

Courier

Annual Meeting of Shareholders **January 18, 2002**

Remarks made by

James F. Conway III

Chairman, President and Chief Executive Officer

I'm sure you remember the cover of our 2001 Annual Report. But you may or may not have noticed that the cover folds out into a poster, with words popping out of the sky to evoke associations that come from the simple act of opening a book...*empower, comfort, entertain, reflect, enrich, strengthen, remember*...associations that, in a sense, are fundamental to our business.

"Ten pages in, 10,000 miles away" was the caption we used on page one of the Annual Report to describe how books can take you away into a world of boundless possibilities.

We used a few examples to show how this happens with different readers and different kinds of books. A woman enjoying a few quiet moments with a cookbook. A man with a business manual getting a jump on a business opportunity. A minister with his Bible planning his sermon. A student whose social life has been unfairly interrupted by her course requirements. And someone else like me, who enjoys a good book at the beach.

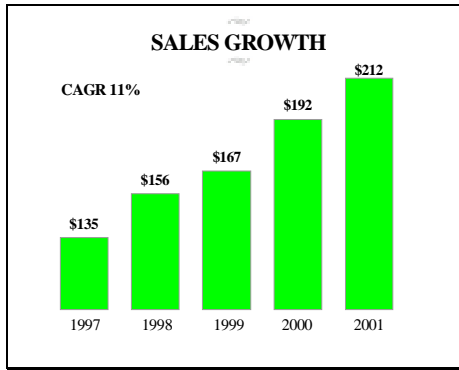
Open a Book

In encouraging people to "open a book," we were making the point that book printing and publishing really *is* a special business. Books *are* special. People form strong relationships with books, and with the people who provide them. These relationships make the book business a great place to be. At Courier, we're proud of our strong relationships with leading book publishers all over the United States, as well as with readers themselves through Dover Publications.

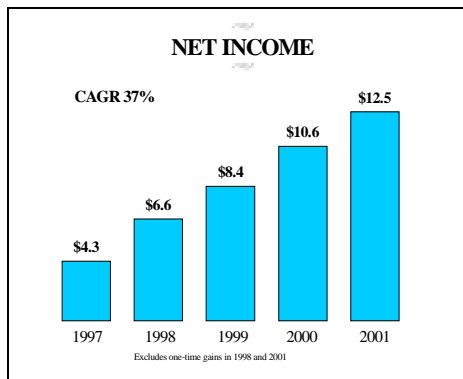
Today we're going to open the book called Courier Corporation, and take a look at some of the boundless possibilities it contains, as well as the practical realities of running our business.

Courier *is* an open book.

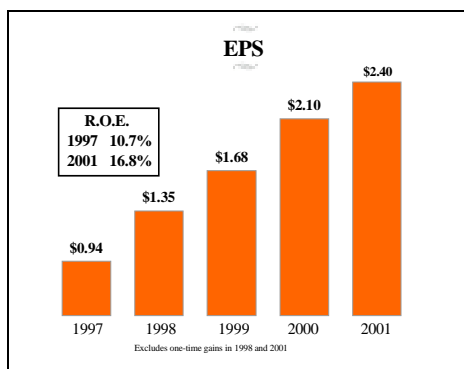
Over the years we've made our strategy clear, and we've executed with remarkable consistency. Our steady, consistent execution has been reflected in our five-year financial results...an unbroken string of growth years extending from the last half of the 90s right into this 21st century.



In sales, we've grown from \$135 million to \$212 million, a compound annual growth rate of 11%.

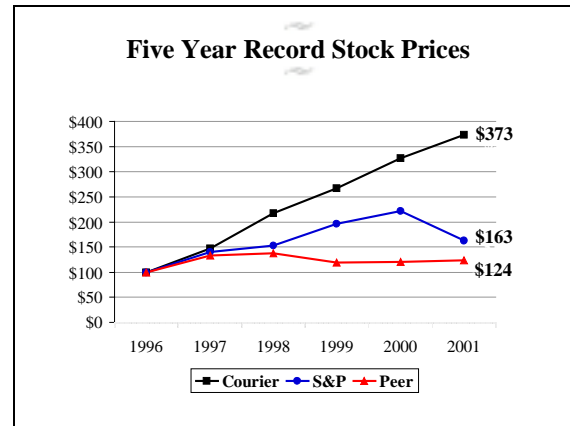


Our net income has risen at an even faster clip, rising from \$4.3 million to \$12.5 million after excluding one-time gains, for a compound annual growth rate of 37%.



Our earnings per share have more than doubled from \$.94 per share in 1997 to \$2.40 this year. And by the way, over the same five-year period our return on equity has increased significantly, from 10.7% to 16.8%.

And the company's performance has been reflected in outstanding returns for shareholders.



This is a graph of total shareholder return, including stock price appreciation and dividend income. It assumes that we invested \$100 on Oct. 1, 1996 in Courier Stock, the S&P 500 and our industry Peer Group.

Courier is the line on top, rising at a compound annual growth rate of 30%. The middle line represents the S&P 500, whose total shareholder return had a 10% compound annual growth rate. We grew at triple the rate of the S&P 500 over this 5-year period! And the bottom line represents our industry peer group, which had a 2.5% compound annual growth.

Which line would you rather be invested in?

The Courier Story

Now I want to zero in on fiscal 2001 and 2002, two very different years, but with a lot in common. Let's start with 2001.

In telling this story, I'm going to point out a couple of my favorite chapters, as well as a not-so-favorite chapter. And I'll also pay tribute to some notable characters along the way.

CHAPTER 1

Dover Delivers

The first of my favorite chapters is called "Dover Delivers." Did they ever! Of course, we helped them. We took on this great company, and then we added some ingredients to make it even better.

Here's just some of what we did.

- We pumped up the sales organization with new leadership for both the U.S. and overseas markets.
- We overhauled the information technology operations, giving the company a 21st-century infrastructure to support tighter management control as well as the online business we knew would be there.
- And we took a fresh look at the product line and realized that there were tremendous opportunities waiting to be seized, including both additional markets and higher-value titles.

At this time last year, we were just about to launch Dover's online store. Today I can tell you it's been a phenomenal success. In ten months we've sold more than 300,000 books — nearly half of that total in this last quarter alone.

We've also made our web site a great two-way communications channel with readers. More than 17,000 have signed on as Online Family members. They receive information on new titles in areas of interest to them as well as special offers. If you're not a member of Dover's Online Family, you should be! Join at www.doverpublications.com.

They've already given us more than 600 suggestions for additional books to publish. We've also gotten about 16,000 emails, most of them incredibly supportive. Here are a few of them.

- *"Your diligence is exemplary. Your follow-through is exceptional. Your single minded devotion...anachronistic."...You know we didn't make this one up.*
- *"I am a busy Mom of 4. Your site saves me so much time. So glad you went online."* Perhaps you didn't know that Dover makes sticker books for kids.
- *"I would love to see a Dover version of Agricola's De Natura Fossilium. Let me know if you ever decide to publish it!"* Luckily, Dover's editors know what this guy's talking about.
- And this one. *"I have been a huge fan of your music scores for years, and cannot count the hours spent using them. Thank you and your company for everything it does."* You couldn't ask for more than that.

With customers like these, no wonder Dover delivered for us. Dover's fiscal-year revenues of \$33 million and pretax income of \$1.4 million were a full year ahead of the schedule we laid out at the time of the acquisition.

Because the integration work was largely done in the first half of the year, by the second half we were able to concentrate on generating sales and profits. The results were incredible. From stagnant sales and breakeven profits in the first six months, we pumped up sales and earned \$1.4 million in pretax profits, building strong momentum going into 2002.

We also established a phenomenal pattern of both new and repeat business at our web site. In fact, of the 30,000 orders received in the first 10 months of the web site's existence, 8000 were from customers who ordered more than once. Clearly, we must be doing something right.

CHAPTER 2

☞ Service Sells

My other favorite chapter is called "Service Sells." Make no mistake about it — we may be a manufacturer, but we are in a service business. What does service consist of? The customer scenes we included in our Annual Report tell you in a nutshell. By the way, the people in these photos are models, but the statements were based on actual customer comments.

Here's the first one:

- *"Courier understands our business and our markets almost as well as we do."*

And here's the second:

- *"Your people are constantly pushing the technology to produce better results faster."*

Put the two together, and that's the essence of service at Courier. We work hard to understand the challenges our customers face and determine exactly what they really need. And then we work even harder to give it to them, using all the technological resources at our disposal.

CEO Briefings

We also launched a series of proactive, face-to-face meetings with CEOs of large and small publishing companies to exchange views and develop new ways to help publishers through the next stage of the industry's evolution. Some of the topics we've taken up in these sessions include the impact of online bookselling, the issue of direct sales to readers, changes in the supply chain, and changes in the ways books are used in schools and colleges.

These dialogues have made a genuine contribution to our customers' ability to grow and prosper over the long term. They've also been a great way to stake out important territory for Courier and strengthen some valuable relationships...relationships based on knowing we'll be there for them when they need us. This is what the customers in the Annual Report were also saying. And big or small, we give them all first-class treatment.

The notion that "Service Sells" is what has propelled Courier to become the 5th largest book manufacturer in the country...producing 150 million books a year, or 63 billion pages. It's also helped us gain market share, both among large and small companies.

"Service Sells" has also put us in a position where unique opportunities come our way, because customers know we're ready to act on them. Several weeks ago, as our country was reeling from September 11 and just starting to chase the Taliban and Al Qaeda out of Afghanistan, one of our customers approached us with a very special project...a project which they said had to be

done quickly, quietly, and with a level of professionalism that they frankly didn't think they could find anywhere except for Courier. So, of course, we got the job. We have already produced over 100,000 copies of September 11 a testimony, which hit the bookstores just before the holidays and became a best seller.

CHAPTER 3

☐ Managing in a Tough Economy

And now for one of the harder chapters in the story of Courier 2001. I'm sure it's no surprise. "Managing in a Tough Economy" is what every company in the country has been having to do lately, and it's not over yet. But the hand we were dealt wasn't as bad as some of them. And I think we played it pretty well.

As we all know, the overall economy was deteriorating throughout last year. The book business actually held up pretty well, with consumer demand up 2 - 3% from the previous year. But because everybody was fearing the worst, it was a very cautious environment. This caution was compounded by the fact that so many book publishers are now owned by media conglomerates. So when advertising revenues took a hit in their other media businesses, there was tremendous pressure on book publishing subsidiaries to manage for cash and cut inventories...which in turn put the squeeze on book manufacturers.

Our distribution channels were already consolidating in the wake of dot-com failures. The larger economic picture accelerated that consolidation, as I'll show you in a minute.

Consumer Demand for Books Up

Compared to much of the economy, a 2% increase in demand for books rates as good news. In general, the brightest spot for us in 2001 was the religious publishing market, which rose throughout the year, and may have gotten a further boost from the tragic events of the fall. Our results in education were mixed, with growth in elementary/high school markets offset by a slight falling off in higher education markets. Specialty trade was the toughest area, though the picture varied considerably by subject area. Relative winners included religion, philosophy, psychology, cooking and architecture, plus a range of subjects related to the world situation: Afghanistan, biological warfare and so on. Losers, not surprisingly, included business, computers and travel.

Structural Changes in the Industry

I've already mentioned how publishers are being squeezed by the issues of the global media conglomerates. The squeeze is also on at retailers, with weaker independents disappearing. And while the large chains are continuing to add superstores, behind the scenes they are trimming ship as well. Cash management and inventory control have become key concerns everywhere as people try to squeeze out profits in a challenging climate.

Channel Consolidation

One result is what we call channel consolidation. The number of titles you see on the shelves at your local Barnes & Noble or Borders may not have changed, but the number of copies kept in the back room has dropped. And because they're inventorying fewer books, they're also closing warehouses. Amazon has closed warehouses. So has Borders. At the wholesale distributor level, Ingram has closed 3 of its 7 warehouses.

So the pipeline has fewer books in it. And publishers have responded to this situation by either holding back on reprint orders, or placing smaller orders more frequently and needing fast

turnaround. Which is why we at Courier have been working hard to maximize profitability in this small-order, quickturn scenario.

The good news about channel consolidation is that consumers are still there — they never left. And the cushion that used to be in the system is now largely gone. So there will be a rebound. In fact, with the current state of the pipeline, there's very little margin for error. Retailers hate to be out of a book people are asking for. So the very tightness of the recent squeeze may contribute to the strength of the recovery in book manufacturing...especially for a company like Courier that has organized itself to deliver the service publishers need.

Courier's Response

And while that was happening on the outside, we were very disciplined on the inside, starting in sales. We didn't chase work that didn't fit us, and we didn't discount. These things may help you a little in the short term, but they hurt you long term. Instead, we went after the best work from our best customers.

We continued to invest in service and efficiency — always our strongest suits. We improved our ability to make money from smaller jobs as well as ramp up efficiently for the larger ones. We managed our costs tightly, actually increasing our margins in book manufacturing. And we paid down \$15 million in debt. As I said, I think we managed pretty well.

Notable Characters

Consumers

And now I'd like to mention a few notable characters in this story. First, let's hear it for consumers. Consumers — the people who read books — will always be special in my book. And they've done us proud this year, even in the midst of a recession. End-user demand has remained healthy.

Equally important, long-term consumer demographics are very favorable in our primary book manufacturing markets of education, religion and specialty trade. Each of our key markets is being driven by important trends in our society.

And finally, in Dover Publications we have an organization that has thrived on being close to the consumer, and is going to help us grow in new directions by strengthening those consumer ties.

Publishers

And now a word in favor of our friends in publishing. From the CEOs who've been coming to our briefing sessions to the other publishers I talk with day after day all over the industry, one message that comes through loud and clear is that publishers value suppliers who understand their business and want to help them succeed. That's what Courier is all about, and what it will continue to be about.

The other message is that they appreciate our leadership in helping them anticipate changes in technology and in the economics of doing business. They appreciate our commitment to partnership with them. And believe me, I appreciate theirs.

Employees

Finally, a word about our employees. Over the last couple of years Courier has repeatedly been recognized by national publications, both within our industry and beyond. For two years running we have qualified for the *Forbes* list of the 200 Best Small Companies in America. Also, in the year 2000, the Printing Industries of America put us on their list of the best workplaces in the

industry. And in 2001 they went a step further, naming us “Best of the Best” — the very top of the profession. To me, that kind of recognition says two things. Sure, we’re doing something right as managers. But also, we’ve got one heck of a work force at every level. And I couldn’t be more proud of them, or grateful to them for all they do.

Review of FY 2001 Results

And with that, let’s do the numbers. Overall, our fiscal year 2001 was an excellent one. In a difficult economy, we had our fourth record year in a row and continued our five-year growth string.

- Sales were up 12% to \$212 million — a record.
- Net income was up 17% to \$12.5 million, excluding gains from asset sales — a record.
- And earnings per diluted share were up 14% to \$2.40, excluding gains from asset sales — another record.

One key driver of this performance was the way Dover delivered for us, compensating for a tough year in book manufacturing. Another was our success in managing the book manufacturing business very tightly and continued to make good money in it. We also sold off The Home School, a business that wasn’t performing and didn’t fit our strategy. We increased our dividend by 11%, the 5th straight year of a double-digit increase. And when all was said and done, our stock price responded appropriately.

Review of FY 2002 Q1 Results

And now for a look at the first quarter of fiscal 2002. We released these results earlier this morning, and we’ll be discussing them in detail in our quarterly conference call at 2:30 this afternoon. The recession continued, along with channel consolidation, which I talked about earlier, and we felt the effects.

- Sales were down 16%.
- Net income was up 9%, after excluding last year’s real estate gain.
- And, earnings per share were up 9% without the real estate gain.

Now, we benefited this year by an accounting change involving goodwill amortization. We have none this year, but it cost us about \$.05 per share last year. Adjusting for that, earnings per share this year was about flat with last year, which isn’t bad with sales down 16%.

A few key points -- Book manufacturing was the segment where sales really dropped. In fact, sales were down in all 3 markets (religious, education and trade). Trade and Education were hit hard because of inventory reductions by the publishers. In the religious market, orders remained strong, but manufacturing issues restricted the flow of shipments, primarily resulting from a new press start-up. These issues are clearing up which bodes well for sales in the current quarter. Despite the drop in sales, our margins in this segment improved from tight cost controls and productivity gains, helped along by the new equipment we have added.

Dover’s profits tripled in the quarter. Their sales were about flat, but orders were up 11%, which is about what we expected. I continue to be very pleased with Dover’s performance.

And we have continued to manage conservatively to be as well prepared as possible for the opportunities we expect to see later in the year.

Future Chapters

So let's turn briefly to those unwritten chapters in our saga, and try to see what's ahead. Overall, we are anticipating a year with a split personality. A year that will continue to be difficult in the first half, but should get much better in the second. We expect to see gradual improvement in the general economy as well as some relief from the channel consolidation phenomenon. And we will continue to be on the alert for additional business opportunities that fit our strategy and our vision for the future of publishing.

That's the end of the story...for now...,but like all good stories, it does have a moral. For us, the moral is pretty much the same every year. But it's worth repeating:

- **Listen to the market**
- **Stay on strategy**
- **Pay attention to details**

I think we've done all those things, and I look forward to doing them again in the coming year.

Thank you very much.

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