our costs. Any increases in the costs of these items will also increase our costs. Depending on the timing and severity of such increases we may not be able to pass these costs on to customers through higher prices. Increases in the costs of these items may also adversely impact our customers' demand for printing and related services.

We may be adversely affected by a decline in the availability of raw materials.

We are dependant on the availability of paper, ink, and other raw materials to support our operations. Circumstances outside of our control in these markets could result in a decrease in the supply of paper, ink or other raw materials and could adversely affect our business and results of operations.

The financial condition of our customers may deteriorate and could affect payment of amounts owed to us.

We grant credit to substantially all of our customers. A decline in financial condition across a significant component of our customer base could hinder our ability to collect amounts owed by customers. In addition, such a decline could result in lower demand for our services. The potential causes of such a decline include broad or local economic downturns, the fact that many of our customers are in highly-competitive industries or markets, and the impact of regulatory actions.

Table of Contents

We may not be able to improve our operating efficiencies rapidly enough to meet market conditions.

Because the markets in which we compete are highly-competitive, we must continue to improve our operating efficiency in order to maintain or improve our profitability. Although we have been able to improve efficiency and reduce costs in the past, there is no assurance that we will continue to do so in the future. In addition, the need to reduce ongoing operating costs may result in significant up-front costs to reduce workforce, close or consolidate facilities, or upgrade equipment and technology.

We may be unable to successfully integrate the operations of acquired businesses and may not achieve the cost savings and increased revenues anticipated as a result of these acquisitions.

Achieving the anticipated benefits of acquisitions will depend in part upon our ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily shift senior management's attention from the other day-to-day operations of the Company. Our strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of our capabilities and services.

We may be unable to hire and retain talented employees, including senior management.

Our success depends, in part, on our general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of our employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a material adverse effect on us. Although our operating platform consists of many locations with a wide geographic dispersion, individual locations may encounter strong competition from other employers for skilled labor. In addition, various members of our management team have significant industry experience and a long track record with us that is important to our continued success. If one or more members of our senior management team leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, which could harm our business and results of operations.

Costs to provide health care and certain other benefits to our employees may increase.

We generally provide health care and certain other benefits to our employees. In recent years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, our cost to provide such benefits could increase, adversely impacting our business and results of operations.

Declines in general economic conditions or acts of war and terrorism may adversely impact our business.

Demand for printing services is highly correlated with general economic conditions. A decline in U.S. economic conditions may, therefore, adversely impact our business and results of operations. Because such outcomes are difficult to predict, the industry may experience excess capacity resulting in declines in prices for our services. The overall business climate may also be impacted by domestic and foreign wars or acts of terrorism. Such acts may have sudden and unpredictable adverse impacts on demand for our services.

The highly competitive market for our services may create adverse pricing pressures.

The markets for our services are highly fragmented and we have a large number of competitors, resulting in a highly competitive market and increasing risk of adverse pricing pressures in various circumstances outside of our control, including economic downturns.

Decline in preference for using or receiving printed materials in lieu of alternative mediums may adversely affect our business.

In addition to traditional non-print based marketing and advertising channels, online distribution and hosting of media content may gain broad acceptance or preferred status relative to printed materials among consumers generally and could have an adverse effect on our business. Consumer acceptance of electronic delivery as well as the extent that consumers may have previously replaced traditional reading of print material with online hosted media contents is uncertain. We have no ability to predict the likelihood that this may occur.

Table of Contents

Changes in the laws and regulations to which we are subject may increase our costs.

We are subject to numerous laws and regulations, including, but not limited to, environmental and health and welfare benefit regulations, as well as those associated with being a public company. These rules and regulations may be changed by local, state, provincial, national or foreign governments or agencies. Changes in these regulations may result in a significant increase in our compliance costs. Compliance with changes in rules and regulations could require increases to our workforce, increased cost for services, compensation and benefits, or investments in new or upgraded equipment.

Advances in technology may reduce barriers to entry and may result in increased competition.

Future advances in technology could cause certain cost and logistics barriers to entry in the general commercial printing industry to be reduced or eliminated, which may result in an adverse effect on our business and results of operations. Current cost barriers include the relatively large scale of equipment and real estate required to effectively compete in our industry, while logistics barriers include shipping, customer service and other costs that have historically precluded competitors not having a local presence from competing effectively from outside of a particular market, particularly foreign-based competitors.

We rely on our information technology infrastructure and our management information systems for many enterprise-critical functions. If our information systems fail to adequately perform these functions or if we experience an interruption in their operation, our business and results of operations could be adversely affected.

The efficient operation of our business depends on our information technology infrastructure and our management information systems. We generally rely on our management information systems to effectively manage accounting and financial functions, job entry, tracking, production, distribution and cost accumulation and certain purchasing functions. Our information technology infrastructure underlies both our management information systems and our CGXSolutions capabilities. The failure of our information technology infrastructure and/or our management information systems to perform could severely disrupt our business and adversely affect our results of operation. In addition, our information technology infrastructure and/or our management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks, computer viruses or hackers, power loss, or other computer systems, Internet telecommunications or data network failures. Any such interruption could adversely affect our business and results of operations.

We generally do not have long-term customer agreements.

Most of our customers are not contractually obligated to purchase future services from us. Although our business does not depend on any one customer or group or type of customers, we cannot be sure that any particular customer will continue to do business with us for any period of time.

We depend on good labor relations.

If the employees at one or more of our unionized businesses were to engage in a strike or other work stoppage for any reason, including failure to enter into satisfactory collective bargaining agreements with unions, or if other employees were to become unionized, we could experience a disruption of operations, higher labor costs or both, which could have a material adverse effect on our results of operations.

We rely on the ability to borrow cash to make acquisitions, fund capital expenditures and provide working capital to the extent such cash needs exceed our internally generated cash flow.

We currently have adequate capacity under our primary bank credit facility as well as other sources of capital to fund our foreseeable cash needs in excess of our projected internally-generated cash flows. However, adverse changes in general economic conditions or in our financial performance could cause a limitation in the amount of capital available to us, and could result in a material adverse effect on our business, results of operations and growth strategies.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets and deferred tax assets.

We have a significant amount of goodwill, other long-lived assets and deferred taxes on our balance sheet. A decline in expected profitability, could cause an impairment related to goodwill, other long-lived assets, or deferred tax assets and require us to record an impairment charge against income.

Table of Contents

Item 1B. Unresolved Staff Comments

The Company has no unresolved written comments from the SEC staff regarding its periodic or current reports under the Exchange Act.

Item 2. Properties

As of April 30, 2008, our principal facilities consisted of approximately 5.8 million square feet that contain production, storage and office space, of which approximately 2.2 million square feet is owned and approximately 3.5 million square feet is leased. Certain of the leased facilities, totaling approximately .7 million square feet, are leased from former owners and current employees of five of our printing businesses. All other leases are with unaffiliated third parties. We believe our facilities are generally suitable for their present and intended purposes and are adequate for our current level of operations. These facilities are located across 27 states plus one Canadian province.

Item 3. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We maintain insurance coverage against certain potential claims in amounts that we believe to be adequate. Currently, we are not aware of any legal proceedings or claims pending against the Company that our management believes could have a material adverse effect on our consolidated financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Table of Contents**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 under the symbol CGX. The following table presents the quarterly high and low sales prices for our common stock for each of the last two fiscal years:

Fiscal 2008 Quarter Ended:	High	Low
June 30, 2007	80.58	67.75
September 30, 2007	75.11	48.65
December 31, 2007	71.53	45.60
March 31, 2008	58.18	38.49

Fiscal 2007 Quarter Ended:	High	Low
June 30, 2006	57.44	48.20
September 30, 2006	64.50	47.53
December 31, 2006	64.17	55.39
March 31, 2007	77.00	57.26

As of April 30, 2008, there were 73 shareholders of record representing approximately 2,513 beneficial owners.

In May 2007, our Board of Directors approved a common stock share repurchase program providing for repurchases of our common stock not to exceed an aggregate of \$100 million in open-market or block purchase transactions. The Company completed this repurchase program in September 2007. In October 2007, our Board of Directors approved a common stock share repurchase program providing for repurchases of our common stock not to exceed an aggregate of \$50 million in open-market or block purchase transactions. The Company completed this repurchase program in January 2008. The following are details of repurchases under our Board of Directors approved common stock repurchase program for the period covered by this report:

Period	Total Number of Shares Repurchased (a)	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans	Maximum Dollar Value of Shares that May Yet Be Repurchased Under the Announced Plans
Repurchases from January 1, 2008 through January 31, 2008	268,501	\$ 44.60	268,501	
Repurchases from February 1, 2008 through February 29, 2008				
Repurchases from March 1, 2008 through March 31, 2008				

Quarterly Total	268,501	\$	44.60	268,501
Fiscal 2008 Total	2,684,167	\$	55.92	2,684,167

We have not previously paid cash dividends on our common stock. We presently intend to retain all of our earnings to finance the continuing development of our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Any future payment of cash dividends will depend upon the financial condition, capital requirements and earnings of our Company, as well as other factors our Board of Directors may deem relevant. In addition, our primary bank credit facility contains restrictions that limit our ability to pay cash dividends.

Information regarding our Long-Term Incentive Plan, as amended, as of March 31, 2008 is incorporated by reference into Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents***Item 6. Selected Consolidated Financial Data***

The following selected consolidated financial data should be read in conjunction with and is qualified in its entirety by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements of our Company and the notes thereto included in *Item 8. Financial Statements and Supplementary Data* and elsewhere in this Annual Report on Form 10-K:

	Year Ended March 31				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Income Statement Data					
Sales	\$ 1,095,388	\$ 1,006,186	\$ 879,023	\$ 779,016	\$ 708,060
Cost of sales	812,401	736,996	661,560	586,615	540,080
Gross profit	282,987	269,190	217,463	192,401	167,980
Selling expenses	106,952	101,649	91,266	81,456	76,189
General and administrative expenses	78,804	69,223	58,993	54,116	51,887
Other (income) expense, net	(3,064)				
Goodwill impairment ⁽¹⁾		11,533			
Operating income	100,295	86,785	67,204	56,829	39,904
Interest expense, net	12,020	6,702	5,514	5,107	7,216
Income before income taxes	88,275	80,083	61,690	51,722	32,688
Income taxes	28,951	29,342	23,192	19,000	12,691
Net income	\$ 59,324	\$ 50,741	\$ 38,498	\$ 32,722	\$ 19,997
Earnings per share					
Basic	\$ 4.76	\$ 3.74	\$ 2.81	\$ 2.40	\$ 1.49
Diluted	\$ 4.63	\$ 3.65	\$ 2.73	\$ 2.31	\$ 1.44

	March 31				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data					
Working capital	\$ 138,250	\$ 100,153	\$ 67,474	\$ 64,225	\$ 47,488
Property and equipment, net	421,347	354,156	297,308	297,600	272,801
Total assets	872,663	723,969	611,313	590,229	526,209
Long-term debt, net of current portion	362,448	142,144	90,678	111,895	98,265
Total shareholders' equity	279,793	365,536	318,946	283,332	245,612

(1) Reflects the impairment of goodwill value as of March 31,

2007 under
Statement of
Financial
Accounting
Standards
(SFAS)
No. 142,
*Goodwill and
Other Intangible
Assets.*

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those referenced in Forward Looking Statements.

Overview

Our Company is a leading U.S. and Canadian provider of commercial printing services with 70 printing businesses spanning 27 states plus one Canadian province. Complementing the printing services we provide, we also offer (i) state-of-the-art fulfillment services from 13 fulfillment centers located at or near one of our printing businesses and (ii) proprietary digital technology solutions and e-commerce capabilities from two technology hubs located at our corporate headquarters and at one of our printing businesses in the Baltimore/Washington D.C. area.

We are focused on adding value to our printing businesses by providing the financial and operational strengths, management support and technological advantages associated with a large, national organization. Our strategy currently includes the following initiatives to generate sales and profit growth:

Internal Sales Growth We seek to use our competitive advantages to expand market share. We continually seek to hire additional experienced sales professionals, invest in new equipment and technology, expand our national accounts program, develop new and expanded digital technology-based print-related services and provide sales training and education about our breadth of capabilities and services to our sales professionals.

Disciplined Acquisition Program We selectively pursue opportunities to acquire additional printing businesses at reasonable prices. Some of these acquisitions may include smaller and/or distressed printing businesses for consolidation into one of our existing businesses.

Cost Savings Because of our size and extensive geographic footprint, we leverage our economies of scale to purchase supplies and equipment at preferential prices, and centralize various administrative services to generate cost savings.

Best Practices/Benchmarking We provide a forum for our printing businesses to share their knowledge of technical processes and their best practices with one another, as well as benchmark financial and operational data to help our printing businesses identify and respond to changes in operating trends.

Leadership Development Through our unique Leadership Development Program, we develop talent for future sales and management positions at our printing businesses.

Our printing businesses maintain their own sales, customer service, estimating and planning, prepress, production and accounting departments. Our corporate headquarters staff provides support to our printing businesses in such areas as human resources, purchasing, internal financial controls design and management information systems. We also maintain centralized treasury, risk management, tax, internal audit and consolidated financial reporting activities.

Our sales are derived from commercial printing services. These services consist of (i) traditional print services, including electronic prepress, printing, finishing, storage and delivery of high-quality materials which are custom manufactured to our customers' design specifications; (ii) fulfillment and mailing services for such printed materials; and (iii) digital technology solutions and e-commerce capabilities that enable our customers to more efficiently procure and manage printed materials and/or design, procure, distribute, track and analyze results of printing-based marketing programs and activities. Examples of the types of documents we print for our customers include high-quality, multi-color marketing materials, product and capability brochures, point-of-purchase displays, direct mail pieces, shareholder communications, trading cards, catalogs and training manuals.

Most of our sales are generated by individual orders through commissioned sales personnel. We recognize revenue from these orders when we deliver the ordered goods and services. To a large extent, continued engagement of our Company by our customers for successive business opportunities depends upon the customers' satisfaction with the

quality of products and services we provide. As such, it is difficult for us to predict with any high degree of certainty the number, size, and profitability of printing services that we expect to provide for more than a few weeks in advance. Our revenues, however, tend to be strongest in the quarter ended December 31 followed by revenue in the quarter ended March 31. Conversely, revenues tend to be seasonally weaker in the quarters ended June 30 and September 30.

Table of Contents

Our cost of sales mainly consists of raw materials consumed in the printing process, as well as labor and outside services, such as delivery costs. Paper cost is the most significant component of our materials cost; however, fluctuation in paper pricing generally does not materially impact our operating margins because we typically quote, and subsequently purchase, paper for each specific printing project we are awarded. As a result, any changes in paper pricing are effectively passed through to customers by our printing businesses. Additionally, our cost of sales includes salary and benefits paid to operating personnel, maintenance, repair, rental and insurance costs associated with operating our facilities and equipment and depreciation charges.

Our selling expenses generally include the compensation paid to our sales professionals, along with promotional, travel and entertainment costs. Our general and administrative expenses generally include the salary and benefits paid to support personnel at our printing businesses and our corporate staff including stock-based compensation, as well as office rent, utilities and communications expenses, various professional services and amortization of identifiable intangible assets.

Results of Operations

The following table sets forth our Company's historical consolidated income statements and certain percentage relationships for the periods indicated:

	Year Ended March 31			As a Percentage of Sales Year Ended March 31		
	2008	2007	2006	2008	2007	2006
	(In millions)					
Sales	\$ 1,095.4	\$ 1,006.2	\$ 879.0	100.0%	100.0%	100.0%
Cost of sales	812.4	737.0	661.5	74.2	73.2	75.3
Gross profit	283.0	269.2	217.5	25.8	26.8	24.7
Selling expenses	107.0	101.7	91.3	9.8	10.1	10.4
General and administrative expenses	78.8	69.2	59.0	7.2	6.9	6.7
Other (income) expense, net	(3.1)			(0.3)		
Goodwill impairment		11.5			1.2	
Operating income	100.3	86.8	67.2	9.1	8.6	7.6
Interest expense, net	12.0	6.7	5.5	1.1	0.7	0.6
Income before taxes	88.3	80.1	61.7	8.0	7.9	7.0
Income taxes	29.0	29.4	23.2	2.6	2.9	2.6
Net income	\$ 59.3	\$ 50.7	\$ 38.5	5.4%	5.0%	4.4%

Our sales and expenses during the periods shown were impacted by the acquisition of three printing businesses in fiscal 2008, two printing businesses in fiscal 2007 and four printing businesses in fiscal 2006. In accordance with the purchase method of accounting, our consolidated income statements reflect sales and expenses of acquired businesses only for post-acquisition periods. Accordingly, acquisitions affect our financial results in any one year compared to the prior year by the full-year impact of prior year acquisitions (as compared to the partial impact in the prior year) and the partial-year impact of current year acquisitions. This revenue impact is referred to below as the incremental impact of acquisitions. We refer to revenue growth or decline, excluding the effect of revenues contributed by acquisitions in the most recent fiscal year as organic or same-store sales growth or decline.

Analysis of Consolidated Income Statements for Fiscal 2008 as Compared to Fiscal 2007

Sales for fiscal 2008 increased \$89.2 million, or 9%, to \$1.10 billion from \$1.01 billion in fiscal 2007. The \$89.2 million revenue increase is attributable to an increase of \$109.4 million from the incremental impact of

acquisitions, partially offset by an internal same-store revenue decline of \$20.2 million due largely to an \$11.7 million decline in election-related printing. Excluding the decline in election-related printing, internal sales were down .8% compared to 2007. We believe this decline was generally due to the weakness of the U.S. economy during the year.

Fiscal 2008 gross profit increased by \$13.8 million, or 5%, to \$283 million from \$269.2 million in fiscal 2007. This increase was primarily attributable to the increased sales levels discussed above, which were significantly affected by the incremental impact of acquisitions. Gross profits as a percentage of sales, declined to 25.8% from 26.8% in fiscal 2007 due to relatively lower gross margins for recently acquired businesses, as well as higher expenses related to direct start-up expenses associated with our growing digital printing business.

Selling expense for fiscal 2008 increased \$5.3 million, or 6%, to \$107 million from \$101.7 million in fiscal 2007. The increase is attributable to higher commission expense due to the increased sales levels noted above. As a percentage of

Table of Contents

sales, selling expenses in fiscal 2008 declined to 9.8% from 10.1% in fiscal 2007. The decline was primarily due to lower selling expense as a percentage of sales for recently acquired businesses.

General and administrative expenses for fiscal 2008 increased \$9.6 million, or 14%, to \$78.8 million from \$69.2 million in fiscal 2007. This increase was caused by the incremental impact of acquisitions (including intangible asset amortization) and an increase in professional fees related to legal costs and information technology consulting fees. Overall, as a percentage of sales, general and administrative expenses in fiscal 2008 increased to 7.2% from 6.9% in fiscal 2007.

Other income for fiscal 2008 of \$3.1 million related to a foreign currency transaction gain primarily resulting from certain transactions at our Canadian subsidiary denominated in U.S. dollars.

Based on our annual evaluation of goodwill at March 31, 2008, no goodwill impairment was recorded. Goodwill impairment for fiscal 2007 was \$11.5 million.

Net interest expense for fiscal 2008 increased \$5.3 million, or 80%, to \$12 million from \$6.7 million in fiscal 2007, mostly due to a higher level of average debt outstanding due to borrowings used to fund 2008 acquisitions and share repurchases under our common stock repurchase program. The increase was partially offset by a decrease in our weighted average interest rate.

Income taxes for fiscal 2008 were \$29.0 million, reflecting an overall effective tax rate of 32.8% as compared to an effective tax rate of 36.6% in fiscal 2007. In fiscal 2008, the effective tax rate declined primarily as a result of a reduction in reserves related to certain tax positions, partially offset by an increase in state income taxes.

Analysis of Consolidated Income Statements for Fiscal 2007 as Compared to Fiscal 2006

Sales for fiscal 2007 increased \$127.2 million, or 14%, to \$1.01 billion from \$879.0 million in fiscal 2006. The \$127.2 million revenue increase is attributable to \$68.0 million of internal sales growth and \$59.2 million from the incremental impact of acquisitions. Approximately 36% (or \$24.4 million) of our internal sales growth resulted from election-related printing (which recurs generally on a biennial basis), while approximately 57% (or \$38.9 million) was attributable to sales growth from National Sales and CGXSolutions. Compared to the prior year, National Sales were up 44% and accounted for 9% of our total sales. Sales attributable to our CGXSolutions sales channel (including \$7.2 million of National Sales) were up 35% compared to the prior year and accounted for 5% of our total sales.

Gross profit for fiscal 2007 increased by \$51.7 million, or 24%, to \$269.2 million from \$217.5 million in fiscal 2006. Approximately \$31.5 million of the increase is attributable to the increased sales levels discussed above, including the incremental impact of acquisitions. The remaining increase of \$20.2 million accounts for the increase in our gross profit percentage to 26.8% in fiscal 2007 compared to 24.7% in fiscal 2006, and is attributable to (i) margin leverage as certain of our operating costs are more fixed in nature (for example depreciation and rent expense) and (ii) incremental purchasing and pricing gains that we have been able to achieve.

Selling expense for fiscal 2007 increased \$10.4 million, or 11%, to \$101.7 million from \$91.3 million in fiscal 2006. The increase is directly attributable to the increased sales levels noted above. As a percentage of sales, selling expenses in fiscal 2007 decreased to 10.1% from 10.4% in fiscal 2006, as (i) our sales growth leveraged certain selling expenses which are more fixed in nature (for example sales meetings and overhead) and (ii) a lower level of sales commissions and other expenses were incurred in connection with election-related printing and certain other components of our fiscal 2007 sales growth.

General and administrative expenses for fiscal 2007 increased \$10.2 million, or 17%, to \$69.2 million from \$59.0 million in fiscal 2006. Recognition of share-based compensation expense totaling \$2.7 million was a significant cause of the increase. The remainder of the increase was primarily attributable to the incremental impact of acquisitions (including direct expenses and \$.3 million of incremental intangible asset amortization). Overall, as a percentage of sales, general and administrative expenses in fiscal 2007 increased to 6.9% (including a .3% increase attributable to share-based compensation expense) from 6.7% in fiscal 2006.

Goodwill impairment for fiscal 2007 was \$11.5 million based on the Company's annual evaluation of goodwill at March 31, 2007, in accordance with SFAS No. 142. The impairment was attributed to four printing businesses that in the aggregate accounted for approximately 3% of the Company's total sales in fiscal 2007. No goodwill impairment was recorded in fiscal 2006.

Net interest expense for fiscal 2007 increased \$1.2 million, or 22%, to \$6.7 million from \$5.5 million in fiscal 2006, due principally to a higher level of average debt outstanding and a generally higher interest rate environment. This increase in

Table of Contents

average debt outstanding in fiscal 2007 related principally to acquisitions completed and funded during the year, which totaled \$67.6 million, and our common stock repurchases, which totaled \$24.7 million.

We provided for income taxes for fiscal 2007 of \$29.4 million, reflecting an overall effective tax rate of 36.6% as compared to an effective tax rate of 37.6% in fiscal 2006. In fiscal 2007, an income tax benefit of \$3.7 million attributable to the goodwill impairment discussed above and a one-time credit of \$.7 million for the impact of a net reduction in legislated state income tax rates on previously provided deferred income taxes were recorded. These tax benefits resulted in a net decrease of .2% on our overall effective tax rate. Excluding these items, the decrease in our overall effective tax rate was primarily attributable to (i) an increase in pre-tax earnings, which caused non-deductible expenses to be a smaller percentage of pre-tax earnings, thus lowering our effective tax rate and (ii) an increase in the estimated domestic production activities deduction for fiscal 2007.

Liquidity and Capital Resources*Sources and Uses of Cash*

Our historical sources of cash have primarily been cash provided by operations or borrowings under our various bank credit facilities. Our historical uses of cash have been for acquisitions of printing businesses, capital expenditures, payment of principal and interest on outstanding debt obligations and repurchases of our common stock. Supplemental information pertaining to our historical sources and uses of cash is presented as follows and should be read in conjunction with our consolidated statements of cash flows and the notes thereto included in *Item 8. Financial Statements and Supplementary Data*:

	Year Ended March 31		
	2008	2007	2006
	(In millions)		
Net cash provided by operating activities	\$ 110.2	\$ 72.8	\$ 79.2
Acquisitions of businesses	(97.3)	(67.6)	(28.0)
Capital expenditures, net of proceeds from asset dispositions ⁽¹⁾	(39.4)	(39.1)	(13.9)
Net proceeds (payments) under bank credit facilities	177.4	51.1	(27.1)
Net payments on term equipment notes and other debt	(1.1)	(3.1)	(8.8)
Payments to repurchase and retire common stock	(150.0)	(24.7)	(6.7)
Proceeds from exercise of stock options	2.9	17.6	2.5

(1) Excludes capital expenditures of \$41 million in fiscal 2008, \$5.1 million in fiscal 2007, and \$16.5 million in fiscal 2006, which were directly financed and/or accrued as a current liability.

Additionally, our cash position, working capital and debt obligations as of March 31, 2008, 2007 and 2006 are shown below and should be read in conjunction with our consolidated balance sheets and the notes thereto included in *Item 8. Financial Statements and Supplementary Data*:

	2008	March 31 2007 (In millions)	2006
Cash and cash equivalents	\$ 15.1	\$ 12.0	\$ 5.0
Working capital, inclusive of cash and cash equivalents	138.3	100.2	67.5
Total debt	385.7	154.6	101.5

Net cash provided by operating activities increased by \$38.0 million for fiscal 2008 compared to fiscal 2007. This increase was primarily related to a \$26.1 million increase in accounts receivable, an \$8.6 million increase in net income, and an \$11.5 million decrease in goodwill impairment. Since our cash requirements in fiscal 2008 for capital expenditures, business acquisitions and stock repurchases exceeded internally generated cash flow, we incurred additional borrowings resulting in a \$231.1 million increase in our total debt obligations for the year.

During fiscal 2008, we invested \$82.4 million in new technology, equipment and real estate, of which \$21.5 million was for digital presses and related technology.

We believe that our cash flow provided by operations, combined with new borrowings, will be adequate to cover our fiscal 2009 working capital growth, debt service requirements and planned capital expenditures.

Table of Contents

We intend to continue pursuing acquisition opportunities at prices we believe are reasonable based upon prevailing market conditions. However, we cannot accurately predict the timing, size and success of our acquisition efforts or our associated potential capital commitments. There can be no assurance that we will be able to acquire additional printing businesses on terms acceptable to us. During fiscal 2008, the Company completed the acquisitions of three printing businesses. The Pikes Peak Lithographing Company, The Cyril-Scott Company and PBM Graphics, Inc. acquisitions were funded principally by borrowings under bank credit facilities. We expect to fund future acquisitions through cash flow provided by operations and/or additional borrowings. We have in the past issued our common stock as purchase price consideration in some of our acquisitions. Although we may issue common stock for such purposes in the future, we do not expect to do so in the foreseeable future because of our current financial liquidity and ability to utilize available cash or make additional borrowings instead of issuing common stock.

In May 2007, our Board of Directors approved a common stock share repurchase program providing for repurchases of our common stock not to exceed an aggregate of \$100 million in open-market or block purchase transactions. During the six month period ended September 30, 2007, we repurchased 1,660,466 shares of our common stock at a total cost of \$100 million. In October 2007, our Board of Directors approved an additional common stock share repurchase program providing for repurchases of our common stock not to exceed an aggregate of \$50 million in open-market or block purchase transactions. During the six month period ended March 31, 2008, we repurchased 1,023,701 shares of our common stock at a total cost of \$50 million. Therefore, we repurchased a total of 2,684,167 shares of our common stock at a total cost of \$150 million in fiscal 2008.

Debt Obligations

Our primary bank credit facility (as amended, the Credit Agreement) currently provides for \$335 million in revolving credit and has a maturity date of October 6, 2011. At March 31, 2008, outstanding borrowings under the Credit Agreement were \$233 million and accrued interest at a weighted average rate of 3.9%.

Under the terms of the Credit Agreement the proceeds from borrowings may be used to repay certain indebtedness, finance certain acquisitions, provide for working capital and general corporate purposes and, subject to certain restrictions, repurchase our common stock. Borrowings outstanding under the Credit Agreement are secured by substantially all of our assets other than real estate and certain equipment subject to term equipment notes and other financings. Borrowings under the Credit Agreement accrue interest, at our option, at either (1) the London Interbank Offered Rate (LIBOR) plus a margin of .625% to 1.50%, or (2) an alternate base rate (based upon the greater of the agent bank's prime lending rate or the Federal Funds effective rate plus .50%). We are also required to pay an annual commitment fee ranging from .15% to .275% on available but unused amounts under the Credit Agreement. The interest rate margin and the commitment fee are based upon certain financial performance measures set forth in the Credit Agreement and are redetermined quarterly. At March 31, 2008 the applicable LIBOR interest rate margin was 1.00% and the applicable commitment fee was .20%.

We are subject to certain covenants and restrictions and we must meet certain financial tests as defined in the Credit Agreement. We were in compliance with these covenants and financial tests at March 31, 2008. In the event that we are unable to remain in compliance with these covenants and financial tests in the future, our lenders would have the right to declare us in default with respect to such obligations, and consequently, certain of our other debt obligations, including substantially all of our term equipment notes, would be deemed to also be in default. All debt obligations in default would be required to be re-classified as a current liability. In the event that we were unable to obtain a waiver, re-negotiate or re-finance these obligations, a material adverse effect on our ability to conduct our operations in the ordinary course likely would result.

We also maintain an unsecured credit facility with a commercial bank (as amended, the A&B Credit Facility) currently consisting of a U.S. \$5 million maximum borrowing limit component and a separate Canadian \$31 million maximum borrowing limit component. At March 31, 2008, outstanding borrowings under the A&B Credit Facility were U.S. \$2.2 million, which accrued interest at a weighted average rate of 5.3%, and Canadian \$28 million (\$27.4 million U.S. equivalent), which accrued interest at a weighted average rate of 5.8%. An annual reduction of Canadian \$4 million on the Canadian dollar denominated commitment occurs on each anniversary date of the A&B Credit Facility until the final maturity date of January 2, 2011. There are no significant covenants or restrictions set forth in the A&B Credit Facility; however, a default by us under the Credit Agreement constitutes a default under the

A&B Credit Facility.

In addition, we maintain two auxiliary revolving credit facilities (each an Auxiliary Bank Facility and collectively the Auxiliary Bank Facilities) with commercial banks. Each Auxiliary Bank Facility is unsecured and has a maximum borrowing capacity of \$5 million. One facility expires in October 2008 while the other facility expires in December 2008. At March 31, 2008, outstanding borrowings under the Auxiliary Bank Facilities totaled \$9.3 million and accrued interest at a weighted average rate of 3.7%. Because we currently have the ability and intent to refinance the borrowings outstanding under the Auxiliary Bank Facilities expiring in October and December 2008, such borrowings are classified as long-term debt

Table of Contents

in our consolidated balance sheet at March 31, 2008. The Auxiliary Bank Facilities cross-default to the covenants and restrictions set forth in the Credit Agreement.

At March 31, 2008, outstanding borrowings under our term equipment notes totaled \$104.5 million and accrued interest at rates between 3.9% and 7.1%. The term equipment notes provide for principal payments plus interest for defined periods of up to ten years from the date of issuance, and are secured by certain equipment of the Company. We are not subject to any significant financial covenants in connection with any of the term equipment notes. At March 31, 2008, outstanding borrowings under our real estate notes totaled \$4.4 million and accrued interest at 6%. The real estate notes provide for principal payments plus interest for defined periods of up to ten years from the date of issuance and are secured by the real estate. At March 31, 2008, other debt obligations totaled \$4.9 million and provided for principal payments plus interest (at fixed and variable rates) for defined periods up to 15 years from the date of issuance. We do not have any significant financial covenants or restrictions associated with the real estate notes or the other debt obligations. The Credit Agreement places certain limitations on the amount of additional term note obligations we may incur in the future.

As of March 31, 2008, our available credit under existing credit facilities was approximately \$101.8 million.

Contractual Obligations and Other Commitments

As of March 31, 2008, the scheduled maturity of our contractual obligations is as follows (in millions):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Debt obligations	\$ 385.7	\$ 23.3	\$ 46.4	\$ 304.4	\$ 11.6
Operating lease obligations	97.9	18.7	27.6	19.5	32.1

Operating leases We have entered into various noncancelable operating leases primarily related to facilities and equipment used in the ordinary course of our business.

Letters of credit In connection with our assumption of obligations under outstanding industrial revenue bonds, which are reflected as debt in the accompanying consolidated financial statements, and our assumption of certain contingent liabilities related to certain of our acquisitions, we had letters of credit outstanding as of March 31, 2008 totaling \$6.6 million. All of these letters of credit were issued pursuant to the terms of our Credit Agreement, which expires in October 2011, and we will be required to obtain replacement letters of credit at that time, as needed.

Insurance programs We maintain third-party insurance coverage in amounts and against risks we believe are reasonable under our circumstances. We are self-insured for most workers' compensation claims and for a significant component of our group health insurance programs. For these exposures, we accrue expected loss amounts which are determined using a combination of our historical loss experience and subjective assessment of our future loss exposure, together with advice provided by administrators and consulting actuaries. The estimates of expected loss amounts are subject to uncertainties arising from various sources, including changes in claims reporting patterns, claims settlement patterns, judicial decisions, legislation and economic conditions, which could result in an increase or decrease in accrued costs in future periods for claim matters which occurred in a prior period. Although we believe that the accrued estimated loss amounts are reasonable under the circumstances, significant differences related to the items noted above could materially affect our risk exposure, insurance obligations, and future expense.

Critical Accounting Policies

We have identified our critical accounting policies based on the following factors: significance to our overall financial statement presentation, complexity of the policy and its use of estimates and assumptions. We are required to make certain estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses. We evaluate our estimates and assumptions on an ongoing basis and rely on historical experience and various other factors that we believe to be reasonable under the circumstances to determine such estimates. Because uncertainties with respect to estimates and assumptions are inherent in the preparation of financial statements, actual results could differ from these estimates.

Revenue Recognition We primarily recognize revenue upon delivery of the printed product to the customer. In the case of customer fulfillment arrangements, including multiple deliverables of printing services and distribution services,

revenue relating to the printed product is recognized upon the delivery of the printed product into our fulfillment warehouses, and invoicing of the customer for the product at an agreed price. Because printed products manufactured for our customers are customized based upon the customers specifications, product returns are insignificant.

Table of Contents

Receivables, net of valuation allowance Accounts receivable at March 31, 2008 were \$209.0 million, net of a \$3.6 million allowance for doubtful accounts. The valuation allowance was determined based upon our evaluation of known requirements, aging of receivables, historical experience and the current economic environment. While we believe we have appropriately considered known or expected outcomes, our customers' ability to pay their obligations could be adversely affected by contraction in the U.S. economy or other factors beyond our control. Changes in our estimates of collectibility could have a material adverse effect on our consolidated financial condition or results of operations.

Goodwill and other intangible assets We evaluate the carrying value of our goodwill and other intangible assets with indefinite lives as of each fiscal year end, or at any time that management becomes aware of an indication of impairment. Our evaluation is based on certain data estimated by management to be indicators of future cash flows at each of our facilities. Estimating future cash flows requires judgments regarding future economic conditions, demand for services and pricing. Our evaluation also makes use of estimates of market multiples of cash flow at which transactions could be completed in the current market and calculation of estimated discounted cash flows. If our estimates of future cash flows or market multiples prove to be materially inaccurate, an impairment charge could be necessary in future periods.

Impairment of long-lived assets We evaluate long-lived assets, including property, plant and equipment, and intangible assets other than goodwill or intangible assets with indefinite lives whenever events or changes in conditions indicate that the carrying value may not be recoverable. The evaluation requires us to estimate future undiscounted cash flows associated with an asset or group of assets. If the cost of the asset or group of assets cannot be recovered by these undiscounted cash flows, then the need for an impairment may exist. Estimating future cash flows requires judgments regarding future economic conditions, demand for services and pricing. Although we believe our estimates are reasonable, significant differences in the actual performance of the asset or group of assets may materially affect our asset values and require an impairment charge in future periods.

Insurance liabilities We are self-insured for the majority of our workers' compensation and group health insurance costs. Insurance claims liabilities have been accrued using a combination of our historical loss experience and subjective assessment of our future loss exposure, together with advice provided by administrators and consulting actuaries. The estimates of expected loss amounts are subject to uncertainties arising from various sources, including changes in claims reporting patterns, claims settlement patterns, judicial decisions, legislation and economic conditions, which could result in an increase or decrease in accrued costs in future periods for claims matters which occurred in a prior period.

Accounting for income taxes As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. The tax effects of these temporary differences are recorded as deferred tax assets or deferred tax liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Additionally, we account for uncertain tax positions in accordance with Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48). For additional information regarding FIN 48, refer to *Note 6. Income Taxes* in the footnotes to our consolidated financials.

Accounting for acquisitions The allocations of purchase price to acquired assets and liabilities are initially based on estimates of fair value and are prospectively revised if and when additional information concerning certain asset and liability valuations we are waiting for at the time of the initial allocations is obtained, provided that such information is received no later than one year after the date of acquisition. In addition, we retain an independent third-party valuation firm to assist in the identification, valuation and determination of useful lives of identifiable intangible assets in connection with our acquisitions.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurement. Our adoption of SFAS No.157 effective as of April 1, 2008 is not expected to have a material impact on our consolidated financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB No. 115. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. Our adoption of SFAS

Table of Contents

No. 159 effective as of April 1, 2008 is not expected to have a material impact on our consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R requires the acquiring entity to recognize the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at the fair values as of that date. Goodwill is measured as a residual of the fair values at acquisition date. Acquisition related costs are recognized separately from the acquisition. Our adoption of SFAS No. 141R effective as of April 1, 2009 is not expected to have a material impact on our consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*. SFAS No. 160 requires non-controlling interests in a subsidiary be reported as equity in the consolidated financial statements, the attributable net income be identified and presented on the face of the consolidated statement of income and changes in the ownership be accounted for consistently. The statement also includes requirements when an interest is deconsolidated. Disclosure should be sufficient to clearly identify and distinguish between the interests of the reporting entity and that of the non-controlling interests owners. Our adoption of SFAS No. 160 effective as of April 1, 2009 is not expected to have a material impact on our consolidated financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Market risk generally means the risk that losses may occur in the value of certain financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. We do not currently hold or utilize derivative financial instruments to manage market risk or that could expose us to other market risk. We are exposed to market risk in interest rates related primarily to our debt obligations, which as of March 31, 2008 include \$109.2 million of fixed rate debt and \$276.5 million of variable rate debt. A 1% increase in the interest rate on our variable rate debt would change our interest expense by approximately \$2.8 million on an annual basis. The following table sets forth the average interest rate for the scheduled maturities of our debt obligations as of March 31, 2008 (\$ in millions):

	2009	2010	2011	2012	2013	Thereafter	Total	Estimated Fair Value At March 31, 2008
Fixed Rate Debt:								
Amount	\$ 22.7	\$ 24.4	\$ 21.1	\$ 15.2	\$ 14.2	\$ 11.6	\$ 109.2	\$ 98.2
Average interest rate	5.72%	6.21%	5.71%	5.84%	5.68%	6.03%	5.87%	
Variable Rate Debt:								
Amount	\$.5	\$.5	\$ 0.4	\$ 272.1	\$ 3.0		\$ 276.5	\$ 276.5
Average interest rate	2.61%	2.25%	2.25%	5.27%	2.25%		5.23%	

Table of Contents

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	24
<u>Reports of Independent Registered Public Accounting Firm</u>	25
<u>Consolidated Balance Sheets at March 31, 2008 and 2007</u>	27
<u>Consolidated Income Statements for the Years Ended March 31, 2008, 2007 and 2006</u>	28
<u>Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2008, 2007 and 2006</u>	29
<u>Consolidated Statements of Cash Flows for the Years Ended March 31, 2008, 2007 and 2006</u>	30
<u>Notes to Consolidated Financial Statements</u>	31

Table of Contents

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f) or 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The scope of management's assessment of the effectiveness of our internal control over financial reporting includes the Company's consolidated subsidiaries, except for certain businesses acquired by the Company on December 21, 2007 and March 14, 2008, respectively, as permitted by the rules and regulations of the Securities and Exchange Commission. The Company's consolidated net sales for the year ended March 31, 2008 were \$1.1 billion, of which the certain businesses acquired by the Company on December 21, 2007 and March 14, 2008, totaled \$16.6 million. The Company's consolidated total assets as of March 31, 2008 were \$872.7 million, of which the certain businesses acquired by the Company on December 21, 2007 and March 14, 2008, totaled \$120.9 million.

Management assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of March 31, 2008. The Company's internal control over financial reporting as of March 31, 2008 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which is included on page 26.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Consolidated Graphics, Inc.:

We have audited the accompanying consolidated balance sheets of Consolidated Graphics, Inc. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consolidated Graphics, Inc. and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in note 6 to the consolidated financial statements, effective April 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Consolidated Graphics, Inc.'s and subsidiaries internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 28, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

May 28, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Consolidated Graphics, Inc.:

We have audited Consolidated Graphics, Inc. (the Company) internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired certain businesses on December 21, 2007 and March 14, 2008, and management excluded from its assessment of the effectiveness of its internal control over financial reporting as of March 31, 2008, the certain businesses' internal control over financial reporting associated with the total assets of \$120.9 million, and total revenues of \$16.6 million included in the consolidated financial statements of the Company and subsidiaries as of and for the year ended March 31, 2008. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the certain businesses.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of March 31, 2008, the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2008, and our report dated May 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas

May 28, 2008

Table of Contents

CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31	
	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,131	\$ 12,043
Accounts receivable, net	209,000	185,722
Inventories	61,511	46,951
Prepaid expenses	7,127	7,532
Deferred income taxes	9,353	8,479
Total current assets	302,122	260,727
PROPERTY AND EQUIPMENT, net	421,347	354,156
GOODWILL AND INTANGIBLES, net	141,381	101,768
OTHER ASSETS	7,813	7,318
	\$ 872,663	\$ 723,969
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 23,252	\$ 12,421
Accounts payable	56,948	58,519
Accrued liabilities	83,488	89,496
Income taxes payable	184	138
Total current liabilities	163,872	160,574
LONG-TERM DEBT, net of current portion	362,448	142,144
OTHER LIABILITIES	13,655	
DEFERRED INCOME TAXES	52,895	55,715
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; 100,000,000 shares authorized; 11,079,011 and 13,693,698 issued and outstanding	111	137
Additional paid-in capital	153,204	185,098
Retained earnings	127,376	180,113
Other comprehensive income	(898)	188
Total shareholders' equity	279,793	365,536
	\$ 872,663	\$ 723,969

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share data)

	Year Ended March 31		
	2008	2007	2006
SALES	\$ 1,095,388	\$ 1,006,186	\$ 879,023
COST OF SALES	812,401	736,996	661,560
Gross profit	282,987	269,190	217,463
SELLING EXPENSES	106,952	101,649	91,266
GENERAL AND ADMINISTRATIVE EXPENSES	78,804	69,223	58,993
OTHER INCOME, NET	(3,064)		
GOODWILL IMPAIRMENT		11,533	
Operating income	100,295	86,785	67,204
INTEREST EXPENSE	12,366	7,011	5,692
INTEREST INCOME	(346)	(309)	(178)
Income before taxes	88,275	80,083	61,690
INCOME TAXES	28,951	29,342	23,192
Net income	\$ 59,324	\$ 50,741	\$ 38,498
BASIC EARNINGS PER SHARE	\$ 4.76	\$ 3.74	\$ 2.81
DILUTED EARNINGS PER SHARE	\$ 4.63	\$ 3.65	\$ 2.73
SHARES USED TO COMPUTE EARNINGS PER SHARE			
Basic	12,463	13,580	13,719
Diluted	12,822	13,905	14,127

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, March 31, 2005	13,760	\$ 138	\$ 168,905	\$ 114,289	\$	\$ 283,332
Exercise of stock options, including tax benefit	124	1	3,770			3,771
Repurchase and retire common stock	(170)	(1)	(2,094)	(4,560)		(6,655)
Net income				38,498		38,498
BALANCE, March 31, 2006	13,714	138	170,581	148,227		318,946
Exercise of stock options, including tax benefit	445	3	17,619			17,622
Compensation expense			2,695			2,695
Repurchase and retire common stock	(465)	(4)	(5,797)	(18,855)		(24,656)
Currency translation adjustment					188	188
Net income				50,741		50,741
BALANCE, March 31, 2007	13,694	137	185,098	180,113	188	365,536
Exercise of stock options, including tax benefit	67	1	2,869			2,870
Compensation expense			2,057			2,057
Repurchase and retire common stock	(2,682)	(27)	(36,820)	(113,250)		(150,097)
Currency translation adjustment					(1,086)	(1,086)
FIN 48 cumulative adjustment				1,189		1,189
Net income				59,324		59,324
BALANCE, March 31, 2008	11,079	\$ 111	\$ 153,204	\$ 127,376	\$ (898)	\$ 279,793

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended March 31		
	2008	2007	2006
OPERATING ACTIVITIES			
Net income	\$ 59,324	\$ 50,741	\$ 38,498
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	53,886	45,270	45,663
Non-cash currency gain	(3,807)		
Goodwill impairment		11,533	
Deferred income tax provision	6,029	(6,554)	137
Share-based compensation expense	2,057	2,695	
Changes in assets and liabilities, net of effects of acquisitions			
Accounts receivable, net	1,419	(24,727)	(3,969)
Inventories	(32)	(4,434)	157
Prepaid expenses	1,232	(394)	(833)
Other assets	(258)	(146)	(279)
Accounts payable and accrued liabilities	(3,902)	2,129	(3,101)
Other liabilities	(5,812)		
Income taxes payable	46	(3,339)	2,976
Net cash provided by operating activities	110,182	72,774	79,249
INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	(97,258)	(67,555)	(27,983)
Purchases of property and equipment	(41,394)	(43,217)	(16,382)
Proceeds from asset dispositions	2,019	4,095	2,517
Net cash used in investing activities	(136,633)	(106,677)	(41,848)
FINANCING ACTIVITIES			
Proceeds from bank credit facilities	289,377	230,867	52,916
Payments on bank credit facilities	(111,972)	(179,773)	(80,060)
Proceeds from issuance of term equipment notes	15,558	8,154	
Payments on term equipment notes and other debt	(16,645)	(11,290)	(8,820)
Payments to repurchase and retire common stock	(150,097)	(24,656)	(6,655)
Proceeds from exercise of stock options, including tax benefit	2,869	17,622	2,459
Net cash provided by (used in) financing activities	29,090	40,924	(40,160)
Effect of exchange rate changes on cash	449	29	

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,088	7,050	(2,759)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,043	4,993	7,752
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 15,131	\$ 12,043	\$ 4,993

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

1. BUSINESS

Consolidated Graphics, Inc. (collectively with its consolidated subsidiaries referred to as the Company) is a leading provider of commercial printing services.

The Company's printing businesses maintain their own sales, customer service, estimating and planning, prepress, production and accounting departments. The Company's corporate headquarters staff provides support to its printing businesses in such areas as human resources, purchasing, internal financial controls design and management information systems. The Company also maintains centralized treasury, risk management, tax, internal audit and consolidated financial reporting activities.

The Company's sales are derived from commercial printing services. These services consist of (i) traditional print services, including electronic prepress, digital and offset printing, finishing, storage and delivery of high-quality printed documents which are custom manufactured to the design specifications of the Company's customers; (ii) fulfillment and mailing services for such printed materials, and (iii) digital technology solutions and e-commerce capabilities that enable the Company's customers to more efficiently procure and manage printed materials and/or design, procure, distribute, track and analyze results of printing-based marketing programs and activities.

The scope and extent of services provided to the Company's customers typically varies for each individual order it receives, depending on customer-specific factors including the intended uses for the printed materials. Furthermore, each of the Company's locations generally is capable of providing a complete range of services to its customers. Accordingly, the Company does not operate its business in a manner that differentiates among its respective capabilities and services for financial or management reporting purposes, rather each of its printing businesses is defined as a distinct reporting unit.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER INFORMATION

Accounting Policies

The accounting policies of the Company reflect industry practices and conform to generally accepted accounting principles in the United States. The more significant of such accounting policies are described below.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company's operations constitute one reportable segment because all of its printing businesses operate in the commercial printing industry and exhibit similar economic characteristics.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including depreciation of property and equipment and amortization or impairment of intangible assets. The Company evaluates its estimates and assumptions on an ongoing basis and relies on historical experience and various other factors that it believes to be reasonable under the circumstances to determine such estimates. Because uncertainties with respect to estimates and assumptions are inherent in the preparation of financial statements, actual results could differ from these estimates.

Reclassification Certain reclassifications of prior periods' data have been made to conform to the current period reporting.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

Revenue Recognition and Accounts Receivable The Company primarily recognizes revenue upon delivery of the printed product to the customer. In the case of customer fulfillment arrangements, including multiple deliverables of printing services and distribution services, revenue relating to the printed product is recognized upon the delivery of the printed product into the Company's fulfillment warehouses, and invoicing of the customer for the product at an agreed price. Because printed products manufactured for the Company's customers are customized based upon the customers specifications, product returns are insignificant. The Company derives the majority of its revenues from sales and services to a broad and diverse group of customers with no individual customer accounting for more than 3% of the Company's revenues in any of the years ended March 31, 2008, 2007 or 2006. The Company maintains an allowance for doubtful accounts based upon the expected collectibility of accounts receivable. Accounts receivable in the accompanying consolidated balance sheets are reflected net of allowance for doubtful accounts of \$3,575 and \$3,080 at March 31, 2008 and 2007.

Inventories Inventories are valued at the lower of cost or market utilizing the first-in, first-out method for raw materials and the specific identification method for work in progress and finished goods. Raw materials consist of paper, ink, proofing materials, plates, boxes and other general supplies. Inventory values consist of purchased raw materials, labor and overhead costs. The carrying values of inventories are set forth below:

	March 31	
	2008	2007
Raw materials	\$ 25,983	\$ 15,608
Work in progress	29,447	26,659
Finished goods	6,081	4,684
	\$ 61,511	\$ 46,951

Long-Lived Assets The Company determines the realization of goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, and its other long-lived assets, including property, plant and equipment, and intangible assets other than goodwill or intangible assets with indefinite lives in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under SFAS No. 142, the Company determines fair value using earnings before interest and income taxes and the weighted average costs of capital adjusted by a growth rate for each reporting unit. Each of the Company's printing businesses is separately evaluated for goodwill impairment because they comprise individual reporting units. The Company evaluates goodwill for impairment at the end of each fiscal year, or at any time that management becomes aware of an indication of impairment. Under SFAS No. 144, the Company compares the carrying value of long-lived assets to its fair value determined by using projections of future undiscounted cash flows attributable to such assets and other factors such as business trends and general economic conditions. In the event that the carrying value of any long-lived asset exceeds its fair value, the Company records an impairment charge against income equal to the excess of the carrying value over the asset's fair value. The Company evaluates long-lived assets, including property, plant and equipment, and intangible assets other than goodwill or intangible assets with indefinite lives whenever events or changes in conditions indicate that the carry value may not be recoverable.

Goodwill totaled \$102,423 at March 31, 2008 and represents the excess of the Company's purchase cost over the fair value of the net assets of acquired businesses, net of previously recorded amortization and impairment expense. As of March 31, 2008, the Company conducted its annual evaluation of goodwill and determined that no impairment was required. As of March 31, 2007, the Company conducted its annual evaluation of goodwill and determined that an impairment of the goodwill attributable to four printing businesses totaling \$11,533 was necessary. A tax benefit of \$3,717 was recorded in connection with the impairment.

The net book value of other intangible assets at March 31, 2008 was \$38,958. Other intangible assets consist primarily of the value assigned to such items as customer lists and trade names in connection with the allocation of purchase price for acquisitions and are generally amortized on a straight-line basis over periods of up to 25 years. Amortization expense totaled \$2,426 in 2008, \$1,608 in 2007 and \$1,321 in 2006.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

Accrued Liabilities The significant components of accrued liabilities are as follows:

	March 31	
	2008	2007
Advances from customers	\$ 12,101	\$ 8,549
Compensation and benefits	35,473	35,010
Manufacturing materials and services	9,809	7,150
Sales, property and other taxes	5,463	18,993
Other ⁽¹⁾	20,642	19,794
	\$ 83,488	\$ 89,496

(1) Other accrued liabilities are principally comprised of contingent transaction consideration associated with certain of the Company's acquisitions and accrued self-insurance claims for certain insurance programs. None of the individual items in other accrued liabilities at March 31, 2008 and 2007 were individually greater than 5% of total current liabilities in those years.

Income Taxes The provision for income taxes includes federal, state and foreign income taxes currently payable and deferred based on currently enacted tax laws. Deferred income taxes are provided for the tax consequences of differences between the financial statement and tax basis of assets and liabilities. The Company reduces deferred tax

assets by a valuation allowance when, based on its estimates, it is more likely than not that a portion of those assets will not be realized in a future period.

Supplemental Cash Flow Information The consolidated statements of cash flows provide information about the Company's sources and uses of cash and exclude the effects of non-cash transactions. Certain of the Company's capital expenditures are considered to be non-cash transactions. The Company issued term notes payable totaling \$41,015 and \$5,110 (see Note 5. Long-Term Debt) in the years ended March 31, 2008 and 2007 to finance the purchase of certain new equipment. The Company paid cash for interest and income taxes, net of refunds, totaling \$12,663 and \$26,745 in 2008, \$6,030 and \$33,895 in 2007, and \$5,373 and \$18,952 in 2006.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurement. The Company's adoption of SFAS No. 157 effective as of April 1, 2008 is not expected to have a material impact on its consolidated financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB No. 115. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. The Company's adoption of SFAS No. 159 effective as of April 1, 2008 is not expected to have a material impact on its consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R requires the acquiring entity to recognize the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at the fair values as of that date. Goodwill is measured as a residual of the fair values at acquisition date. Acquisition related costs are recognized separately from the acquisition. The Company's adoption of SFAS No. 141R effective as of April 1, 2009 is not expected to have a material impact on its consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*. SFAS No. 160 requires non-controlling interests in a subsidiary be reported as equity in the consolidated financial statements, the attributable net income be identified and presented on the face of the consolidated statement of income and changes in the ownership be accounted for consistently. The statement also includes requirements when an interest is deconsolidated. Disclosure should be sufficient to clearly identify and distinguish between the interests of the reporting entity and that of the non-controlling interests owners. The Company's adoption of SFAS No. 160 effective as of April 1, 2009 is not expected to have a material impact on its consolidated financial condition or results of operations.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

Other Information

Earnings Per Share Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share reflect net income divided by the weighted average number of common shares and dilutive stock options outstanding.

Related Party Transactions In the normal course of business, the Company leases certain real estate from individuals who formerly owned an acquired printing business and are now employed by the Company.

Fair Value of Financial Instruments The Company's financial instruments consist of cash, trade receivables, trade payables and debt obligations. The Company does not currently hold or issue derivative financial instruments. The Company believes that the fair value of its variable rate debt obligations, which totaled \$276,499 and \$101,297 at March 31, 2008 and 2007, approximated their recorded values. The Company estimates that the fair value of its fixed rate debt obligations totaling \$109,186 at March 31, 2008 was \$98,180 and that the fair value of its fixed rate debt obligations totaling \$53,268 at March 31, 2007 was \$53,335. Estimates of fair value are based on estimated interest rates for the same or similar debt offered to the Company having the same or similar maturities and collateral requirements.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. Concentrations of credit risk with respect to trade accounts receivable are limited because the Company's printing businesses provide services to a large, diverse group of customers in various geographical regions. Management performs ongoing credit evaluations of its customers and generally does not require collateral for extensions of credit. The Company's cash deposits are held with large, well-known financial institutions.

Stock-Based Compensation The Company accounts for stock-based compensation in accordance with SFAS No. 123 (R), *Share-Based Payment*, and it measures the cost of the employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant rather than its intrinsic value. In addition, to the extent that the Company receives a tax benefit upon exercise of an award, such benefit is reflected under SFAS No. 123(R) as cash flow from financing activities in the Consolidated Statement of Cash Flows rather than operating activities as in 2006.

Foreign Currency Translation Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than the U.S. dollar are translated at quarter-end exchange rates. Income and expense items are translated at the average monthly exchange rate. The effects of translation are included as a component of accumulated other comprehensive income in shareholders' equity. In 2008, the Company recorded a net foreign currency transaction gain of \$3,064 related to the revaluation of certain transactions denominated in currencies other than the reporting unit's functional currency. The net foreign currency transaction gain is recorded in Other Income on the Consolidated Income Statement.

Accumulated Other Comprehensive Income Other comprehensive income is comprised exclusively of foreign currency translation adjustments.

Geographic Information Revenues and long-lived assets of the Company's subsidiaries operating outside the United States were \$46,088 and \$28,610 as of and for the year ended March 31, 2008.

3. ACQUISITIONS

All of the Company's acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying consolidated financial statements beginning on their respective dates of acquisition. The allocation of purchase price to the acquired assets and liabilities is based on estimates of fair value and may be prospectively revised if and when additional information the Company is awaiting concerning certain asset and liability valuations is obtained, provided that such information is received no later than one year after the date of acquisition. Contingent transaction consideration pursuant to earnout agreements is accrued as an additional cost of the transaction when payment thereof is deemed to be probable by the Company.

In fiscal 2008, the Company paid cash totaling \$91,140 to acquire the operations and assets of three printing businesses. The preliminary allocation of the purchase price of the businesses acquired includes current assets of \$39,034, property and equipment of \$39,872, goodwill and other intangible assets of \$44,549 and other assets of \$212, less accrued liabilities of \$18,802 and debt assumed of \$13,725. Additionally, the Company paid cash totaling \$6,118 to satisfy certain

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

liabilities incurred in connection with certain prior period acquisitions. Based on certain additional information received by the Company regarding its fiscal 2007 acquisitions, \$3,687 of purchase price previously attributed to goodwill was allocated to other intangible assets during fiscal 2008. The Company is awaiting additional information concerning certain asset and liability valuations in order to finalize the allocation of purchase price for certain fiscal 2008 acquisitions, and expects to receive such information no later than one year following the respective dates of acquisition.

In fiscal 2007, the Company paid cash totaling \$62,406 to acquire the operations and assets of two printing businesses. The preliminary allocation of the purchase price of the businesses acquired include current assets of \$18,890, property and equipment of \$45,944, goodwill and other intangible assets of \$15,507 and other assets of \$216, less accrued liabilities of \$18,151. Additionally, the Company (i) paid cash totaling \$5,107 to acquire certain real property and (ii) paid net cash totaling \$42 in connection with the finalization of certain working capital adjustments during fiscal 2007 relating to prior year acquisitions. Based on certain additional information received by the Company regarding its fiscal 2006 acquisitions, \$1,530 of purchase price previously attributed to other intangible assets was allocated to goodwill during fiscal 2007.

4. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation. The costs of major renewals and betterments are capitalized; repairs and maintenance costs are expensed when incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the various classes of assets.

The following is a summary of the Company's property and equipment and their estimated useful lives:

Description	March 31		Estimated Life in Years
	2008	2007	
Land	\$ 15,137	\$ 13,909	
Buildings and leasehold improvements	111,710	96,236	5-30
Machinery and equipment	535,227	457,233	5-20
Computer equipment and software	29,884	24,171	2-5
Furniture, fixtures and other	10,818	9,926	2-7
	702,776	601,475	
Less accumulated depreciation	(281,429)	(247,319)	
	\$ 421,347	\$ 354,156	

Depreciation expense related to the Company's property and equipment totaled \$49,964 in 2008, \$42,367 in 2007 and \$40,007 in 2006.

5. LONG-TERM DEBT

The following is a summary of the Company's long-term debt as of:

	March 31	
	2008	2007
Bank credit facilities	\$ 271,868	\$ 94,143
Term equipment notes	104,505	48,144
Other	9,327	12,278

	385,700	154,565
Less current portion	(23,252)	(12,421)
	\$ 362,448	\$ 142,144

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

The Company's primary bank credit facility (as amended, the Credit Agreement) currently provides for \$335,000 in revolving credit and has a maturity date of October 6, 2011. At March 31, 2008, outstanding borrowings under the Credit Agreement were \$233,000 and accrued interest at a weighted average rate of 3.9%.

Under the terms of the Credit Agreement the proceeds from borrowings may be used to repay certain indebtedness, finance certain acquisitions, provide for working capital and general corporate purposes and, subject to certain restrictions, repurchase the Company's common stock. Borrowings outstanding under the Credit Agreement are secured by substantially all of the Company's assets other than real estate and certain equipment subject to term equipment notes and other financings. Borrowings under the Credit Agreement accrue interest, at the Company's option, at either (1) the London Interbank Offered Rate (LIBOR) plus a margin of .625% to 1.50%, or (2) an alternate base rate (based upon the greater of the agent bank's prime lending rate or the Federal Funds effective rate plus .50%). The Company is also required to pay an annual commitment fee ranging from .15% to .275% on available but unused amounts under the Credit Agreement. The interest rate margin and the commitment fee are based upon certain financial performance measures set forth in the Credit Agreement and are redetermined quarterly. At March 31, 2008, the applicable LIBOR interest rate margin was 1.00% and the applicable commitment fee was .20%.

The Company is subject to certain covenants and restrictions and must meet certain financial tests under the Credit Agreement. The Company was in compliance with such covenants, restrictions and financial tests at March 31, 2008. The Company also maintains an unsecured credit facility with a commercial bank (as amended, the A&B Credit Facility) currently consisting of a U.S. \$5,000 maximum borrowing limit component and a separate Canadian \$31,000 maximum borrowing limit component. On March 13, 2008, the Company entered into a First Amendment to the A&B Credit Agreement, which decreased the U.S. maximum borrowing limit to \$5,000 and increased the separate Canadian maximum borrowing limit to \$31,000. At March 31, 2008, outstanding borrowings were U.S. \$2,200, which accrued interest at a weighted average rate of 5.3%, and Canadian \$28,000 (\$27,365 U.S. equivalent), which accrued interest at a weighted average rate of 5.8%.

Under the terms of the A&B Credit Facility, U.S. dollar denominated borrowings accrue interest and bear an annual commitment fee at rates equal to those under the Credit Agreement. Canadian dollar denominated borrowings accrue interest at the Company's option, at either (1) the Canadian Dollar Offer Rate (CDOR) plus a margin of .625% to 1.50%, or (2) an alternate base rate based upon the Canadian Prime Rate. The Company is also required to pay an annual commitment fee ranging from .15% to .275% on available but unused Canadian dollar amounts. For both the U.S. and Canadian components, the interest rate margin and the commitment fee are based upon the financial performance measures set forth in the Credit Agreement and are redetermined quarterly. An annual reduction of Canadian \$4,000 on the Canadian dollar denominated commitment occurs on each anniversary date of the A&B Credit Facility until the final maturity date of January 2, 2011. There are no significant covenants or restrictions set forth in the A&B Credit Facility; however, a default by the Company under the Credit Agreement will constitute a default under the A&B Credit Facility. At March 31, 2008, the applicable CDOR interest rate margin was 1.00% and the applicable commitment fee was .20%. Proceeds from borrowings under the A&B Credit Facility may be used for general corporate purposes.

In addition the Company maintains two auxiliary revolving credit facilities (each an Auxiliary Bank Facility and collectively the Auxiliary Bank Facilities) with commercial banks. Each Auxiliary Bank Facility is unsecured and has a maximum borrowing capacity of \$5,000. One facility expires in October 2008 while the other facility expires in December 2008. At March 31, 2008, outstanding borrowings under the Auxiliary Bank Facilities totaled \$9,302 and accrued interest at a weighted average rate of 3.7%. Because the Company currently has the ability and intent to refinance borrowings outstanding under the Auxiliary Bank Facilities expiring in October and December 2008, such borrowings are classified as long-term debt in the accompanying consolidated balance sheet at March 31, 2008. The Auxiliary Bank Facilities cross-default to the covenants and restrictions set forth in the Credit Agreement.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

At March 31, 2008, outstanding borrowings under term equipment notes totaled \$104,505 and accrued interest at rates between 3.9% and 7.1%. The term equipment notes provide for principal payments plus interest for defined periods of up to ten years from the date of issuance, and are secured by certain equipment of the Company. The Company is not subject to any significant financial covenants in connection with any of the term equipment notes. At March 31, 2008, outstanding borrowings under our real estate notes totaled \$4,438 and accrued interest at 6%. The real estate notes provide for principal payments plus interest for defined periods of up to ten years from the date of issuance and are secured by the real estate. At March 31, 2008, other debt obligations totaled \$4,889 and provided for principal payments plus interest (fixed and variable rates) for defined periods up to 15 years from the date of issuance. The Company does not have any significant financial covenants or restrictions associated with the real estate notes or other debt obligations. The Credit Agreement places certain limitations on the amount of additional term note obligations the Company may incur in the future.

The principal payment requirements by fiscal year under the Company's debt obligations referenced above are:

	2009	2010	2011	2012	2013	Thereafter
Debt obligations	\$ 23,252	\$ 24,906	\$ 21,493	\$ 287,225	\$ 17,177	\$ 11,647

6. INCOME TAXES

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

	Year Ended March 31		
	2008	2007	2006
Domestic	78,330	78,590	61,690
Foreign	9,945	1,493	
	\$ 88,275	\$ 80,083	\$ 61,690

The provision for income taxes is comprised of the following:

	Year Ended March 31		
	2008	2007	2006
Current			
Federal	\$ 17,927	\$ 32,519	\$ 21,162
State	3,001	2,751	1,893
Foreign	1,994	626	
	22,922	35,896	23,055
Deferred			
Federal	4,506	(3,866)	689
State	460	(2,688)	(552)
Foreign	1,063		
	6,029	(6,554)	137

\$ 28,951 \$ 29,342 \$ 23,192

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

The provision for income taxes differs from an amount computed at the federal statutory rate as follows:

	Year Ended March 31		
	2008	2007	2006
Provision at the federal statutory rate	\$ 30,896	\$ 28,029	\$ 21,592
State income taxes, net of federal income tax benefit	3,103	41	872
Non-deductible expenses	1,569	1,347	1,314
Benefit of domestic production deduction	(1,446)	(798)	(586)
Impairment of goodwill		672	
Adjustment to contingency reserve	(4,748)		
Foreign income taxed at other rates	(423)		
Other		51	
	\$ 28,951	\$ 29,342	\$ 23,192

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts as measured based on enacted tax laws and regulations. The Company records a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount the Company expects to realize. The Company considers the amount of taxable income available in carryback years and expectations of future taxable income, among other factors, in assessing the potential need for a valuation allowance. As of March 31, 2008 and 2007, a valuation allowance of \$1,454 and \$816 was recorded related to certain deferred tax assets. The components of deferred income tax assets and liabilities are as follows:

	March 31	
	2008	2007
Deferred income tax liabilities:		
Property and equipment	\$ 62,505	\$ 59,081
Other	2,712	1,968
Total deferred income tax liabilities	\$ 65,217	\$ 61,049
Deferred income tax assets:		
Accounts receivable and inventories	\$ 1,031	\$ 1,040
Accrued liabilities	5,179	5,700
Goodwill and intangibles ⁽¹⁾	9,031	5,334
Other liabilities ⁽¹⁾	3,291	
Other	3,143	1,739
Total deferred income tax assets	\$ 21,675	\$ 13,813

(1)

These deferred
income tax
assets are
long-term in
nature and
therefore are
netted against
total deferred
income tax
liabilities for
presentation in
the
accompanying
consolidated
balance sheets.

On April 1, 2007, the Company adopted FIN 48, which addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 was recorded as a net increase to retained earnings of \$1,189.

At the date of the adoption of FIN 48, the Company had \$19,334 of unrecognized tax benefits, including applicable interest and penalties. As of March 31, 2008 the balance of unrecognized tax benefits was \$13,655. Of the unrecognized tax benefits at March 31, 2008, \$11,248, if recognized, would decrease the Company's effective income tax rate and increase net income. The unrecognized tax benefits relate to certain tax deductions claimed on federal and state tax returns for which the ultimate outcome is uncertain.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

In the year ended March 31, 2008, the Company reduced the amount of unrecognized tax benefits by \$5,679. Of this amount, \$2,220 resulted in a reduction of tax expense. As of March 31, 2008, the Company believes it is reasonably possible that the unrecognized tax benefits may increase within 12 months by as much as \$1,721, due primarily to certain tax deductions claimed on state tax returns for which the ultimate outcome is uncertain.

The Company's federal income tax returns for the tax years after 2003 remain subject to examination. The various states in which the Company is subject to income tax are generally open for the tax years after 2002.

The Company classifies interest expense and any related penalties related to income tax uncertainties as a component of income tax expense. For the year-ended March 31, 2008, the Company had recognized \$697 of net interest income related to tax uncertainties. Accrued interest and penalties of \$2,633 and \$1,619 related to income tax uncertainties were recognized as a component of other noncurrent liabilities at April 1, 2007 and March 31, 2008, respectively.

The Company's unrecognized tax benefit activity for the fiscal year ended March 31, 2008 was as follows:

Unrecognized tax benefit at April 1, 2007	\$ 19,334
Additions for tax positions in prior periods	278
Decreases for tax positions in prior periods	(317)
Additions for tax positions in current periods	2,911
Settlement/audits	(336)
Lapse of statute of limitations	(8,215)
Unrecognized tax benefit at March 31, 2008	\$ 13,655

7. COMMITMENTS AND CONTINGENCIES

Operating Leases The Company has entered into various noncancelable operating leases primarily related to facilities and equipment used in the ordinary course of its business. The Company incurred total operating lease expense of \$15,548, \$16,864 and \$18,089 for the years ended March 31, 2008, 2007 and 2006.

The Company's future operating lease obligations by fiscal year are as follows:

	2009	2010	2011	2012	2013	Thereafter
Operating lease obligations	\$ 18,706	\$ 15,155	\$ 12,386	\$ 10,776	\$ 8,744	\$ 32,120

Letters of Credit In connection with the assumption of obligations under outstanding industrial revenue bonds, which are reflected as debt in the accompanying consolidated financial statements, and the Company's assumption of certain contingent liabilities related to certain of its acquisitions, the Company had letters of credit outstanding as of March 31, 2008 totaling \$6,604. All of these letters of credit were issued pursuant to the terms of the Company's Credit Agreement, which expires in October 2011, and the Company will be required to obtain replacement letters of credit at that time, as needed.

Table of Contents**CONSOLIDATED GRAPHICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share data and percentages)**

Insurance Programs The Company maintains third-party insurance coverage in amounts and against risks it believes are reasonable in its circumstances. The Company is self-insured for most workers' compensation claims and for a significant component of its group health insurance programs. For these exposures, the Company accrues expected loss amounts which are determined using a combination of its historical loss experience and subjective assessment of its future loss exposure, together with advice provided by administrators and consulting actuaries. The estimates of expected loss amounts are subject to uncertainties arising from various sources, including changes in claims reporting patterns, claims settlement patterns, judicial decisions, legislation and economic conditions, which could result in an increase or decrease in accrued costs in future periods for claim matters which occurred in a prior period. Although the Company believes that the accrued estimated loss amounts are reasonable under the circumstances, significant differences related to the items noted above could materially affect our risk exposure, insurance obligations and future expense.

Legal Matters From time to time, the Company is subject to legal proceedings and claims that arise in the ordinary course of its business. Currently, there are no legal proceedings or claims pending against the Company that management believes could have a material adverse effect upon the Company's consolidated financial condition or results of operations.

Tax Matters The Company is subject to examination by tax authorities for varying periods in various taxing jurisdictions. During the course of such examinations disputes occur as to matters of fact and/or law. Also, in most taxing jurisdictions the passage of time without examination will result in the expiration of applicable statutes of limitations thereby precluding the taxing authority from conducting an examination of the tax period for which such statute of limitation has expired. The Company believes that it has adequately provided for its tax liabilities.

8. SHARE-BASED COMPENSATION

Pursuant to the Consolidated Graphics, Inc. Long-Term Incentive Plan, as amended (the "Plan"), employees of the Company and members of the Company's Board of Directors have been, or may be, granted options to purchase shares of the Company's common stock, restricted stock unit awards or other forms of equity-based compensation. Options granted pursuant to the Plan include incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended and non-qualified stock options. Options previously granted under the Plan were at a price not less than the market price of the stock at the date of grant and periodically vest over a fixed period of up to ten years. Unvested options generally are cancelled upon termination of employment and vested options generally expire shortly after termination of employment. Otherwise, options expire after final vesting at the end of a fixed period generally not in excess of an additional five years. At March 31, 2008, a total of 2,274,784 shares were reserved for issuance pursuant to the Plan, of which 817,307 shares of the Company's common stock were reserved for future grants.

The following table sets forth option and restricted stock unit award transactions under the Plan in terms of underlying shares of the Company's common stock:

	For the Years Ended March 31					
	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at April 1	1,546,734	\$ 36.66	1,974,459	\$ 33.88	1,700,786	\$ 27.93
Granted	73,112	45.35	48,588	52.62	550,318	48.13
Exercised	(69,480)	29.25	(445,221)	27.32	(123,035)	19.74
Forfeited or expired	(70,389)	45.58	(31,092)	40.10	(153,610)	26.71

Outstanding at March						
31	1,479,977	36.93	1,546,734	36.66	1,974,459	33.88
Exercisable at March						
31	1,215,282	35.61	1,164,234	35.21	1,369,402	32.92

For 2008 and 2007, the number of shares granted and outstanding at year-end includes 12,500 restricted stock unit awards having an aggregate fair value at date of grant of \$926 and \$652, respectively. For 2008, shares exercised includes 2,500 common shares delivered to the participant following the vesting of certain restricted stock unit awards. For 2008 and 2007, the weighted average exercise price of shares granted, exercised and outstanding is based solely on stock option grants and exercises and excludes the restricted stock unit awards which have no exercise price component.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

The weighted average grant date fair value of stock options granted during the three years ended March 31, 2008, all of which were at exercise prices equal to the market price of the stock on the grant dates, as calculated under the Black-Scholes-Merton pricing model (Black-Scholes) are as follows:

	Year Ended March 31		
	2008	2007	2006
Weighted average fair value of option grants during the year	\$ 19.42	\$ 19.94	\$ 17.92
Assumptions:			
Expected option life in years	6.1	4.3	5.0
Risk-free interest rate	3.7%	5.0%	4.2%
Expected volatility	38.8%	37.9%	33.8%
Expected dividend yield			

The risk-free interest rate represents the U.S. Treasury Bond constant maturity yield approximating the expected option life of stock options granted during the period. The expected option life represents the period of time that the stock options granted during the period are expected to be outstanding, based on the mid-point between the vesting date and contractual expiration date of each option. The expected volatility is based on the historical market price volatility of the Company's common stock.

Outstanding and exercisable stock options and restricted stock unit awards at March 31, 2008 were as follows:

Range of Exercise Prices	Shares	Outstanding		Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Years	Shares	Weighted Average Exercise Price
Stock Options					
\$10.37 - \$20.00	446,350	\$ 13.27	2.9	446,350	\$ 13.27
\$20.01 - \$30.00	63,409	23.19	4.7	57,356	23.10
\$30.01 - \$40.00	99,979	38.05	6.6	17,395	38.31
\$40.01 - \$50.00	171,020	42.47	6.1	69,460	42.03
\$50.01 - \$60.00	660,233	51.97	4.4	623,201	51.92
\$60.01 - \$65.91	16,486	64.25	4.6	1,520	62.00
	1,457,477	36.93	4.3	1,215,282	35.61
Restricted stock unit awards	22,500		1.7		
Outstanding at March 31, 2008	1,479,977		4.3	1,215,282	

The total fair value of restricted stock unit awards which vested during 2008 was \$315. The aggregate intrinsic value of options and restricted stock unit awards outstanding and exercisable as of March 31, 2008 was \$27,996 and \$26,106, respectively.

The Company accounts for share-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment*, and measures the cost of employee services received in exchange for an award of equity instruments, including grants of stock options and restricted stock unit awards, based on the fair value of the award at the date of grant. The fair value of stock options is determined using the Black-Scholes model. Restricted stock unit awards are valued at the closing stock price on date of grant.

The Company recorded \$1,137 of compensation expense for the year ended March 31, 2008. The after-tax impact to net income was \$694, and the impact to basic earnings per share was \$.06 and diluted earnings per share was \$.05 in fiscal 2008. For the year ended March 31, 2007, the Company recorded \$2,695 of share-based compensation expense. The after-tax impact to net income was \$1,644, and the impact to both basic and diluted earnings per share was \$.12 in fiscal 2007.

As of March 31, 2008, \$1,678 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.7 years.

Table of Contents

CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data and percentages)

There were 817,307, 330,642 and 403,679 shares available for awards under the Plan as of March 31, 2008, 2007 and 2006, respectively. In 2008, the Plan was amended to limit the number of stock appreciation rights or stock awards, including restricted stock unit awards, that may be granted to participants to 62,500 underlying shares of the Company's common stock.

The accompanying consolidated income statement for 2006 was not restated since the Company elected not to use the retrospective application method under SFAS No. 123 (R). A summary of the effect on net income and net income per share for fiscal 2006 as if the Company had accounted for share-based compensation using the fair value recognition provisions of SFAS No. 123 is as follows (in thousands except per share data):

	2006
Net income as reported	\$ 38,498
Less pro forma compensation expense	(5,936)
Pro forma net income	\$ 32,562
Basic Earnings Per Share:	
Net income as reported	\$ 2.81
Less pro forma compensation	(.40)
Pro forma net income	\$ 2.41
Diluted Earnings Per Share:	
Net income as reported	\$ 2.73
Less pro forma compensation	(.39)
Pro forma net income	\$ 2.34

9. SUPPLEMENTAL SELECTED UNAUDITED QUARTERLY FINANCIAL DATA

The following table contains selected unaudited quarterly financial data from the consolidated income statements for each quarter of fiscal 2008 and 2007. The Company believes this information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2008:				
Sales	\$ 258,646	\$ 259,666	\$ 289,538	\$ 287,538
Gross profit	68,177	66,264	75,398	73,148
Net income	13,557	13,286	19,362	13,119
Basic earnings per share	.99	1.01	1.63	1.18
Diluted earnings per share	.96	.98	1.58	1.15

Fiscal 2007:

Sales	\$ 238,425	\$ 234,236	\$ 269,611	\$ 263,914
Gross profit	64,005	62,456	72,358	70,371
Net income	13,730	13,690	16,375	6,946 ⁽¹⁾
Basic earnings per share	1.00	1.01	1.21	.51
Diluted earnings per share	.97	.98	1.17	.50

⁽¹⁾ Includes \$7,816 goodwill impairment charge, net of taxes.

Earnings per share are computed independently for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not equal annual earnings per share.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer (CEO) and Chief Financial and Accounting Officer (CFO), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's CEO and CFO have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting

Management's Report is included in Item 8 of this Annual Report on Form 10-K on page 24 and is incorporated herein by reference.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

PART III

The information called for by Item 10. Directors, Executive Officers and Corporate Governance of the Registrants, Item 11. Executive Compensation, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters, Item 13. Certain Relationships and Related Transactions, and Director Independence and Item 14. Principal Accountant Fees and Services is incorporated by reference herein from the Company's Proxy Statement for its Annual Meeting of Shareholders (presently scheduled to be held August 7, 2008) to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after March 31, 2008.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Index to Financial Statements

(a)(1) Financial Statements:

The index to the Financial Statements is included in Item 8 of this Annual Report on Form 10-K on page 23 and is incorporated herein by reference.

(a)(2) Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts.

Report of Independent Registered Public Accounting Firm with respect to Schedule II Valuation and Qualifying Accounts is included in Item 15 of this Annual Report on Form 10-K on page 46.

All other schedules have been omitted since the required information is not significant or is included in the Financial Statements or notes thereto or is not applicable.

(a)(3) Exhibits:

- * 3.1 Restated Articles of Incorporation of the Company filed with the Secretary of State of the State of Texas on July 27, 1994 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1994), Exhibit 4(a)).
- * 3.2 Articles of Amendment to the Restated Articles of Incorporation of the Company dated as of July 29, 1998 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1998), Exhibit 3.1).
- * 3.3 Second Amended and Restated By-Laws of the Company, adopted as of May 25, 2004 (Consolidated Graphics, Inc. Form 10-Q (June 30, 2004), Exhibit 3.3).
- * 3.4 Amendment to the Second Amended and Restated By-Laws of the Company adopted as of December 21, 2007 (Consolidated Graphics, Inc. Form 8-K (December 26, 2007), Exhibit 1).
- * 4.1 Specimen Common Stock Certificate (Consolidated Graphics, Inc. Form 10-K (March 31, 1998), Exhibit 4.1).
- * 4.2 Rights Agreement dated as of December 15, 1999 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company, as Rights Agent, which includes as Exhibit A the Certificate of Designations of Series A Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the form of summary of Rights to Purchase Shares (Consolidated Graphics, Inc. Form 8-K (December 15, 1999), Exhibit 4.1).
- * 4.3

Amendment to Rights Agreement dated as of July 10, 2006 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company and the related Summary of Rights to Purchase Stock, as amended (Consolidated Graphics, Inc. Form 8-A/A (July 13, 2006), Exhibits 2 and 3).

- * 4.4 Second Amendment to Rights Agreement dated as of September 25, 2007 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company and the related Summary of Rights to Purchase Stock, as amended (Consolidated Graphics, Inc. Form 8-A/A (September 28, 2007), Exhibits 3 and 4).
- 10.1 1994 Consolidated Graphics, Inc. Long-Term Incentive Plan, as amended through May 9, 2008. +
- * 10.2 Employment Agreement between the Company and Joe R. Davis dated as of February 13, 2006 (Consolidated Graphics, Inc. Form 8-K (February 14, 2006), Exhibit 10.1).
- * 10.3 Change in Control Agreement between the Company and Joe R. Davis dated as of July 25, 2000 (Consolidated Graphics, Inc. Form 10-K (March 31, 2001), Exhibit 10.8).
- * 10.4 Amendment to Change in Control Agreement between the Company and Joe R. Davis dated as of February 13, 2006 (Consolidated Graphics, Inc. Form 8-K (February 14, 2006), Exhibit 10.2).
- * 10.5 Employment Agreement between the Company and Jon C. Biro dated as of December 17, 2007 (Consolidated

Table of Contents

	Graphics, Inc. Form 8-K (January 18, 2008), Exhibit 10.1).
* 10.6	Change in Control Agreement between the Company and Jon C. Biro dated as of December 17, 2007 (Consolidated Graphics, Inc. Form 8-K (January 18, 2008), Exhibit 10.2).
* 10.7	Form of Indemnification Agreement for directors and officers (Consolidated Graphics, Inc. Form 10-Q (June 30, 2004), Exhibit 10.1).
10.8	Amended Schedule identifying the directors and officers parties to Indemnification Agreements with the Company.
* 10.9	Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of October 6, 2006 (Consolidated Graphics, Inc. Form 8-K (October 6, 2006), Exhibit 10.1).
* 10.10	First Amendment to the Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of January 2, 2007 (Consolidated Graphics, Inc. Form 8-K (January 2, 2007), Exhibit 99.1).
* 10.11	Second Amendment to the Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of November 9, 2007 (Consolidated Graphics, Inc. Form 8-K (November 14, 2007), Exhibit 10.1).
* 10.12	Third Amendment to the Credit Agreement among the Company and JP Morgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of March 13, 2008 (Consolidated Graphics, Inc. Form 8-K (March 13, 2008), Exhibit 10.1).
10.13	Form of Non-Employee Director Non-Statutory Stock Option Agreement.+
10.14	Form of Employee Incentive Stock Option Agreement.+
10.15	Form of Employee Non- Statutory Stock Option Agreement.+
* 10.16	Form of Restricted Stock Unit Agreement (Consolidated Graphics, Inc. Form 8-K (June 14, 2007), Exhibit 10.1).+
21	List of Subsidiaries.
23	Consent of KPMG LLP.
24	Powers of Attorney.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- * Incorporated by reference.
- + Compensatory plan or arrangement under which executive officers or directors of the Company may participate.

Table of Contents**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Year	Amount Charged to Expense	Utilization of Reserve (Net of Recoveries)	Balance at End of Year
Allowance for Doubtful Accounts				
Year Ended March 31, 2008	\$ 3,080	\$ 1,203	\$ (708)	\$ 3,575
Year Ended March 31, 2007	2,514	1,777	(1,211)	3,080

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Consolidated Graphics, Inc.:

Under date of May 28, 2008, we reported on the consolidated balance sheet of Consolidated Graphics, Inc. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2008, which are included in this Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the Valuation and Qualifying Accounts Schedule (Schedule II) listed in the index for the period indicated above. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial information presented in Schedule II for the years ended March 31, 2008 and 2007, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Houston, Texas

May 28, 2008

Table of Contents

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, thereunder duly authorized, in the City of Houston, State of Texas on the 28th day of May, 2008

CONSOLIDATED GRAPHICS, INC.

By: /s/ Joe R. Davis

Joe R. Davis
Chief Executive Officer and
Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joe R. Davis	Chief Executive Officer and Director	May 28, 2008
Joe R. Davis	(Principal Executive Officer)	
/s/ Jon C. Biro	Executive Vice President,	May 28, 2008
Jon C. Biro	Chief Financial and Accounting Officer and Secretary (Principal Financial and Accounting Officer)	
/s/ LARRY J. ALEXANDER*	Director	
Larry J. Alexander		
/s/ BRADY F. CARRUTH*	Director	
Brady F. Carruth		
/s/ GARY L. FORBES*	Director	
Gary L. Forbes		
/s/ JAMES H. LIMMER*	Director	
James H. Limmer		
/s/ HUGH N. WEST*	Director	
Hugh N. West		

*By: /s/ Joe R. Davis

May 28, 2008

Joe R. Davis
Attorney-in-Fact

Table of Contents

Exhibit Index

- * 3.1 Restated Articles of Incorporation of the Company filed with the Secretary of State of the State of Texas on July 27, 1994 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1994), Exhibit 4(a)).
- * 3.2 Articles of Amendment to the Restated Articles of Incorporation of the Company dated as of July 29, 1998 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1998), Exhibit 3.1).
- * 3.3 Second Amended and Restated By-Laws of the Company, adopted as of May 25, 2004 (Consolidated Graphics, Inc. Form 10-Q (June 30, 2004), Exhibit 3.3).
- * 3.4 Amendment to the Second Amended and Restated By-Laws of the Company adopted as of December 21, 2007 (Consolidated Graphics, Inc. Form 8-K (December 26, 2007), Exhibit 1).
- * 4.1 Specimen Common Stock Certificate (Consolidated Graphics, Inc. Form 10-K (March 31, 1998), Exhibit 4.1).
- * 4.2 Rights Agreement dated as of December 15, 1999 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company, as Rights Agent, which includes as Exhibit A the Certificate of Designations of Series A Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the form of summary of Rights to Purchase Shares (Consolidated Graphics, Inc. Form 8-K (December 15, 1999), Exhibit 4.1).
- * 4.3 Amendment to Rights Agreement dated as of July 10, 2006 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company and the related Summary of Rights to Purchase Stock, as amended (Consolidated Graphics, Inc. Form 8-A/A (July 13, 2006), Exhibits 2 and 3).
- * 4.4 Second Amendment to Rights Agreement dated as of September 25, 2007 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company and the related Summary of Rights to Purchase Stock, as amended (Consolidated Graphics, Inc. Form 8-A/A (September 28, 2007), Exhibits 3 and 4).
- 10.1 1994 Consolidated Graphics, Inc. Long-Term Incentive Plan, as amended through May 9, 2008. +
- * 10.2 Employment Agreement between the Company and Joe R. Davis dated as of February 13, 2006 (Consolidated Graphics, Inc. Form 8-K (February 14, 2006), Exhibit 10.1).
- * 10.3 Change in Control Agreement between the Company and Joe R. Davis dated as of July 25, 2000 (Consolidated Graphics, Inc. Form 10-K (March 31, 2001), Exhibit 10.8).
- * 10.4 Amendment to Change in Control Agreement between the Company and Joe R. Davis dated as of February 13, 2006 (Consolidated Graphics, Inc. Form 8-K (February 14, 2006), Exhibit 10.2).
- * 10.5 Employment Agreement between the Company and Jon C. Biro dated as of December 17, 2007 (Consolidated Graphics, Inc. Form 8-K (January 18, 2008), Exhibit 10.1).
- * 10.6 Change in Control Agreement between the Company and Jon C. Biro dated as of December 17, 2007 (Consolidated Graphics, Inc. Form 8-K (January 18, 2008), Exhibit 10.2).

Edgar Filing: CONSOLIDATED GRAPHICS INC /TX/ - Form 10-K

- * 10.7 Form of Indemnification Agreement for directors and officers (Consolidated Graphics, Inc. Form 10-Q (June 30, 2004), Exhibit 10.1).
- 10.8 Amended Schedule identifying the directors and officers parties to Indemnification Agreements with the Company.
- * 10.9 Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of October 6, 2006 (Consolidated Graphics, Inc. Form 8-K (October 6, 2006), Exhibit 10.1).
- * 10.10 First Amendment to the Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of January 2, 2007 (Consolidated Graphics, Inc. Form 8-K (January 2, 2007), Exhibit 99.1).
- * 10.11 Second Amendment to the Credit Agreement among the Company and JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of November 9, 2007 (Consolidated Graphics, Inc. Form 8-K (November 14, 2007), Exhibit 10.1).
- * 10.12 Third Amendment to the Credit Agreement among the Company and JP Morgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, dated as of March 13, 2008 (Consolidated Graphics, Inc. Form 8-K (March 13, 2008), Exhibit 10.1).
- 10.13 Form of Non-Employee Director Non-Statutory Stock Option Agreement.+
- 10.14 Form of Employee Incentive Stock Option Agreement.+
- 10.15 Form of Employee Non- Statutory Stock Option Agreement.+
- * 10.16 Form of Restricted Stock Unit Agreement (Consolidated Graphics, Inc. Form 8-K (June 14, 2007), Exhibit 10.1).+
- 21 List of Subsidiaries.
- 23 Consent of KPMG LLP.
- 24 Powers of Attorney.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Incorporated by reference.
- + Compensatory plan or

arrangement
under which
executive
officers or
directors of the
Company may
participate.