CONSOLIDATED GRAPHICS INC /TX/
Form 10-Q
November 13, 2001

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, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ________________ TO ________________

COMMISSION FILE NUMBER 0-24068

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

TEXAS	76-0190827
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
5858 WESTHEIMER ROAD, SUITE 200 HOUSTON, TEXAS	77057
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(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 [ ]

The number of shares of Common Stock, par value $.01 per share, of the Registrant outstanding at October 31, 2000 was 13,152,050.

CONSOLIDATED GRAPHICS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS	SEPTEMBER 30, 2001 (UNAUDITED)
CURRENT ASSETS	
Cash and cash equivalents	$ 6,850
Accounts receivable, net	113,255

Inventories	31,045
Prepaid expenses	5,748
Deferred income tax assets	4,870
Total current assets	161,768
PROPERTY AND EQUIPMENT, net	287,603
GOODWILL, net	200,904
OTHER ASSETS	7,554
	$657,829

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Current portion of long-term debt	$ 16,443
Accounts payable	23,994
Accrued liabilities	32,425
Income taxes payable	4,670
Total current liabilities	77,532
LONG-TERM DEBT, net of current portion	226,225
DEFERRED INCOME TAXES	55,649
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Common stock, $.01 par value; 100,000,000 shares authorized; 13,133,916 and 13,018,795 issued and outstanding	131
Additional paid-in capital	156,707
Retained earnings	141,585
Total shareholders' equity	298,423
	$657,829

See accompanying notes to consolidated financial statements.

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CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED INCOME STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		SIX SEP
	2001	2000	200
SALES	$160,157	$172,503	$324
COST OF SALES	118,279	123,244	238
Gross profit	41,878	49,259	85

SELLING EXPENSES	16,897	17,225	34
GENERAL AND ADMINISTRATIVE EXPENSES	13,660	13,646	27
Operating income	11,321	18,388	24
INTEREST EXPENSE	4,154	5,198	8
Income before income taxes	7,167	13,190	15
PROVISION FOR INCOME TAXES	2,867	5,276	6
NET INCOME	$ 4,300	$ 7,914	$ 9
BASIC EARNINGS PER SHARE	$ .33	$ .61	$
DILUTED EARNINGS PER SHARE	$ .32	$ .61	$
SHARES USED TO COMPUTE EARNINGS PER SHARE			
Basic	13,085	13,035	13
Diluted	13,438	13,051	13

See accompanying notes to consolidated financial statements.

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CONSOLIDATED GRAPHICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTH SEPTEMB
	2001
OPERATING ACTIVITIES:	
Net income	$9,380
Adjustments to reconcile net income to net cash provided by operating activities --	
Depreciation and amortization	20,832
Deferred income tax provision	(164)
Changes in assets and liabilities, net of effects of acquisitions-	
Accounts receivable	3,118
Inventories	491
Prepaid expenses	(1,143)
Other assets	(301)
Accounts payable and accrued liabilities	(8,571)
Income taxes payable	4,662
Net cash provided by operating activities	28,304
INVESTING ACTIVITIES:	
Acquisitions of businesses	(2,321)
Purchases of property and equipment	(7,485)
Proceeds from asset dispositions	1,650

Net cash used in investing activities	(8,156)
FINANCING ACTIVITIES:	
Proceeds from bank credit facilities	10,124
Payments on bank credit facilities	(28,871)
Payments on long-term debt	(4,482)
Payments to repurchase and retire common stock	-
Proceeds from exercise of stock options and other	1,264
Net cash used in financing activities	(21,965)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,817)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,667
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$6,850

See accompanying notes to consolidated financial statements.

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CONSOLIDATED GRAPHICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Consolidated Graphics, Inc. and subsidiaries (collectively with its subsidiaries referred to as "the Company"). All intercompany accounts and transactions have been eliminated. Such statements have been prepared in accordance with generally accepted accounting principles and the Securities and Exchange Commission's 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 consolidated financial statements have been included. Operating results for the six months ended September 30, 2001 are not necessarily indicative of future operating results. Balance sheet information as of March 31, 2001 has been derived from the 2001 annual audited consolidated financial statements of the Company. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission in June 2001.

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

The consolidated statements of cash flows provide information about the Company's sources and uses of cash and exclude the effects of non-cash transactions. Significant non-cash transactions for the six months ended September 30, 2001, include the issuance of term equipment notes totaling

(IN THOUSANDS)

$457 related to the purchase of printing equipment (see Note 2. Long-term Debt). The following is a summary of total cash paid for interest and income taxes (net of refunds):

	SIX MONTHS ENDED SEPTEMBER 30,	
	2001	2000
CASH PAID FOR:		
Interest	$8,651	$10,
Income taxes	2,465	8,

2. LONG-TERM DEBT

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

	SEPTEMBER 30, 2001	MAR 2
Bank credit facilities	$164,431	$ 1
Term equipment notes	72,312	
Other	5,925	
	242,668	2
Less current portion	(16,443)	(
	$ 226,225	$ 2

The Company entered into a five-year $225,000 senior secured credit facility (the "Bank Credit Facility") with eleven banks in December 2000. The Bank Credit Facility is composed of a $50,000 five-year term loan (the "Term Loan"), of which $37,500 was outstanding at September 30, 2001, and a $175,000 five-year revolving credit line (the "Revolving Line"), of which $126,300 was outstanding at September 30, 2001. The size of the Revolving Line may be increased by $50,000 at a later date by adding additional lenders. The Term Loan requires quarterly payments of $2,500 each through September 30, 2005.

Borrowings outstanding under the Bank Credit Facility are secured by substantially all of the Company's assets other than real estate and certain equipment subject to term note obligations and other financing. Borrowings under the Bank Credit Facility accrue interest, at the Company's option, at either (1) the London Interbank Offered Rate (LIBOR) plus a margin of 1.25%

to 2.25%, or (2) an alternate base rate (based upon the greater of the agent bank's prime lending rate or the Federal Funds effective rate plus .50%) plus a margin of up to 1.00%. The Company is also required to pay a commitment fee on available but unused amounts ranging from .275% to .375%. The interest rate margin and the commitment fee are based upon the Company's ratio of Funded Debt to Pro Forma Consolidated EBITDA, as defined, redetermined quarterly. At September 30, 2001 borrowings outstanding under the Term Loan and the Revolving Line accrued interest at a weighted average rate of 5.03%.

The proceeds of the Bank Credit Facility can be used to repay certain indebtedness, finance certain acquisitions and provide for working capital and general corporate purposes. Proceeds can also be used by the Company to repurchase its common stock, subject to a limit of $25,000 and certain other restrictions. The Company is subject to certain covenants and restrictions and we must meet certain financial tests pursuant to and as defined in the Bank Credit Facility.

In addition, the Company entered into a one-year auxiliary revolving credit facility (the "Auxiliary Bank Facility") with a commercial bank in December 2000. This Auxiliary Bank Facility is unsecured and has a maximum borrowing capacity of $5,000. At September 30, 2001, borrowings outstanding under the Auxiliary Bank Facility totaled $631 and accrued interest at 5.48%.

The term equipment notes consist primarily of term notes payable pursuant to printing equipment purchase and financing agreements between the Company and two printing equipment manufacturers. The agreements provide for fixed monthly payments over periods of either five or ten years and are secured by the purchased equipment. At September 30, 2001, outstanding borrowings under these agreements totaled $69,401 and were subject to a weighted average interest rate of 7.73%. The remaining balance of term equipment notes totaling $2,911 primarily consists of various secured debt obligations assumed by the Company in connection with certain prior year acquisitions. The Company is not subject to any significant financial covenants in connection with any of these equipment notes; however, the Bank Credit Facility places certain limitations on the amount of additional term note obligations the Company may incur in the future.

3. ACQUISITIONS

During the six months ended September 30, 2001, the Company paid cash of $2,321 to satisfy certain liabilities of acquired businesses that existed at March 31, 2001 or pursuant to earnout agreements entered into in connection with certain prior year acquisitions. On September 18, 2001, the Company also announced the signing of a nonbinding letter of intent to acquire American Lithographers, Inc. of California.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, were issued in July 2001. SFAS No. 141 primarily requires that all acquisitions initiated after June 30, 2001, be accounted for using the purchase method of accounting. SFAS 142

primarily requires that companies discontinue amortizing goodwill and perform annual impairment tests to determine if the remaining balance of goodwill or other intangible assets should be reduced to their estimated fair values. SFAS No. 141 also requires companies to separately report more specifically identifiable intangible assets and SFAS No. 142 requires the amortization of such intangible assets over their useful life, if determinable. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt SFAS No. 142 during its fiscal 2003 first quarter, which ends June 30, 2002. Management is currently reviewing the impact of the adoption of SFAS Nos. 141 and 142 on its consolidated financial position and consolidated results of operations.

SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATION and SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS were issued in August 2001. SFAS 143 requires that a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Management does not believe that the adoption of SFAS Nos. 143 and 144 will have a material impact on its consolidated financial position and consolidated results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING INFORMATION. READERS ARE CAUTIONED THAT SUCH INFORMATION INVOLVES KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, INCLUDING THOSE CREATED BY GENERAL MARKET CONDITIONS, COMPETITION AND THE POSSIBILITY THAT EVENTS MAY OCCUR WHICH LIMIT THE ABILITY OF THE COMPANY TO MAINTAIN OR IMPROVE ITS OPERATING RESULTS AND ACQUIRE ADDITIONAL PRINTING BUSINESSES. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD BE INACCURATE, AND THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS INCLUDED HEREIN WILL PROVE TO BE ACCURATE. THE INCLUSION OF SUCH INFORMATION SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES AND PLANS OF THE COMPANY WILL BE ACHIEVED. THE COMPANY EXPRESSLY DISCLAIMS ANY DUTY TO PROVIDE UPDATES TO THESE FORWARD-LOOKING STATEMENTS, ASSUMPTIONS OR OTHER FACTORS AFTER THE DATE OF THIS REPORT ON FORM 10-Q TO REFLECT THE OCCURRENCE OF EVENTS OR CIRCUMSTANCES OR CHANGES IN EXPECTATIONS.

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND PERFORMANCE OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDED HEREIN AND THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES AND OTHER DETAILED INFORMATION REGARDING THE COMPANY INCLUDED IN

THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED MARCH 31, 2001 AND OTHER REPORTS FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION. OPERATING RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE ENTIRE FISCAL YEAR ENDING MARCH 31, 2002 OR ANY PERIODS THEREAFTER.

OVERVIEW

Our Company is a leading national provider of commercial printing services and is recognized as the largest sheet-fed and half-web commercial printing company in the United States with 63 printing facilities in 25 states. We are focused on adding value to our operating companies by providing the financial and operational strengths, management support and technological advantages associated with a national organization. All of our printing businesses represent one reportable operating segment because, in general, they provide the same type of services and exhibit similar economic characteristics.

The majority of our sales are derived from traditional printing services, which include electronic prepress, printing, finishing, storage, and delivery of high-quality, custom-designed products. Examples of such products include multicolor product and capability brochures, shareholder communications, catalogs, training manuals, point-of-purchase marketing material and direct mail pieces. We have a diverse customer base, including national and local corporations, mutual fund companies, advertising agencies, graphic design firms, catalog retailers and direct mail distributors.

Our printing operations also capitalize on their advanced technological capabilities and expertise in digital processes to provide a variety of electronic products and services that are complementary to our traditional printing services. Our electronic products and services are developed and marketed to existing and potential customers through CGXmedia. Our two proprietary, Internet-based software solutions include COIN (Custom Ordering Interactive Network), our on-line print procurement and fulfillment software, and OPAL (On-line Private Asset Library), our Web-based tool used by companies to efficiently manage their valuable digital assets. CGXmedia also offers a variety of additional electronic media solutions, such as CD-ROM development and production, conversion of text in printed or digital form to eBook format, electronic journal composition and variable data and on-demand printing for short run, fast turnaround projects.

Our Company offers fulfillment services, whereby we assemble, package, store and distribute promotional, educational and training documents on behalf of our customers. We help customers manage their inventory of printed products and related materials (such as binders and product samples), while also providing "just-in-time" assembly and delivery of customized materials to end users. Our convenient mailing services include a number of options for sorting, packaging, inkjet labeling and shipping of large quantities of printed materials to any number of distribution points.

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

Most of the products we produce are generated by individual orders through commissioned sales personnel and, in some cases, pursuant to long-term contracts. To a large extent, continued engagement of our Company by our customers for successive jobs depends upon the customer's satisfaction with the quality of services provided. As such, we are unable to accurately predict, for more than a few weeks in advance, the number, size and profitability of printing jobs that we expect to produce.

Our Company's primary business strategy is to generate sales and profit growth by capitalizing on our nationwide coverage, extensive range of capabilities and financial strength to:

- Increase local market share,

- Invest in new technology and expand our capabilities,

- Aggressively pursue national account opportunities,

- Maximize the potential of CGXmedia to create additional revenue sources and generate additional print demand.

We continue to selectively pursue opportunities to acquire profitable, well-managed printing companies that fit our general criteria. We also strive to achieve operational improvements by leveraging our economies of scale with national purchasing agreements, sharing best practices and benchmarking financial and operational data across our network of 63 companies.

RESULTS OF OPERATIONS

The following tables set forth the Company's historical income statements for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MO ENDED SEPT
	2001	2000	2001
	(in millions)		(in mil
Sales..	$ 160.2	$ 172.5	$ 324.6
Cost of sales..	118.3	123.2	238.9
Gross profit......................................	41.9	49.3	85.7
Selling expenses.......................................	16.9	17.2	34.1
General and administrative expenses....................	13.7	13.7	27.2
Operating income..................................	11.3	18.4	24.4
Interest expense.......................................	4.1	5.2	8.8
Income before income taxes........................	7.2	13.2	15.6
Provision for income taxes.............................	2.9	5.3	6.2
Net income..	$ 4.3	$ 7.9	$ 9.4

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

THREE MONTHS SIX MON

	ENDED SEPTEMBER 30,		ENDED SEPTE
	2001	2000	2001
Sales	100.0%	100.0%	100.0%
Cost of sales	73.9	71.4	73.6
Gross profit	26.1	28.6	26.4
Selling expenses	10.5	10.0	10.5
General and administrative expenses	8.5	7.9	8.4
Operating income	7.1	10.7	7.5
Interest expense	2.6	3.1	2.7
Income before income taxes	4.5	7.6	4.8
Provision for income taxes	1.8	3.0	1.9
Net income	2.7%	4.6%	2.9%

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2000

Sales decreased 7% to $160.2 million for the quarter ended September 30, 2001, from $172.5 million for the same period last year. This decline is due primarily to a reduction in pricing necessary for our operating companies to maintain or increase market share in the midst of the current economic slowdown, coupled with a dramatic reduction in business activity during September caused by the recent terrorist acts. The remaining decline is related to management's decision to exit a portion of our business at one operation and combine three under-performing operations into nearby facilities during the quarter ended March 31, 2001.

Gross profit decreased 15% to $41.9 million for the quarter ended September 30, 2001, from $49.3 million for the same period last year. Gross profit as a percentage of sales decreased to 26.1% during the quarter from 28.6% for the same period last year. This decrease resulted from the pricing pressures and business slowdown described above, coupled with higher depreciation on our prior year investments in additional capital equipment.

Selling expenses decreased 2% to $16.9 million for the quarter ended September 30, 2001, from $17.2 million for the same period last year, primarily due to the decreased sales levels noted above. Selling expenses as a percentage of sales increased to 10.5% during the quarter, as compared to 10.0% in the same period last year. This increase is due to higher marketing and training costs attributable to our pursuit of national accounts and our electronic media initiatives as we continue to develop and market our electronic products and services available through CGXmedia.

General and administrative expense remained constant at $13.7 million for the quarter ended September 30, 2001 compared to the same period last year. General and administrative expenses as a percentage of sales increased to 8.5% during the quarter, as compared to 7.9% in the same period last year. This increase reflects the impact of the sales decline noted above, while overhead and administrative costs remained constant to maintain our current level of operations.

Net interest expense decreased to $4.1 million for the quarter ended September 30, 2001, from $5.2 million for the same period last year, primarily due to lower borrowings outstanding and lower interest rates paid under our bank credit facilities.

Effective income tax rates remained constant at 40% for the quarter ended September 30, 2001 as compared to the same period last year.

SIX MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH SIX MONTHS ENDED SEPTEMBER 30, 2000

Sales decreased 6% to $324.6 million for the six months ended September 30, 2001, from $346.0 million for the same period last year. This decrease reflects reduced print demand and pricing pressures due to the weak economy, as well as the impact of the recent terrorist acts. We also exited a portion of our business at one operation and combined three under-performing operations into nearby facilities during the quarter ended March 31, 2001.

Gross profit decreased 13% to $85.7 million for the six months ended September 30, 2001, from $98.7 million for the same period last year. Gross profit as a percentage of sales decreased to 26.4% during the six months ended September 30, 2001, from 28.5% for the same period last year. This decrease is primarily due to a combination of weak economic conditions and higher depreciation as discussed above.

Selling expenses decreased 2% to $34.1 million for the six months ended September 30, 2001, from $34.6 million for the same period last year. Selling expenses as a percentage of sales increased to 10.5% for the six months ended September 30, 2001, as compared to 10.0% in the same period last year, due primarily to higher costs attributable to our pursuit of national accounts and new business through CGXmedia.

General and administrative expenses decreased slightly to $27.2 million for the six months ended September 30, 2001, from $27.4 million for the same period last year. General and administrative expenses as a percentage of sales increased to 8.4% for the six months ended September 30, 2001, as compared to 7.9% in the same period last year. This increase reflects the impact of the sales decline noted above, while overhead and administrative costs remained constant to maintain our current level of operations.

Net interest expense decreased to $8.8 million for the six months ended September 30, 2001, from $10.1

million for the same period last year, primarily due to lower borrowings outstanding and lower interest rates paid under our bank credit facilities.

Effective income tax rates remained constant at 40% for the six months ended September 30, 2001 as compared to the corresponding period last year.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, we had cash and cash equivalents of $6.9 million, working capital of $84.2 million and total debt outstanding of $242.7 million. Our cash requirements are financed through internally generated funds and, as necessary, borrowings under our bank credit facilities. We generated cash flow from operations (net income plus depreciation, amortization and deferred income tax provision) of $30.0

million for the six months ended September 30, 2001, which exceeded our cash requirements for the period. During the six months ended September 30, 2001, we utilized cash for capital expenditures totaling $7.5 million and reduced the balance outstanding on our bank credit facilities and other debt by $23.2 million.

INVESTING ACTIVITIES

Pursuant to earnout agreements entered into in connection with certain acquisitions, we paid $1.5 million during the six months ended September 30, 2001, and, as of that date, we were contingently obligated at certain times and under certain circumstances through fiscal 2005 to issue up to 134,660 shares of our common stock and to make additional cash payments of up to $13.8 million for all periods in the aggregate.

During the quarter ended September 30, 2001, we entered into a nonbinding letter of intent to acquire American Lithographers, Inc. of California. We intend to continue pursuing acquisition opportunities at prices we believe are reasonable based upon market conditions and at returns relative to alternative opportunities to invest our available capital. There can be no assurance that we will be able to acquire additional businesses at prices and on terms acceptable to us in the future. In addition, there can be no assurances that we will be able to establish, maintain or increase the profitability of any acquired business.

We expect to fund future acquisitions through cash flow from operations, borrowings under our revolving credit facilities or the issuance of our common stock. To the extent we seek to fund a significant portion of the consideration for future acquisitions with cash, we may seek to increase the amount of our bank credit facilities or obtain alternative sources of financing, although there can be no assurance that we will be able to do so.

We also expect to continue making capital expenditures using cash flow from operations, supplemented as necessary by borrowings under our bank credit facilities or the issuance of term notes.

FINANCING ACTIVITIES

The Company entered into a five-year $225.0 million senior secured credit facility (the "Bank Credit Facility") with eleven banks in December 2000. The Bank Credit Facility is composed of a $50.0 million five-year, term loan (the "Term Loan"), of which $37.5 million was outstanding at September 30, 2001, and $175.0 million five-year revolving credit line (the "Revolving Line"), of which $126.3 million was outstanding at September 30, 2001. The size of the Revolving Line may be increased by $50.0 million at a later date by adding additional lenders. The Term Loan requires quarterly payments of $2.5 million each through September 30, 2005.

Borrowings outstanding under the Bank Credit Facility are secured by substantially all of our assets other than our real estate and certain equipment subject to term note obligations and other financing. Borrowings under the Bank Credit Facility accrue interest, at our option, at either (1) the London Interbank Offered Rate (LIBOR) plus a margin of 1.25% to 2.25%, or (2) an alternate base rate (based upon the greater of the agent bank's prime lending rate or the Federal Funds effective rate plus .50%) plus a margin of up to 1.00%. We are also required to pay a commitment fee on available but unused amounts ranging from .275% to .375%. The interest rate margin and the commitment fee are based upon our ratio of Funded Debt to Pro Forma Consolidated EBITDA, as defined, redetermined quarterly. At September 30, 2001, borrowings outstanding under the Term Loan and the Revolving Line accrued interest at a weighted average rate of 5.03%.

The proceeds of the Bank Credit Facility can be used to repay certain indebtedness, finance certain acquisitions and provide for working capital and general corporate purposes. Proceeds can also be used by the Company to repurchase its common stock, subject to limit of $25.0 million and certain other restrictions. Our Company is subject to certain covenants and restrictions and we must meet certain financial tests pursuant to and as defined in the Bank Credit Facility.

In addition, we entered into a one-year auxiliary revolving credit facility (the "Auxiliary Bank Facility") with a commercial bank in December 2000. This Auxiliary Bank Facility is unsecured and has a maximum borrowing capacity of $5.0 million. At September 30, 2001, borrowings outstanding under the Auxiliary Bank Facility totaled $0.6 million and accrued interest at 5.48%.

We also have agreements with two printing equipment manufacturers, pursuant to which we receive certain volume purchase incentives and long-term financing options with respect to the purchase of printing presses and other equipment. Under these agreements, we were obligated on term notes totaling $69.4 million and subject to a weighted average interest rate of 7.73% as of September 30, 2001. The agreements provide for fixed monthly payments over periods of either five or ten years and are secured by the purchased equipment. Our Company is not subject to any significant financial covenants in connection with any of these equipment notes; however, our Bank Credit Facility places certain limitations on the amount of additional term note obligations we may incur in the future.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, were issued in July 2001. SFAS No. 141 primarily requires that all acquisitions initiated after June 30, 2001, be accounted for using the purchase method of accounting. SFAS 142 primarily requires that companies discontinue amortizing goodwill and perform annual impairment tests to determine if the remaining balance of goodwill or other intangible assets should be reduced to their estimated fair values. SFAS No. 141 also requires companies to separately report more specifically identifiable intangible assets and SFAS No. 142 requires the amortization of such intangible assets over their life, if determinable. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Our Company expects to adopt SFAS No. 142 during its fiscal 2003 first quarter, which ends June 30, 2002. Management is currently reviewing the impact of the adoption of SFAS Nos. 141 and 142 on its consolidated financial position and consolidated results of operations.

SFAS No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATION and SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS were issued in August 2001. SFAS 143 requires that a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Management does not believe that the adoption of SFAS Nos. 143 and 144 will have a material impact on its consolidated financial position and consolidated results of operations.

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 hold or utilize derivative financial instruments, which could expose our Company to significant market risk. However, we are exposed to market risk for changes in interest rates related primarily to our revolving credit facilities. As of September 30, 2001, there were no material changes in our market risk or the estimated fair value of our short-term and long-term debt obligations as reported in our Annual Report on Form 10-K for the fiscal year ended March 31, 2001.

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 potential claims in an amount which we believe to be adequate. Currently, we are not aware of any legal proceedings or claims pending against our Company that management believes will have a material adverse effect on our consolidated financial position or consolidated results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On July 26, 2001, the Company held its Annual Meeting of Shareholders. At the meeting, Clarence C. Comer and Gary L. Forbes were elected to serve as Class II directors on the Company's Board of Directors until the 2004 Annual Meeting of Shareholders or until their successors have been duly elected and qualified. The votes "for" and "against" each director were as follows: Clarence C. Comer, "for" 11,418,923 and "against" 114,262; and Gary L. Forbes, "for" 11,418,923 and "against" 114,262. The additional directors continuing in office after the meeting were Joe R. Davis, James H. Limmer, Dr. Hugh N. West, Larry J. Alexander and Brady F. Carruth.

ITEM 5. OTHER INFORMATION

On October 22, 2001, the Company held a Regular Meeting of the Board of Directors. At the meeting the Board adopted a resolution that Larry J. Alexander, Brady F. Carruth and James H. Limmer are the designated members of the Nominating Committee.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

*3.1 Restated Articles of Incorporation of the Company filed with the Secretary of State of the State of Texas on July 27, 1994 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1994) SEC File No. 0-24068, Exhibit 4(a)).

*3.2 Articles of Amendment to the Restated Articles of Incorporation of the Company dated as of July 29, 1998 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1998) SEC File No. 0-24068, Exhibit 3.1).

*3.3 Restated By-Laws of the Company, dated as of November 2, 1998 (Consolidated Graphics, Inc. Form 10-Q (September 30, 1998) SEC File No. 0-24068, Exhibit 3.2).

*3.4 Restated By-Laws of the Company, as amended on June 23, 1999 (Consolidated Graphics, Inc. Form 10-Q (June 30, 1999) SEC File No. 0-24068, Exhibit 3.4).

*3.5 Amendments to the By-Laws of the Company on December 15, 1999 (Consolidated Graphics, Inc. Form 8-K (December 15, 1999) SEC File No. 0-24068, Exhibit 3.2).

*4.1 Specimen Common Stock Certificate (Consolidated Graphics, Inc. Form 10-K

(March 31, 1998) SEC File No. 0-24068, Exhibit 4.1).

*4.2 Rights Agreement dated as of December 15, 1999 between Consolidated Graphics, Inc. and American Stock Transfer and Trust Company, as Rights Agent, which includes as Exhibit A the Certificate of Designations of Series A Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the form of summary of Rights to Purchase Shares (Consolidated Graphics, Inc. Form 8-K (December 15, 1999) SEC File No. 0-24068, Exhibit 4.1).

* Incorporated by reference

(b) REPORTS ON FORM 8-K:

1) Form 8-K, filed July 25, 2001 in connection with the press release announcing the Company's fiscal 2002 first quarter results.

2) Form 8-K, filed August 21, 2001 in connection with the press release announcing Darrell Whitley as President of CGXmedia.

3) Form 8-K, filed September 18, 2001 in connection with the press release announcing the signing of a letter of intent to acquire American Lithographers, Inc. of California.

4) Form 8-K, filed October 24, 2001 in connection with the press release announcing the Company's fiscal 2002 second quarter results.

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 13, 2001 By: /s/ Wayne M. Rose

Wayne M. Rose
Executive Vice President
Chief Financial Officer
and Secretary