

CONSOLIDATED GRAPHICS INC /TX/

Form 10-Q

November 02, 2011

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**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 September 30, 2011

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 ☒ No ☐

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 ☒ No ☐

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 ☐

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 Securities Exchange Act of 1934). Yes ☐ No ☒

The number of shares of Common Stock, par value \$.01 per share, of the Registrant outstanding at October 15, 2011 was 10,379,929.

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CONSOLIDATED GRAPHICS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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	September 30, 2011	March 31, 2011
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,680	\$ 3,710
Accounts receivable, net	183,375	171,779
Inventories	56,757	50,888
Prepaid expenses	15,649	13,447
Deferred income taxes	13,934	10,787
Total current assets	273,395	250,611
PROPERTY AND EQUIPMENT, net	386,144	388,681
GOODWILL	26,512	27,124
OTHER INTANGIBLE ASSETS, net	17,210	19,376
OTHER ASSETS	10,210	12,691
	\$ 713,471	\$ 698,483
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 21,359	\$ 15,911
Accounts payable	99,043	90,100
Accrued liabilities	71,411	81,501
Total current liabilities	191,813	187,512
LONG-TERM DEBT, net of current portion	170,132	154,161
OTHER LIABILITIES	22,434	13,820
DEFERRED INCOME TAXES, net	50,879	45,629
Total liabilities	435,258	401,122
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; 100,000,000 shares authorized; 10,434,284 and 11,072,053 issued and outstanding	104	110
Additional paid-in capital	162,387	170,547
Retained earnings	113,850	123,990
Accumulated other comprehensive income	1,872	2,714

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Total shareholders' equity		278,213		297,361
	\$	713,471	\$	698,483

See accompanying notes to condensed consolidated financial statements.

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	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
SALES	\$ 267,401	\$ 260,106	\$ 510,753	\$ 496,823
COST OF SALES	204,056	197,952	391,649	380,218
Gross profit	63,345	62,154	119,104	116,605
SELLING EXPENSES	22,660	22,300	45,262	45,607
GENERAL AND ADMINISTRATIVE EXPENSES	26,033	23,682	50,933	46,098
IMPAIRMENT AND OTHER CHARGES	640	718	5,281	(3,466)
OTHER EXPENSE	158	38	191	57
Operating income	13,854	15,416	17,437	28,309
INTEREST EXPENSE	1,597	2,096	3,155	4,099
Income before taxes	12,257	13,320	14,282	24,210
INCOME TAXES	4,722	5,266	5,162	9,315
Net income	\$ 7,535	\$ 8,054	\$ 9,120	\$ 14,895
BASIC EARNINGS PER SHARE	\$ 0.70	\$ 0.70	\$ 0.84	\$ 1.30
DILUTED EARNINGS PER SHARE	\$ 0.69	\$ 0.69	\$ 0.82	\$ 1.28
SHARES USED TO COMPUTE EARNINGS PER SHARE				
Basic	10,761	11,547	10,903	11,437
Diluted	10,890	11,742	11,098	11,635

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 Income	Total
BALANCE, March 31, 2011	11,072	\$ 110	\$ 170,547	\$ 123,990	\$ 2,714	\$ 297,361
Net income				9,120		9,120
Other comprehensive loss - currency translation adjustment, net of tax					(842)	(842)
Total comprehensive income						8,278
Exercise of stock options, including tax benefit	98	1	1,869			1,870
Share-based compensation expense			1,143			1,143
Repurchase and retirement of common stock	(736)	(7)	(11,172)	(19,260)		(30,439)
BALANCE, September 30, 2011	10,434	\$ 104	\$ 162,387	\$ 113,850	\$ 1,872	\$ 278,213

See accompanying notes to condensed consolidated financial statements.

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	Six Months Ended September 30	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 9,120	\$ 14,895
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	32,913	32,409
Amortization	1,804	1,781
Bad debt expense	439	252
Impairment and other charges	5,281	(3,466)
Foreign currency (gain) loss	167	(16)
Deferred income taxes	2,217	4,624
Share-based compensation expense	1,143	1,775
Changes in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net	(9,413)	(2,898)
Inventories	(5,467)	(5,671)
Prepaid expenses	(2,182)	(5,780)
Other assets	2,481	(2,949)
Accounts payable and accrued liabilities	(3,849)	3,345
Other liabilities	3,747	1,309
Income taxes payable	27	(9,426)
Net cash provided by operating activities	38,428	30,184
INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(3,258)	(3,290)
Capital expenditures	(29,103)	(25,589)
Proceeds from asset dispositions	899	2,651
Net cash used in investing activities	(31,462)	(26,228)
FINANCING ACTIVITIES		
Proceeds from bank credit facilities	149,659	126,045
Payments on bank credit facilities	(132,147)	(125,499)
Proceeds from issuance of term equipment notes	11,610	
Payments on term equipment notes and other debt	(7,422)	(11,958)
Payments to repurchase and retire common stock	(30,439)	
Proceeds from exercise of stock options, including excess tax benefit	1,870	6,856
Net cash used in financing activities	(6,869)	(4,556)
Effect of exchange rate changes on cash and cash equivalents	(127)	(228)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30)	(828)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,710	6,741
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,680	\$ 5,913

See accompanying notes to condensed consolidated financial statements.

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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. and subsidiaries (collectively with its consolidated subsidiaries referred to as 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 six months ended September 30, 2011 are not necessarily indicative of future operating results. Balance sheet information as of March 31, 2011 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, 2011 filed with the SEC on May 27, 2011 ("2011 Form 10-K").

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 and other corrections Certain reclassifications of prior period data have been made to conform to the current period reporting. The Company previously presented additions to construction-in-process as cash flows used in operating activities in the statement of cash flows until the assets were placed in service, at which point they were reflected as investing activities. The Company has corrected the statement of cash flows to reflect all additions to construction-in-process as investing activities at the time of the related expenditure. As a result of this correction, the revised cash provided by operating activities and cash used in investing activities as previously reported were increased by \$9,564 for the six-month period ended September 30, 2010.

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 \$44,049 as of September 30, 2011 and \$38,996 as of March 31, 2011.

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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. 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 7% of the Company's revenues for the six months ended September 30, 2011. 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 \$3,621 and \$3,657 at September 30, 2011 and March 31, 2011, 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:

	September 30, 2011		March 31, 2011
Raw materials	\$ 24,675	\$	23,658
Work in progress	25,630		21,815
Finished goods	6,452		5,415
	\$ 56,757	\$	50,888

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CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

Goodwill and Long-Lived Assets Goodwill totaled \$26,512 at September 30, 2011 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. The Company assesses the impairment of goodwill by estimating 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, 2011, 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. 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 goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value including goodwill. 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 and 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 \$442,970 and \$416,094 at September 30, 2011 and March 31, 2011, respectively.

The net book value of other intangible assets at September 30, 2011 was \$17,210. 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 \$901 and \$889 for the three months ended September 30, 2011 and 2010, respectively. Amortization expense totaled \$1,804 and \$1,781 for the six months ended September 30, 2011 and 2010, respectively.

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 six months ended September 30, 2011 and 2010, the Company paid cash for interest totaling \$3,226 and \$4,063, respectively. For the six months ended September 30, 2011 and 2010, the Company paid cash for income taxes, net of refunds, totaling \$1,225 and \$13,009, respectively.

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

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 September 30		Six Months Ended September 30	
	2011	2010	2011	2010
Numerator:				
Net income	\$ 7,535	\$ 8,054	\$ 9,120	\$ 14,895
Denominator:				
Weighted average number of common shares outstanding	10,760,891	11,547,247	10,902,698	11,436,661
Dilutive options and stock awards	128,832	194,895	195,708	198,390
Diluted weighted average number of common shares outstanding	10,889,723	11,742,142	11,098,406	11,635,051
Net earnings per share				
Basic	\$ 0.70	\$ 0.70	\$ 0.84	\$ 1.30
Diluted	\$ 0.69	\$ 0.69	\$ 0.82	\$ 1.28

Diluted net earnings per share take into consideration the dilution of certain unvested restricted stock unit awards and unexercised stock options. For the three and six months ended September 30, 2011, options to purchase 981,220 shares of common stock were outstanding but not included in the computation of diluted net earnings per share because the option exercise price exceeded the average quarterly fair value of the Company's common stock while considering the effects of unrecognized compensation expense and excess tax benefit such that their inclusion would have had an anti-dilutive effect. For the three and six months ended September 30, 2010, options to purchase 1,029,232 shares of common stock were outstanding but not included in the computation of diluted net earnings per share because the option exercise price exceeded the average quarterly fair value of the Company's common stock such that their 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 \$128,480 at September 30, 2011 and \$111,249 at March 31, 2011, respectively, approximated their fair values. The Company believes that the recorded values of its fixed rate debt obligations, which totaled \$63,011 at September 30, 2011 and \$58,823 at March 31, 2011, 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.

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

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effects of period-end translation are included as a component of Accumulated Other Comprehensive Income in the condensed consolidated statement of shareholders' equity. The net foreign currency transaction loss related to the revaluation of certain transactions denominated in currencies other than the reporting unit's functional currency totaled \$158 and \$38 for the three months ended September 30, 2011 and 2010, respectively, and \$191 and \$57 for the six months ended September 30, 2011 and 2010, respectively, and is recorded in Other Expense on the condensed consolidated income statements.

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

Geographic Information Revenues of the Company's subsidiaries operating outside the United States were \$13,656 and \$12,664 for the three months ended September 30, 2011 and 2010, respectively, and \$26,626 and \$25,340 for the six months ended September 30, 2011 and 2010, respectively. Long-lived assets of the Company's subsidiaries operating outside the United States were \$34,567 as of September 30, 2011 and \$35,700 as of March 31, 2011.

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Multi-Employer Pension Plans The Company participates in multi-employer pension plans for certain of its employees covered by union agreements. During the six months ended September 30, 2011 and 2010, the Company accrued \$5,281 and \$1,042, respectively, for the present value of the liability for withdrawing from certain multi-employer pension plans.

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-09 Compensation-Retirement Benefits-Multi-employer Plans (Subtopic 715-80) (ASU 2011-09), which requires an employer to provide additional quantitative and qualitative disclosures. ASU 2011-09 will be effective for the Company in the fourth quarter of 2012 and the Company is currently evaluating the impact the adoption will have on its consolidated financial statements.

2. ACQUISITIONS

Revenues and expenses of the acquired businesses have been included in the accompanying condensed 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. For the six months ended September 30, 2011, the Company paid cash totaling \$3,162 and assumed liabilities totaling \$3,142 to acquire the assets of a printing business and \$96 to satisfy liabilities in connection with a prior period acquisition. For the six months ended September 30, 2010, the Company paid cash totaling \$3,290 and assumed liabilities totaling \$6,875 to acquire the assets of a printing business.

3. LONG - TERM DEBT

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

	September 30, 2011	March 31, 2011
Bank credit facilities	\$ 125,280	\$ 108,049
Term equipment notes	61,368	57,180
Other	4,843	4,843
	191,491	170,072

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Less current portion	(21,359)	(15,911)
	\$ 170,132	\$ 154,161

The Company's current credit agreement (the "Credit Agreement") provides up to \$285,000 in revolving credit and has a maturity date of October 6, 2014. At September 30, 2011, outstanding borrowings under the Credit Agreement were \$109,900 and accrued interest at a weighted average rate of 2.0%.

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 2.50 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 1.375% to 2.75%, 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 0.5% per annum) plus a margin of 0.0% to 1.25%. The Company is also required to pay an annual commitment fee ranging from 0.25% to 0.5% 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 September 30, 2011, the applicable margin on LIBOR based loans was 1.625%, the applicable margin on alternative base rate loans was 0.125% and the applicable commitment fee was 0.25%.

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 September 30, 2011. 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

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CONSOLIDATED GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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). At September 30, 2011, outstanding borrowings were \$5,872 (U.S. equivalent) which accrued interest at a weighted average rate of 2.5%. 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. One facility expires in December 2011 while the other facility expires in October 2014. At September 30, 2011, outstanding borrowings under the Auxiliary Bank Facilities totaled \$9,508 and accrued interest at a weighted average rate of 2.7%. Because the Company currently has the ability and intent to refinance borrowings outstanding under the Auxiliary Bank Facility expiring in December 2011, such borrowings are classified as long-term debt in the accompanying condensed consolidated balance sheet at September 30, 2011. The Auxiliary Bank Facilities cross-default to the events of default set forth in the Credit Agreement.

At September 30, 2011, outstanding borrowings under term equipment notes totaled \$61,368 and carried interest rates between 2.9% and 4.1%. The term equipment notes provide for principal payments plus interest for defined periods of up to five 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 September 30, 2011, other debt obligations totaled \$4,843 and provided for principal payments plus interest (fixed and variable rates) for defined periods up to 16 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 September 30, 2011, the Company's available credit under existing credit facilities was \$187,258.

4. SHARE - BASED COMPENSATION

Pursuant to the Consolidated Graphics, Inc. Amended and Restated 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 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 ten years. Unvested options generally are cancelled shortly after 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 September 30, 2011, a total of 1,649,918 common shares were reserved for issuance pursuant to the Plan, of which 325,531 shares of the Company's common stock were available for future grants. Of the 325,531 shares available for future grants, 37,500 shares may be granted as restricted stock unit awards.

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

The following table summarizes stock option activity for the six months ended September 30, 2011:

Stock Options	Shares	Weighted-Average Exercise Price
Outstanding at March 31, 2011	1,383,591	\$ 43.62
Granted	12,500	35.79
Exercised	(75,822)	24.72
Forfeited or expired	(12,549)	39.05
Outstanding at September 30, 2011 (a)	1,307,720	\$ 44.69
Exercisable at September 30, 2011 (a)	914,959	\$ 46.60

(a) Stock options outstanding as of September 30, 2011 have a weighted average remaining contractual life of 5.5 years. Based on the market value of the Company's common stock on September 30, 2011, outstanding stock options have an aggregate intrinsic value of \$5,644 and exercisable stock options have an aggregate intrinsic value of \$2,796.

The following table summarizes restricted stock unit award activity for the six months ended September 30, 2011:

Restricted Stock Unit Awards	Shares
Outstanding at March 31, 2011	38,959
Granted	
Vested and issued	(22,292)
Forfeited or expired	
Outstanding at September 30, 2011 (a)	16,667

(a) Restricted stock units outstanding as of September 30, 2011 have a weighted average remaining contractual term of 0.8 years and a total intrinsic value of \$609.

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.

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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, 2011. 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 a leading U.S. and Canadian provider of commercial printing and print-related services with 70 printing businesses across 27 states, Toronto and Prague, and a presence in Asia. In connection with our traditional print services, we also provide our customers fulfillment and mailing services and digital technology solutions and e-commerce capabilities. Generally, each facility substantially 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 facility accounts for more than 10% of our total revenues. No individual customer accounts for more than 7% 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 treasury, risk management, legal, tax, internal audit and consolidated financial reporting activities.

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 using the "WorkSmart Suite" trademark. 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 messages. 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 quarter ended December followed by revenue in the quarter ended March. 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, 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, utilities, repair, rental and insurance costs associated with operating our facilities and equipment and depreciation charges.

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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 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 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.

Results of Operations

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

	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
	(In millions)		(In millions)	
Sales	\$ 267.4	\$ 260.1	\$ 510.8	\$ 496.8
Cost of sales	204.1	198.0	391.7	380.2
Gross profit	63.3	62.1	119.1	116.6
Selling expenses	22.7	22.3	45.3	45.6
General and administrative expenses	26.0	23.7	50.9	46.2
Impairment and other charges	0.6	0.7	5.3	(3.5)
Other expense	0.1		0.2	
Operating income	13.9	15.4	17.4	28.3
Interest expense	1.6	2.1	3.1	4.1
Income before taxes	12.3	13.3	14.3	24.2
Income taxes	4.8	5.2	5.2	9.3
Net income	\$ 7.5	\$ 8.1	\$ 9.1	\$ 14.9

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The following table sets forth the components of income expressed as a percentage of sales for the periods indicated:

	As a Percentage of Sales Three Months Ended September 30		As a Percentage of Sales Six Months Ended September 30	
	2011	2010	2011	2010
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	76.3	76.1	76.7	76.5
Gross profit	23.7	23.9	23.3	23.5
Selling expenses	8.5	8.6	8.9	9.2
General and administrative expenses	9.7	9.1	10.0	9.3
Impairment and other charges	0.2	0.3	1.0	(0.7)
Other expense	0.1			
Operating income	5.2	5.9	3.4	5.7
Interest expense	0.6	0.8	0.6	0.8
Income before taxes	4.6	5.1	2.8	4.9
Income taxes	1.8	2.0	1.0	1.9
Net income	2.8%	3.1%	1.8%	3.0%

Comparative Analysis of Consolidated Income Statements for the Three Months Ended September 30, 2011 and 2010

Sales during the three month period ended September 30, 2011 increased \$7.3 million, or 2.8%, to \$267.4 million from \$260.1 million for the same period in the prior year. The increase in sales was primarily due to 1.7% growth in same-store sales and the impact of acquisitions, partially offset by a decline in election-related business.

Gross profit during the three months ended September 30, 2011 increased \$1.2 million, or 2%, to \$63.3 million, compared to \$62.1 million for the same period in the prior year. The increase in gross profit was due to the 2.8% increase in sales. Gross profit margin (gross profit divided by revenues) decreased slightly from 23.9% in the September 2010 quarter to 23.7% in September 2011.

Due to the growth in sales, selling expense during the three months ended September 30, 2011 increased \$0.4 million, or 2%, to \$22.7 million from \$22.3 million for the same period in the prior year.

General and administrative expenses during the three months ended September 30, 2011 increased \$2.3 million, or 10%, to \$26.0 million, from \$23.7 million for the same period in the prior year. This increase primarily resulted from the increased staff within our information technology group, new software licenses, and the impact of acquisitions. Due to these increases, as a percentage of sales, general and administrative expenses increased to 9.7% in the current quarter compared to 9.1% for the same period in the prior year.

Impairment and other charges during the three months ended September 30, 2011 were \$0.6 million and consist of charges relating to the withdrawal from a multi-employer pension plan. Impairment and other charges during the three months ended September 30, 2010 was \$0.7 million and primarily related to lease termination expenses and the impairment of certain production equipment.

Other expense consists of foreign currency losses resulting from certain transactions of our Canadian and Czech Republic subsidiaries.

Interest expense declined from \$2.1 million in last year's September quarter to \$1.6 million for the quarter ended September 30, 2011, due to lower interest rates on fixed rate debt that was refinanced.

For the three months ended September 30, 2011, the Company's effective tax rate was 38.5% as compared to an effective rate of 39.5% for the same period in the prior year. Compared to the tax rate for the quarter ended September 30, 2011, the prior year rate was primarily impacted by a higher state income tax rate. In addition, in the current year's quarter, the effect of income tax credits for uncertain tax positions had a larger impact on the tax rate compared to the prior year.

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Comparative Analysis of Consolidated Income Statements for the Six Months Ended September 30, 2011 and 2010

Sales during the six month period ended September 30, 2011 increased \$14.0 million, or 2.8%, to \$510.8 million from \$496.8 million for the same period in the prior year. The increase in sales was primarily due to the impact of acquisitions and a 1.6% increase in same store sales, partially offset by a decline in election-related print business.

Due to the increase in sales, gross profit during the six months ended September 30, 2011 increased \$2.5 million, or 2%, to \$119.1 million compared to \$116.6 million for the same period in the prior year. Gross profit margin (gross profit divided by revenues) declined slightly to 23.3% during the six months ended September 30, 2011 from 23.5% for the same period in the prior year.

Selling expense during the six months ended September 30, 2011 declined \$0.3 million, or 1%, to \$45.3 million from \$45.6 million for the same period in the prior year. The decrease was primarily due to lower sales employee compensation expenses. As a percentage of sales, selling expenses decreased slightly to 8.9% in the current period as compared to 9.2% for the same period in the prior year.

General and administrative expenses during the six months ended September 30, 2011 increased \$4.7 million, or 10%, to \$50.9 million from \$46.2 million for the same period in the prior year. This increase was primarily due to increased staff within our information technology group, new software licenses, and the impact of acquisitions. As a percentage of sales, general and administrative expenses increased to 10.0% in the current period compared to 9.3% for the same period in the prior year.

Impairment and other charges during the six months ended September 30, 2011 were \$5.3 million and consist of charges relating to the withdrawal from certain multi-employer pension plans. Impairment and other charges during the six months ended September 30, 2010 includes a \$5.2 million positive adjustment resulting from the settlement of litigation for an amount lower than previously recognized, partially offset by a \$1.0 million charge for the cost of withdrawing from a multi-employer pension plan and asset impairment charges. The previously disclosed litigation settled was an isolated dispute between the Company and the former employer of an existing sales employee.

Other expense consists of foreign currency losses resulting from certain transactions of our Canadian and Czech Republic subsidiaries.

Interest expense during the six months ended September 30, 2011 declined to \$3.1 million from \$4.1 million for the same period last year, due to lower interest rates on fixed rate debt that was refinanced.

For the six months ended September 30, 2011, the Company's effective rate was 36.1% as compared to an effective tax rate of 38.5% for the same period in the prior year. The prior year rate was higher due to a higher state income tax rate. Additionally, in the current year period, the effect of income tax credits for uncertain tax positions had a larger impact on the income tax rate compared to the prior year.

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:

		Six Months Ended September 30	
	2011		2010
		(In millions)	
Net cash provided by operating activities	\$	38.4	\$ 30.2
Acquisitions of businesses, net of cash acquired		(3.3)	(3.3)
Capital expenditures, net of proceeds from asset dispositions		(28.2)	(22.9)
Net proceeds under bank credit facilities		17.5	0.5
Net proceeds (payments) on term equipment notes and other debt		4.2	(12.0)
Payments to repurchase and retire common stock		(30.4)	
Proceeds from exercise of stock options, including excess tax benefit		1.9	6.9

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

	September 30, 2011	March 31, 2011
	(In millions)	
Cash and cash equivalents	\$ 3.7	\$ 3.7
Working capital	81.6	63.1
Total debt	191.5	170.1

Net cash provided by operating activities increased \$8.2 million over the same period in the prior year due to changes in working capital, primarily relating to changes in accounts receivable, prepaid expenses, other assets, accounts payable and accrued liabilities and income taxes payable.

We believe that our cash flow provided by operations, combined with new borrowings, will be adequate to cover remaining fiscal year 2012 working capital needs, debt service requirements, common share repurchase programs, planned capital expenditures and the acquisitions of printing businesses.

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 associated capital requirements. There can be no assurance that we will be able to acquire additional printing businesses on terms acceptable to us. We expect to fund future acquisitions through cash flow provided by operations and/or additional borrowings under our primary bank credit facility.

Our Board of Directors previously authorized a common share repurchase program for the purchase of the Company's issued and outstanding common shares up to an aggregate of \$50.0 million. The share repurchase program was to expire in October 2011. On August 1, 2011, our Board of Directors authorized the purchase of up to an additional \$50.0 million of the Company's common shares under the current share repurchase program. The amended \$100.0 million share repurchase program will expire on March 31, 2013 and enables us to repurchase shares of our common stock in open-market purchases, as well as privately negotiated transactions, pursuant to applicable securities regulations, and subject to the terms of our Credit Agreement (as defined below), market conditions and other factors. The Board of Directors may modify, suspend, extend or terminate the program at any time. We expect to fund any additional repurchases under the amended program through cash flow provided by operations or additional borrowings under our Credit Agreement. During the six month period ended September 30, 2011, we repurchased 735,883 shares of our common stock for a total cost of \$30.4 million. Remaining authorization under the amended share repurchase program at September 30, 2011 was \$41.8 million.

Debt Obligations

Our current credit agreement (the "Credit Agreement") provides up to \$285.0 million in revolving credit and has a maturity date of October 6, 2014. At September 30, 2011, outstanding borrowings under the Credit Agreement were \$109.9 million and accrued interest at a weighted average rate of 2.0%.

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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. In order to repurchase our common stock under the terms of the Credit Agreement, we 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 2.50 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 our 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 our option, at either LIBOR plus a margin of 1.375% to 2.75%, 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 0.5% per annum) plus a margin of 0.0% to 1.25%. We are also required to pay an annual commitment fee ranging from 0.25% to 0.5% 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 September 30, 2011, the applicable margin on LIBOR based loans was 1.625%, the applicable margin on alternative base rate loans was 0.125% and the applicable commitment fee was 0.25%.

We are subject to certain covenants and restrictions, including limitations on additional indebtedness we may incur in the future, and must meet certain financial tests under the Credit Agreement. We were in compliance with such covenants, restrictions and financial tests at September 30, 2011. In the event we are unable to remain in compliance with the Credit Agreement covenants and financial tests contained in the Credit Agreement in the future, our lenders would have the right to declare us in default with respect to

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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 we are unable to obtain a waiver from our lenders or renegotiate or refinance these obligations, a material adverse effect on our ability to conduct our operations in the ordinary course would likely result.

We also maintain a secured credit facility (the A&B Credit Facility) which provides revolving credit for our Canadian subsidiary, Annan & Bird Lithographers, Inc., available for both U.S. dollar and Canadian dollar loans not to exceed in the aggregate \$25.0 million (U.S. equivalent). At September 30, 2011, outstanding borrowings were \$5.9 million (U.S. equivalent) which accrued interest at a weighted average rate of 2.5%. The A&B Credit Facility contains many of the same covenants and restrictions contained in the Credit Agreement. Additionally, a default by us under the Credit Agreement constitutes a default under the A&B Credit Facility and vice versa.

In addition, we maintain 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 \$5.0 million. One facility expires in December 2011 while the other facility expires in October 2014. At September 30, 2011, outstanding borrowings under the Auxiliary Bank Facilities totaled \$9.5 million and accrued interest at a weighted average rate of 2.7%. Because we currently have the ability and intent to refinance borrowings outstanding under the Auxiliary Bank Facility expiring in December 2011, such borrowings are classified as long-term debt in the accompanying condensed consolidated balance sheet at September 30, 2011. The Auxiliary Bank Facilities cross-default to the events of default set forth in the Credit Agreement.

At September 30, 2011, outstanding borrowings under term equipment notes totaled \$61.4 million and carried interest rates between 2.9% and 4.1%. The term equipment notes provide for principal payments plus interest for defined periods of up to five 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. Most of the term equipment notes cross-default to the events of default set forth in the Credit Agreement.

At September 30, 2011, other debt obligations totaled \$4.8 million and provided for principal payments plus interest (fixed and variable rates) for defined periods up to 16 years from the date of issuance. We do not have any significant financial covenants or restrictions associated with the other debt obligations.

As of September 30, 2011, our available credit under existing credit facilities was \$187.3 million.

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 \$80.1 million as of September 30, 2011.

Letters of credit We had letters of credit outstanding as of September 30, 2011 totaling \$7.5 million. All of these letters of credit were issued pursuant to the terms of our Credit Agreement.

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

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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 September 30, 2011 were \$183.4 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, the goodwill impairment analysis is a two-step 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, 2011, 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.

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.

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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, 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 our Annual Report on Form 10-K and 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, 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 September 30, 2011, include borrowings under our bank credit facilities, various term equipment notes and other debt obligations. As of September 30, 2011, 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, 2011.

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

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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.

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, 2011.

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

On November 1, 2010, the Company's Board of Directors approved a share repurchase program that provides for repurchases of our common stock not to exceed \$50.0 million in the aggregate in open-market or privately negotiated transactions. On August 1, 2011, the Company's Board of Directors authorized an increase of \$50.0 million to such program. The amended \$100.0 million share repurchase program expires March 31, 2013. The following are details of repurchases under this program for the period covered by this report:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Announced Plan
Purchases from July 1, 2011 through July 31, 2011	3,849	\$ 55.96	3,849	\$ 10,515,295
Purchases from August 1, 2011 through August 31, 2011	280,041	\$ 36.07	280,041	\$ 50,414,366
Purchases from September 1, 2011 through September 30, 2011	236,546	\$ 36.44	236,546	\$ 41,795,807

Total	520,436	\$	36.38	520,436
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(a) All shares were purchased in open-market transactions.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 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

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101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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: November 2, 2011

By: /s/ Jon C. Biro
Jon C. Biro
Executive Vice President and
Chief Financial and Accounting Officer

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Exhibit Index

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