CONSOLIDATED GRAPHICS INC /TX/
Form 10-Q
January 30, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013

OR

o 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** (I.R.S. Employer Identification No.)
5858 Westheimer Road, Suite 200 **Houston, Texas** (Address of principal executive offices)	**77057** (Zip Code)

Registrant s telephone number, including area code: **(713) 787-0977**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No x

The number of shares of Common Stock, par value $.01 per share, of the Registrant outstanding at January 30, 2014 was 9,712,642.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2013

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

CONSOLIDATED GRAPHICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	December 31, 2013	March 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,522	$ 12,217
Accounts receivable, net	178,861	164,647
Inventories	58,756	55,389
Prepaid expenses	12,646	15,877
Deferred income taxes	11,280	10,215
Total current assets	277,065	258,345
PROPERTY AND EQUIPMENT, net	312,435	343,832
GOODWILL	23,515	23,870
OTHER INTANGIBLE ASSETS, net	9,297	11,936
OTHER ASSETS	4,877	6,660
	$ 627,189	$ 644,643
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 14,569	$ 20,550
Accounts payable	73,442	83,578
Accrued liabilities	74,283	71,974
Income taxes payable	2,451	
Total current liabilities	164,745	176,102
LONG-TERM DEBT, net of current portion	75,049	103,134
OTHER LIABILITIES	41,315	44,255
DEFERRED INCOME TAXES, net	35,226	42,778
Total liabilities	316,335	366,269
COMMITMENTS AND CONTINGENCIES SHAREHOLDERS EQUITY		
Common stock, $.01 par value; 100,000,000 shares authorized; 9,712,642 and 9,633,475 issued and outstanding	98	96
Additional paid-in capital	159,245	154,657
Retained earnings	153,196	124,139
Accumulated other comprehensive income (loss)	(1,685)	(518)

Total shareholders equity		310,854		278,374
	$	627,189	$	644,643

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2013	**2012**	**2013**	**2012**
SALES	$ 275,703	$ 295,277	$ 768,462	$ 797,220
COST OF SALES	203,431	222,716	578,826	613,390
Gross profit	72,272	72,561	189,636	183,830
SELLING EXPENSES	22,770	23,939	68,700	70,030
GENERAL AND ADMINISTRATIVE EXPENSES	22,548	24,638	70,859	73,571
OTHER CHARGES	4,347	349	7,304	4,311
OTHER EXPENSE (INCOME)	(67)	290	207	17
Operating income	22,674	23,345	42,566	35,901
INTEREST EXPENSE, net	838	1,246	2,362	4,081
Income before taxes	21,836	22,099	40,204	31,820
INCOME TAX EXPENSE	7,009	5,840	11,147	9,300
Net income	$ 14,827	$ 16,259	$ 29,057	$ 22,520
BASIC EARNINGS PER SHARE	$ 1.53	$ 1.69	$ 3.01	$ 2.28
DILUTED EARNINGS PER SHARE	$ 1.50	$ 1.68	$ 2.97	$ 2.27
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING USED TO COMPUTE EARNINGS PER SHARE				
Basic	9,692	9,622	9,662	9,886
Diluted	9,899	9,659	9,769	9,937

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2013	**2012**	**2013**	**2012**
NET INCOME	$ 14,827	$ 16,259	$ 29,057	$ 22,520
Other comprehensive loss - currency translation adjustment, net of tax	(1,854)	(318)	(1,167)	(821)
Other comprehensive loss	(1,854)	(318)	(1,167)	(821)
Comprehensive income	$ 12,973	$ 15,941	$ 27,890	$ 21,699

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE, March 31, 2013	9,633	$ 96	$ 154,657	$ 124,139	$ (518)	$ 278,374
Net income				29,057		29,057
Other comprehensive loss - currency translation adjustment, net of tax					(1,167)	(1,167)
Exercise of stock options, including tax benefit	80	2	2,668			2,670
Share-based compensation expense			1,920			1,920
BALANCE, December 31, 2013	9,713	$ 98	$ 159,245	$ 153,196	$ (1,685)	$ 310,854

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended December 31 2013	2012
OPERATING ACTIVITIES		
Net income	$ 29,057	$ 22,520
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	43,961	52,559
Amortization	2,428	2,691
Bad debt expense	1,219	1,204
Other charges	6,239	4,311
Foreign currency gain		(39)
Deferred income taxes	(8,548)	(4,368)
Share-based compensation expense	1,920	1,849
Changes in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net	(16,778)	(21,206)
Inventories	(3,533)	(6,829)
Prepaid expenses	3,222	4,023
Other assets	1,635	3,015
Accounts payable and accrued liabilities	(10,213)	(2,042)
Other liabilities	(4,379)	1,301
Income taxes payable	2,454	2,790
Net cash provided by operating activities	48,684	61,779
INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(184)	(59)
Capital expenditures	(20,985)	(31,373)
Proceeds from asset dispositions	7,320	1,736
Net cash used in investing activities	(13,849)	(29,696)
FINANCING ACTIVITIES		
Proceeds from bank credit facilities	105,223	80,151
Payments on bank credit facilities	(122,891)	(76,446)
Proceeds from issuance of term equipment notes		1,591
Payments on term equipment notes and other debt	(16,502)	(17,165)
Payments to repurchase and retire common stock		(18,912)
Proceeds from exercise of stock options, including excess tax benefit	2,670	1,058
Net cash used in financing activities	(31,500)	(29,723)
Effect of exchange rate changes on cash and cash equivalents	(30)	100
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,305	2,460
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,217	6,065
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,522	$ 8,525

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements include the accounts of Consolidated Graphics, Inc. (collectively with its consolidated subsidiaries, the Company). All intercompany accounts and transactions have been eliminated. Such statements have been prepared in accordance with United States generally accepted accounting principles and the Securities and Exchange Commission s (SEC) rules and regulations for reporting interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the accompanying unaudited condensed consolidated financial statements have been included. Operating results for the nine months ended December 31, 2013 are not necessarily indicative of future operating results. Balance sheet information as of March 31, 2013 has been derived from the Company s most recent annual audited consolidated financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2013 (2013 Form 10-K).

On October 23, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with R.R. Donnelley & Sons Company (RR Donnelley). The Merger Agreement has been unanimously approved by each company s Board of Directors. Under the terms of the transaction, the shareholders will receive a combination of $34.44 in cash and a fixed exchange ratio of 1.651 RR Donnelley shares for each outstanding share of the Company they own. The completion of the transaction is subject to customary closing conditions. The Company s shareholders have approved, among other proposals, the proposal to approve the Merger Agreement at a Special Meeting of Shareholders on January 28, 2014.

Use of Estimates The preparation of financial statements in conformity with U.S. 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.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Pursuant to the Company s cash management system, the Company deposits cash into its bank accounts as checks written by the Company are presented to the bank for payment. Checks issued by the Company but not presented to the bank for payment are included in accounts payable and totaled $26,309 as of December 31, 2013 and $38,140 as of March 31, 2013.

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. Revenue from distribution services is recognized when the services are provided. Because printed products manufactured for the Company s customers are customized based upon the customer s specifications, product returns are not significant. Revenue is recognized net of sales taxes. 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 5% of the Company s revenues for the nine months ended December 31, 2013. The Company maintains an allowance for doubtful accounts based upon its evaluation of aging of receivables, historical experience and the current economic environment. Accounts receivable in the accompanying condensed consolidated balance sheets are reflected net of allowance for doubtful accounts of $3,636 and $3,323 at December 31, 2013 and March 31, 2013, respectively.

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 include the cost of purchased raw materials, labor and overhead. The carrying values of inventories are set forth below:

Table of Contents

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

	December 31, 2013	March 31, 2013
Raw materials	$ 24,656	$ 24,189
Work in progress	25,077	23,676
Finished goods	9,023	7,524
	$ 58,756	$ 55,389

Goodwill and Long-Lived Assets Goodwill totaled $23,515 at December 31, 2013 and represents the excess of the Company s purchase cost over the fair value of the net identifiable assets acquired, net of previously recorded amortization and impairment charges. 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 the applicable accounting standards, the Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of the events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company is required to perform the first step of the two-step impairment test. The first step, used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value including goodwill. The Company estimates the fair value for each reporting unit using trailing twelve months earnings before interest, income taxes and depreciation and amortization (EBITDA) multiplied by management s estimate of an appropriate enterprise value-to-EBITDA multiple for each reporting unit, adjusted for a control premium. Management s total Company enterprise value-to-EBITDA multiple is based upon the multiple derived from using the market capitalization of the Company s common stock on or around the applicable balance sheet date, after considering an appropriate control premium (25% at March 31, 2013, based upon historical transactions in the printing industry). If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill in the proforma business combination accounting described above exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. A recognized impairment loss cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

The Company compares the carrying value of long-lived assets, including property, plant and equipment and intangible assets (other than goodwill or intangible assets with indefinite lives), to projections of future undiscounted cash flows attributable to such assets whenever events or changes in conditions indicate the carrying value may not be recoverable. In the event that the carrying value of any long-lived asset exceeds the projection of future undiscounted cash flows attributable to such asset, the Company records an impairment charge against income equal to the excess, if any, of the carrying value over the asset s fair value. Property and equipment in the accompanying condensed consolidated balance sheets are reflected net of accumulated depreciation of $524,856 and $502,422 at December 31, 2013 and March 31, 2013, respectively.

The net book value of other intangible assets at December 31, 2013 was $9,297. 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 between 5 and 25 years. Such assets are evaluated for recoverability with other long-lived assets as discussed above. Amortization expense totaled $807 and $898 for the three months ended December 31, 2013 and 2012, respectively. Amortization expense totaled $2,428 and $2,691 for the nine months ended December 31, 2013 and 2012, respectively.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

Multi-Employer Pension Plans The Company participates in multi-employer pension plans for certain of its employees covered by union agreements. Amounts expensed in the financial statements equal the regular contributions made to pension plans during the year. In addition to regular contributions, the Company could be obligated to pay additional amounts, known as a withdrawal liability, if a multi-employer pension plan has unfunded vested benefits and the Company decreases or ceases participation in the plan. The Company s subsidiaries have in the past withdrawn from certain multi-employer pension plans. Upon withdrawing from a plan, the Company records an estimated liability equal to the present value of estimated required future withdrawal payments. The accrued pension liability as of December 31, 2013 and March 31, 2013, respectively, was $28,548 and $28,174. The estimated withdrawal liability is adjusted upon receipt of notice from the pension plan of the actual withdrawal liability and required withdrawal payments, unless the Company, based upon our view of the relevant law concerning multi-employer pension plans, disputes the plan s calculation of the withdrawal liability. During the nine months ended December 31, 2013, the Company received notice of a withdrawal liability from one plan which exceeds the estimated liability presently recorded by the Company. The Company, in consultation with its actuaries, believes the plan has incorrectly calculated the assessed liability. While the Company believes the amount recorded represents the best estimate of the withdrawal liability, the actual amount of the liability could differ from the estimated accrued liability recognized as of December 31, 2013.

Supplemental Cash Flow Information The condensed consolidated statements of cash flows provide information about the Company s sources and uses of cash and exclude the effects of non-cash transactions. For the nine months ended December 31, 2013 and 2012, the Company paid cash for interest totaling $2,056 and $4,077, respectively. For the nine months ended December 31, 2013 and 2012, the Company paid cash for income taxes, net of refunds, totaling $12,683 and $4,437, respectively.

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, dilutive stock options and restricted stock unit awards outstanding using the treasury stock method. Earnings per share are set forth below:

	Three Months Ended December 31		Nine Months Ended December 31	
	2013	**2012**	**2013**	**2012**
Numerator:				
Net income	$ 14,827	$ 16,259	$ 29,057	$ 22,520
Denominator:				
Weighted average number of common shares outstanding	9,691,809	9,621,864	9,661,948	9,885,652
Dilutive options and stock awards	207,396	36,746	107,016	50,877
Diluted weighted average number of common shares outstanding	9,899,205	9,658,610	9,768,964	9,936,529
Net earnings per share				
Basic	$ 1.53	$ 1.69	$ 3.01	$ 2.28
Diluted	$ 1.50	$ 1.68	$ 2.97	$ 2.27

Diluted net earnings per share take into consideration the dilutive effect of certain unvested restricted stock unit awards and unexercised stock options. For the three and nine months ended December 31, 2013 options to purchase 487,500 and 781,833 shares of common stock, respectively, were outstanding but not included in the computation of diluted net earnings per share because the inclusion would have had an anti-dilutive effect. For the three and nine months ended December 31, 2012 options to purchase 1,053,577 and 1,061,477 shares of common stock, respectively, were outstanding but not included in the computation of diluted net earnings per share because the inclusion would have had an anti-dilutive effect.

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 recorded values of its variable rate debt obligations, which totaled $56,106 at December 31, 2013 and $73,793 at March 31, 2013, respectively, approximated their fair values. The Company believes that the recorded values of its fixed rate debt obligations, which totaled $33,512 at December 31, 2013 and $49,891 at March 31, 2013, respectively, approximated their fair values. 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 and were determined to be Level 2 under the fair value hierarchy.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

Foreign Currency Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than the U.S. dollar are translated at the period-end exchange rates. Income and expense items are translated at the average monthly exchange rates. The effects of period-end translation are included as a component of Other Comprehensive Loss in the condensed consolidated statements of comprehensive income. The net foreign currency transaction loss or (gain) related to the revaluation of certain transactions denominated in currencies other than the reporting unit s functional currency totaled transaction gain of ($380) and ($27) for the three months ended December 31, 2013 and 2012, respectively, and gain of ($213) and ($240) for the nine months ended December 31, 2013 and 2012, respectively, and is recorded in Other Expense (Income) on the condensed consolidated income statements.

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

Income Taxes The Company s federal income tax returns for the tax years ended 2010 and after remain subject to examination. The various states in which the Company is subject to income tax are generally open for tax years after 2008. The Company reduced the reserve for unrecognized tax benefits by $2,200 during the nine months ended December 31, 2013 due to the settlement of certain tax audits.

Geographic Information Revenues of the Company s subsidiaries operating outside the United States were $21,219 and $19,591 for the three months ended December 31, 2013 and 2012, respectively, and $47,464 and $46,621 for the nine months ended December 31, 2013 and 2012, respectively. Long-lived assets of the Company s subsidiaries operating outside the United States were $29,709 as of December 31, 2013 and $36,192 as of March 31, 2013.

2. LONG - TERM DEBT

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

	December 31, 2013	March 31, 2013
Bank credit facilities	$ 56,106	$ 73,793
Term equipment notes	31,455	47,875
Other	2,057	2,016

		89,618		123,684
Less current portion		(14,569)		(20,550)
	$	75,049	$	103,134

The Company s existing primary secured credit agreement (the Credit Agreement) currently provides up to $285,000 in revolving credit and contains an accordion feature that could, under prescribed conditions, increase the facility by $100,000 to $385,000 and has a maturity date of June 8, 2017. At December 31, 2013, outstanding borrowings under the Credit Agreement were $47,000 and accrued interest at a weighted average rate of 1.69%.

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. In order to repurchase Company common stock under the terms of the Credit Agreement, the Company must (1) demonstrate compliance on a proforma basis, giving effect to such repurchase with the financial covenants set forth in the Credit Agreement, and (2) have a Leverage Ratio (Debt divided by EBITDA, as defined in the Credit Agreement) not exceeding 2.75 to 1.00 on a proforma basis after giving effect to such repurchase. 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. The collateral also secures, on a pari passu basis, the obligations under the A&B Credit Facility and the Auxiliary Bank Facilities described below. Borrowings under the Credit Agreement accrue interest, at the Company s option, at either LIBOR plus a margin of 1.25% to 2.25%, or an alternate base rate (based upon the greater of (i) the administrative agent bank s prime lending rate, (ii) the sum of the LIBOR rate for a one-month interest period plus 1.50% or (iii) the sum of the Federal Funds effective rate plus .5%

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

per annum) plus a margin of 0% to .75%. The Company is also required to pay an annual commitment fee ranging from .25% to .375% 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 December 31, 2013, the applicable margin on LIBOR based loans was 1.25%, the applicable margin on alternative base rate loans was 0% and the applicable commitment fee was .25% on unused amounts.

The Company is subject to certain covenants and restrictions, including limitations on additional indebtedness it may incur in the future, and must meet certain financial tests under the Credit Agreement. The Company was in compliance with such covenants, restrictions and financial tests at December 31, 2013. In the event the Company is unable to remain in compliance with the Credit Agreement covenants and financial tests contained in the Credit Agreement in the future, the Company s lenders would have the right to declare it in default with respect to such obligations, and consequently, certain of our other debt obligations, including substantially all our term equipment notes, would be deemed to also be in default. All debt obligations in default would be required to be reclassified as a current liability. In the event the Company was unable to obtain a waiver from its lenders or renegotiate or refinance these obligations, a material adverse effect on the ability of the Company to conduct its operations in the ordinary course would likely result.

The Company also maintains a secured credit facility (the A&B Credit Facility) which provides revolving credit for its Canadian subsidiary, Annan & Bird Lithographers, Inc., available for both U.S. dollar and Canadian dollar loans not to exceed in the aggregate $25,000 (U.S. equivalent). The A&B Credit Facility expires in June 2017. At December 31, 2013, there were no outstanding borrowings under the A&B Credit Facility. The A&B Credit Facility contains many of the same covenants and restrictions contained in the Credit Agreement. Additionally, a default by the Company under the Credit Agreement constitutes a default under the A&B Credit Facility and vice-versa.

In addition, the Company maintains two auxiliary revolving credit facilities (each an Auxiliary Bank Facility and collectively the Auxiliary Bank Facilities). Each Auxiliary Bank Facility is secured and has a maximum borrowing capacity of $5,000. Both facilities expire in October 2014. At December 31, 2013, outstanding borrowings under the Auxiliary Bank Facilities totaled $9,106 and accrued interest at a weighted average rate of 1.91%. Because the Company currently has the ability and intent to refinance borrowings outstanding under the Auxiliary Bank Facilities expiring in October 2014, such borrowings are classified as long-term debt in the accompanying condensed consolidated balance sheet at December 31, 2013. The Auxiliary Bank Facilities cross-default to the events of default set forth in the Credit Agreement.

At December 31, 2013, outstanding borrowings under term equipment notes totaled $31,455 and carried interest rates between 2.8% and 4.0%. The term equipment notes provide for principal payments plus interest for defined periods of up to seven 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. Most of the term equipment notes cross-default to the events of default set forth in the Credit Agreement.

At December 31, 2013, other debt obligations totaled $2,057 and provided for principal payments plus interest (fixed and variable rates) for defined periods up to 5 years from the date of issuance. The Company does not have any significant financial covenants or restrictions associated with these other debt obligations.

As of December 31, 2013, the Company s available credit under existing credit facilities was $258,971

3. SHARE - BASED COMPENSATION

Pursuant to the Consolidated Graphics, Inc. 1994 Amended and Restated Long-Term Incentive Plan (as amended, the 1994 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 1994 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 1994 Plan were at a strike 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 five years. Unvested options are generally cancelled on 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. At December 31, 2013, a total of 1,394,501common shares

Table of Contents

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data and percentages)

(Unaudited)

were reserved for issuance pursuant to the 1994 Plan, of which 66,001 shares of the Company s common stock were available for future grants. Of the 66,001 shares available for future grant, 37,500 shares may be granted as restricted stock unit awards. At December 31, 2013, a total of 350,000 common shares were reserved for issuance pursuant to the Company s Consolidated Graphics, Inc. 2012 Long-Term Incentive Plans (the 2012 Plan). At December 31, 2013 there were no options to purchase shares of the Company s common stock or other forms of equity-based compensation outstanding under the 2012 Plan.

The following table summarizes stock option activity for the 1994 Plan for the nine months ended December 31, 2013:

Stock Options	Shares		Weighted-Average Exercise Price
Outstanding at March 31, 2013	1,411,500	$	46.25
Granted			
Exercised	(75,000)		50.35
Forfeited or expired	(8,000)	$	39.77
Outstanding at December 31, 2013 (a)	1,328,500	$	47.54
Exercisable at December 31, 2013 (a)	1,042,000	$	50.35

(a) Stock options outstanding as of December 31, 2013 have a weighted average remaining contractual life of 4.7 years. Based on the market value of the Company s common stock on December 31, 2013, outstanding stock options have an aggregate intrinsic value of $26,440 and exercisable stock options have an aggregate intrinsic value of $17,806.

Restricted stock unit awards of 4,167 vested and were issued during the nine months ended December 31, 2013. No restricted stock unit awards were outstanding at December 31, 2013.

The Company accounts for share-based compensation by measuring 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.

Table of Contents

ITEM 2. 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 unaudited condensed consolidated financial statements and notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended March 31, 2013. 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 the section entitled Forward-Looking Statements below.

Overview

Our Organization

Consolidated Graphics is one of North America s leading general commercial printing and print-related companies, with 70 printing businesses strategically located across 26 states, Toronto, Prague, and Gero, Japan. In connection with our traditional print services, we also provide our customers fulfillment and mailing services, digital technology solutions and e-commerce capabilities. Generally, each facility primarily relies on locally-based customers; accordingly, we have approximately 20,000 individual customers with a broad diversification by industry-type and geographic orientation. No individual customer accounts for more than 5% of our total revenues.

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 human resources, treasury, risk management, legal, tax, internal audit and consolidated financial reporting activities.

On October 23, 2013, we entered into an Agreement and Plan of Merger (the Merger Agreement) with R.R. Donnelley & Sons Company (RR Donnelley). The Merger Agreement has been unanimously approved by each company s Board of Directors. Under the terms of the transaction, the shareholders will receive a combination of $34.44 in cash and a fixed exchange ratio of 1.651 RR Donnelley shares for each outstanding share of the Company they own. The completion of the transaction is subject to customary closing conditions. The Company s shareholders have approved, among other proposals, the proposal to approve the Merger Agreement at a Special Meeting of Shareholders on January 28, 2014.

Nature of Our Services

We are a service business that utilizes sophisticated technology and equipment to 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 software solutions and other print-related, value-added services. The technology solutions, 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 as the WorkSmart Suite group of products. Collectively, all of these discrete capabilities comprise a comprehensive range of printing services. Accordingly, for financial reporting purposes, we report our revenues and results of operations as a single segment.

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; (iii) technology solutions that enable our customers to more efficiently procure and manage printed material and/or design, procure, distribute, track and analyze results of printing-based marketing programs and activities; and (iv) cross media capabilities allowing our customers to supplement the message of their printed materials through other media, such as the internet, email, or text messaging. 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, photo products such as calendars and photo books, catalogs and training manuals.

Most of our sales are generated by individual orders through commissioned sales personnel. We predominantly 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

Table of Contents

quarter ended December. December quarter sales are strongest, in part due, to sales of custom photo products for which demand is highest during this quarter. Sales from election-related printing tend to be higher every other year, including years in which national elections are held.

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, 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. Additionally, our cost of sales includes salary and benefits paid to operating personnel, maintenance, utilities, 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 share-based compensation, as well as office rent, communication expenses, various professional service fees, depreciation charges and amortization of identifiable intangible assets.

Our Strategy

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 sales professionals, invest in new equipment and technology, expand our strategic 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 integration 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.

Table of Contents

Results of Operations

The following table sets forth our Company s unaudited condensed consolidated income statements and percentage of sales for the periods indicated:

	Three Months Ended December 31		Nine Months Ended December 31	
	2013	2012	2013	2012
	(In millions)		(In millions)	
Sales	$ 275.7	$ 295.3	$ 768.5	$ 797.2
Cost of sales	203.4	222.7	578.9	613.4
Gross profit	72.3	72.6	189.6	183.8
Selling expenses	22.8	23.9	68.7	70.0
General and administrative expenses	22.5	24.6	70.9	73.6
Other charges	4.3	0.4	7.3	4.3
Other expense (income)		0.3	0.1	
Operating income	22.7	23.4	42.6	35.9
Interest expense, net	0.9	1.2	2.4	4.1
Income before taxes	21.8	22.2	40.2	31.8
Income tax expense	7.0	5.9	11.1	9.3
Net income	$ 14.8	$ 16.3	$ 29.1	$ 22.5

	As a Percentage of Sales Three Months Ended December 31		As a Percentage of Sales Nine Months Ended December 31	
	2013	2012	2013	2012
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	73.8	75.4	75.3	76.9
Gross profit	26.2	24.6	24.7	23.1
Selling expenses	8.3	8.1	8.9	8.8
General and administrative expenses	8.1	8.3	9.2	9.2
Other charges	1.6	0.2	1.0	0.6
Other expense (income)		0.1	0.1	
Operating income	8.2	7.9	5.5	4.5
Interest expense, net	0.3	0.4	0.3	0.5
Income before taxes	7.9	7.5	5.2	4.0
Income tax expense	2.5	2.0	1.4	1.2
Net income	5.4%	5.5%	3.8%	2.8%

Comparative Analysis of Consolidated Income Statements for the Three Months Ended December 31, 2013 and 2012

Sales during the three months ended December 31, 2013 declined $19.6 million, or 6.6%, to $275.7 million from $295.3 million for the prior year quarter. The sales decline was due to a $22.8 million decline in election-related revenue and a $ 3.2 million or 1.1% increase in same store sales.

Gross profit during the three months ended December 31, 2013 declined $.3 million or .4%, to $72.3 million, compared to $72.6 million for the same period in the prior year. Gross profit primarily declined as a result of lower sales. Cost of sales as a percentage of sales declined from 75.4% to 73.8% during the three months ended December 31, 2013. This decline was mostly due to a better sales mix partially due to lower subcontracting expenses and lower freight expense resulting from lower election-related sales. Depreciation expense was also lower, compared to last year. For all of these same reasons, gross profit margin increased from 24.6% to 26.2% during the three months ended December 31, 2013 compared to last year.

Selling expense during the three months ended December 31, 2013 declined $1.1 million, or 4.9%, to $22.8 million compared to $23.9 million in the same period in the prior year. As a percentage of revenues, selling expenses increased slightly to 8.3% of sales in the current quarter, compared to 8.1% for the same period last year.

Table of Contents

General and administrative expenses during the three months ended December 31, 2013 declined $2.1 million, or 8.5%, to $22.5 million, from $24.6 million for the same period last year. This decline was mostly caused by lower salary expenses. General and administration expenses declined slightly to 8.1% of sales in the current quarter, compared to 8.3% for the prior year quarter.

Other charges during the three months ended December 31, 2013 were $4.3 million and consisted primarily of expenses related to the transaction with RR Donnelley, asset impairments and accretion of pension liability.

Interest expense declined from $1.2 million during last year s December quarter to $0.9 million for the quarter ended December 31, 2013, primarily due to lower borrowings.

For the three months ended December 31, 2013, the Company s effective tax rate was 32%, compared to an effective tax rate of 26% for the same period in the prior year. The effective rate increase was primarily due to greater credits for income tax uncertainties recognized in the prior year, due to the expiration of the statute of limitations, partially offset by a lower impact for non-deductible expenses and a lower state income tax rate in the current year.

Comparative Analysis of Consolidated Income Statements for the Nine Months Ended December 31, 2013 and 2012

Sales during the nine months ended December 31, 2013 declined $28.8 million, or 3.6%, to $768.5 million from $797.2 million for the same period in the prior year. Revenues declined this nine months, compared to the first nine months of last year, as a result of a $32.6 million decline in election related sales, partially offset by a .5% increase in same store sales.

Gross profit during the nine months ended December 31, 2013 increased $5.8 million, or 3.2%, to $189.6 million, compared to $183.8 million for the same period last year. Gross profit increased despite lower sales due to an increase in gross profit margins (gross profit divided by revenues). Cost of sales, as a percentage of revenues, declined 1.6% from 76.9% to 75.3% during the nine months ended December 31, 2013. This decrease was primarily caused by an improved sales mix in part due to lower subcontracting expenses and lower freight expense, due to lower election-related sales. Depreciation expenses were also lower this year compared to last year. For these same reasons, gross profit margin increased from 23.1% last year to 24.7% this year.

Selling expense during the nine months ended December 31, 2013 declined $1.3 million, or 1.9%, to $68.7 million, compared to $70.0 million in the same period last year. As a percentage of sales, selling expenses increased slightly from 8.8% to 8.9%.

General and administrative expenses during the nine months ended December 31, 2013 declined $2.7 million, or 3.7%, to $70.9 million, from $73.6 million for the same period last year. This decline was primarily due to lower salary expenses. General and administrative expenses were at 9.2% of revenues in both the current and prior year periods.

Other charges during the nine months ended December 31, 2013 were $7.3 million and primarily consisted of expenses related to the transaction with RR Donnelley, asset impairments and accretion of pension liability. Other charges during the nine months ended December 31, 2012 were $4.3 million and consisted of expenses of relocating certain production facilities, related asset impairments and accretion of pension liability.

Interest expense during the nine months ended December 31, 2013 declined to $2.4 million from $4.1 million for the same period last year, due to lower interest rates, lower borrowings and the reversal of previously accrued interest not expected to be paid on a contingent liability.

For the nine months ended December 31, 2013, the Company s effective tax rate was 28% compared to an effective tax rate of 29% for the same period in the prior year. The effective tax rate decline year-over-year was primarily due to greater credits for income tax uncertainties recognized in the current period, due to the settlement of certain tax audits.

Table of Contents

Liquidity and Capital Resources

Sources and Uses of Cash

Our historical sources of cash have primarily been provided by operations and 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, repurchases of common stock and for working capital requirements. Various components of our statement of cash flows are as follows:

	Nine Months Ended December 31	
	2013	2012
	(In millions)	
Net cash provided by operating activities	$ 48.7	$ 61.8
Capital expenditures, net of proceeds from asset dispositions	(13.7)	(29.6)
Net proceeds (payments) under bank credit facilities	(17.7)	3.7
Net payments on term equipment notes and other debt	(16.5)	(15.6)
Payments to repurchase and retire common stock		(18.9)
Proceeds from exercise of stock options, including excess tax benefit	2.7	1.1

Our cash position, working capital and debt obligations are shown below*:*

	December 31, 2013	March 31, 2013
	(In millions)	
Cash and cash equivalents	$ 15.5	$ 12.2
Working capital	112.3	82.2
Total debt	89.6	123.7

Net cash provided by operating activities declined from $61.8 million last year to $48.7 million for the nine months ended December 31, 2013 primarily as a result of a larger decline in accounts payable, partially offset by a smaller increase in accounts receivable and other working capital changes during the nine months ended December 31, 2013, compared to the prior year nine month period. Cash used in investing activities declined from $29.7 million for the nine months ended December 31, 2012 to $13.8 million for the same period this year due to lower capital expenditures and higher proceeds from asset dispositions.

We believe that our cash flow provided by operations, combined with new borrowings, will be adequate to cover remaining fiscal year 2014 working capital needs, debt service requirements, and planned capital expenditures.

Debt Obligations

For information with respect to our existing debt obligations with our lenders, as well as the available credit under our existing credit facilities, refer to *Item 1. Financial Statements Note 2. Long-Term Debt*

Commitment and Contingencies

Operating leases We have entered into various noncancelable operating leases primarily related to facilities and equipment used in the ordinary course of our business. Our future contractual obligations under such operating leases total approximately $75.6 million as of December 31, 2013.

Letters of credit We had letters of credit outstanding as of December 31, 2013 totaling $4.6 million. All of these letters of credit were issued pursuant to the terms of our primary credit facility, which expires in June 2017.

Table of Contents

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 the future costs of incurred losses, 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 loss estimates are reasonable, significant differences related to the items noted above could materially affect our risk exposure, insurance coverage, 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. Revenue from distribution services is recognized when the services are provided. Because printed products manufactured for our customers are customized based upon the customer s specifications, product returns are insignificant. Revenue is recognized net of sales tax.

Receivables, net of valuation allowance Accounts receivable at December 31, 2013 were $178.9 million, net of a $3.6 million allowance for doubtful accounts. The valuation allowance was determined based upon our evaluation of 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 a contraction in the U.S. economy or other factors beyond our control. Changes in our estimates of collectability could have a material adverse effect on our consolidated financial condition or results of operations.

Impairment of Goodwill We evaluate the carrying value of our goodwill as of each fiscal year end, or at any time that management becomes aware of an indication of potential impairment. Under the applicable accounting standards, we first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of the events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we are required to perform the first step of the two-step impairment test. In the first step, we determine fair value for each reporting unit using trailing twelve months earnings before interest, income taxes and depreciation and amortization (EBITDA), multiplied by management s estimate of an appropriate enterprise value-to-EBITDA multiple for each reporting unit, adjusted for a control premium. Management s total Company enterprise value-to-EBITDA multiple is based upon the multiple derived from using the market capitalization of the Company s common stock on or around the applicable balance sheet date, after considering an appropriate control premium (25% at March 31, 2013, based upon historical transactions in the printing industry). This total Company enterprise value-to-EBITDA multiple is then used as a starting point in determining the appropriate multiple for each reporting unit. If the carrying value of the reporting unit exceeds the estimated fair value of the reporting unit, we must perform a second step to measure the amount of impairment. This second step involves estimating the fair value of identifiable tangible and intangible assets and determining an implied value of goodwill.

To the extent the implied value of goodwill is less than the carrying value of goodwill for a particular reporting unit, we are required to record an impairment charge. The process of determining the fair values of assets and liabilities can involve a considerable degree of estimation.

Impairment of long-lived assets We evaluate long-lived assets, including property, plant and equipment, and intangible assets, excluding goodwill and 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 exists. 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.

Table of Contents

Multi-Employer Pension Plans We participate in multi-employer pension plans for certain of our employees covered by union agreements. Amounts expressed in the financial statements equal the regular contributions made to pension plans during the year. In addition to regular contributions, we could be obligated to pay additional amounts, known as withdrawal liability, if a multi-employer pension plan has unfunded vested benefits and we decrease or cease participation in the plan. Our subsidiaries have in the past withdrawn from certain multi-employer pension plans. Upon withdrawing from a plan, we record an estimated liability equal to the present value of estimated required future withdrawal payments. The estimated withdrawal liability is adjusted upon receipt of notice from the pension plan of the actual withdrawal liability and required withdrawal payments, unless the Company, based upon our view of the relevant law concerning multi-employer pension plans, disputes the plan s calculation of the withdrawal liability.

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 the future costs of incurred losses, 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, to account for uncertain tax positions we use 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. Although we believe our estimates are reasonable, the final outcome of uncertain tax positions may be different from that which is reflected in our consolidated financial statements.

Accounting for acquisitions The allocations of purchase price to acquired assets and liabilities are initially based on estimates of fair value and are 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, when appropriate, 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.

Table of Contents

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 depends 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 Quarterly Report on Form 10-Q for a variety of reasons, which include, weakness in the economy, financial stability of its customers, the sustained growth of its digital printing business, seasonality of election-related business, its ability to adequately manage business expenses, including labor costs, the unfavorable outcome of legal proceedings, the lack of or adequacy of insurance coverage for its operations, the continued availability of raw materials at affordable prices, retention of its key management and operating personnel, satisfactory labor relations, the potential for additional goodwill impairment charges or charges related to its withdrawal from multi-employer pension plans, its ability to identify new acquisition opportunities, negotiate and finance such acquisitions on acceptable terms and successfully absorb and manage such acquisitions in a timely and efficient manner, as well as other risks described under the heading Risk Factors of its Annual Report on Form 10-K and the risk factors and cautionary statements described in the other documents it 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, expectations, beliefs or projections 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.

ITEM 3. 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 certain of our debt obligations, which as of December 31, 2013, include borrowings under our bank credit facilities, various term equipment notes and other debt obligations. As of December 31, 2013, there were no material changes in our market risk or the estimated fair value of our debt obligations relative to their recorded value, as reported in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

ITEM 4. 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.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

CONSOLIDATED GRAPHICS, INC.

PART II OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

From time to time, our Company is involved in litigation relating to claims arising out of its operations in the normal course of business. We maintain insurance coverage against certain types of potential claims in an amount which we believe to be adequate, but there is no assurance that such coverage will in fact cover, or be sufficient to cover, all potential claims. Currently, we are not aware of any legal proceedings or claims pending against the Company that our management believes may have a material adverse effect on our financial condition or results of operations, or of any pending administrative or judicial proceedings relating to environmental matters that we are obligated to disclose pursuant to the SEC s Regulation S-K, Item 103, Instruction 5.C, other than matters disclosed in our previous filings.

ITEM 1A. ***Risk Factors***

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

ITEM 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

ITEM 3. ***Defaults upon Senior Securities***

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. ***Other Information***

None.

ITEM 6. ***Exhibits***

*2.1	Agreement and Plan of Merger among Consolidated Graphics, Inc., R.R. Donnelley & Sons Company and Hunter Merger Sub, Inc., dated as of October 23, 2013 (Consolidated Graphics, Inc. Form 8-K (October 23, 2013), Exhibit 2.1).
*10.1	Voting Agreement among R.R. Donnelley & Sons Company, Joe R. Davis and Consolidated Graphics, Inc., dated as of October 23, 2013(Consolidated Graphics, Inc. Form 8-K (October 23, 2013), Exhibit 2.1).
31.1	Certification of Joe R. Davis, principal executive officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jon C. Biro, principal financial and accounting officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Joe R. Davis, principal executive officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jon C. Biro, principal financial and accounting officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

* Incorporated by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant, Consolidated Graphics, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSOLIDATED GRAPHICS, INC.

Dated: January 30, 2014	By:	/s/ Jon C. Biro
		Jon C. Biro
		Executive Vice President and
		Chief Financial and Accounting Officer

Table of Contents

Exhibit Index

*2.1	Agreement and Plan of Merger among Consolidated Graphics, Inc., R.R. Donnelley & Sons Company and Hunter Merger Sub, Inc., dated as of October 23, 2013 (Consolidated Graphics, Inc. Form 8-K (October 23, 2013), Exhibit 2.1).
*10.1	Voting Agreement among R.R. Donnelley & Sons Company, Joe R. Davis and Consolidated Graphics, Inc., dated as of October 23, 2013(Consolidated Graphics, Inc. Form 8-K (October 23, 2013), Exhibit 2.1).
31.1	Certification of Joe R. Davis, principal executive officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jon C. Biro, principal financial and accounting officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Joe R. Davis, principal executive officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jon C. Biro, principal financial and accounting officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference.