

Courier 2001 Annual Report

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Ten pages in, 10,000 miles away.













# Open a book

And enter into a world of boundless possibilities. No wonder the book business continues to survive and thrive through endless change. And no wonder all of us at Courier take such a personal interest in what people are reading, and why. Books are deeply personal, and so is our business. This Annual Report celebrates our connections with the people we work with and serve. Their friendship and support enrich our lives and provide a constant stream of new ideas and opportunities.

Courier Corporation (Nasdaq: CRRC) is one of America's leading book manufacturers and specialty publishers. Courier's industry-leading financial performance reflects a strong focus on long-term growth markets, technological innovation, and outstanding customer service. Principal Courier markets include religion, education, and specialty trade. Founded in 1824 and headquartered in North Chelmsford, Massachusetts, Courier has approximately 1,500 employees in seven major operating locations throughout the United States. For more information, please visit www.courier.com.

#### FINANCIAL HIGHLIGHTS

Dollars in millions except earnings per diluted share	2001	2000
Sales	\$ 211.9	\$ 192.2
Net income	\$ 13.2	\$ 10.6
Earnings per share	\$ 2.54	\$ 2.10

~ 16 ~

Thoughts from Chairman Jim

~29 ~

Books made with care

~38 ~

Doing the numbers

~ 75 ~

Dover readers

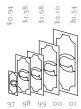
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# DEAR SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND FRIENDS:

Last fall, as we closed out fiscal 2000 with a major acquisition and significant investments in technology, more than a few people told me we were crazy. Getting out of our niche, getting over our heads, getting ahead of ourselves — the comments came in many forms, but the common thread seemed to be: what are you thinking of?

A year later, I'm happy to report that most of those people have changed their diagnosis. They've actually seen us execute in accordance with the plans we laid out. And they've come to realize that those plans were not an impulsive new development, but a logical extension of the vision and strategy we've been espousing for years.

Book printing and publishing is a wonderful business. Some would say they're two businesses, but in fact they are joined at the hip by a common interest in serving the reading public as efficiently and effectively as possible. When Courier acquired Dover Publications in September 2000, we were not crossing an imaginary line — we were integrating a function and a business with which we had been close collaborators for fifty years. In bringing printing and publishing together in-house, we have created synergies that have strengthened our company and enhanced our ability to serve every one of our customers.



# STAYING ON COURSE

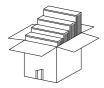
Courier revenues and income rose to record levels, capping five straight years of growth

Much the same can be said of our capital investments, which continued in 2001 at a pace close to that of the year before. In fact, in two years we've invested \$29 million in equipment and technology, nearly as much as we spent on the Dover acquisition. And like our investment in Dover, these capital improvements have made us more efficient, more responsive to customers, and better positioned in relation to global industry trends that will ultimately help everyone sell more books.

In today's economy, businesses everywhere are running tight ships, trimming inventory and squeezing more out of every resource. Rest assured that we are doing the same. But we are doing it in ways that are helping our customers as well as ourselves, reinforcing our already strong reputation as the service leader in our industry. At the same time, in becoming a true end-to-end book printer and specialty publisher, we are staking out an excellent position for the upturn we expect in the latter half of 2002.

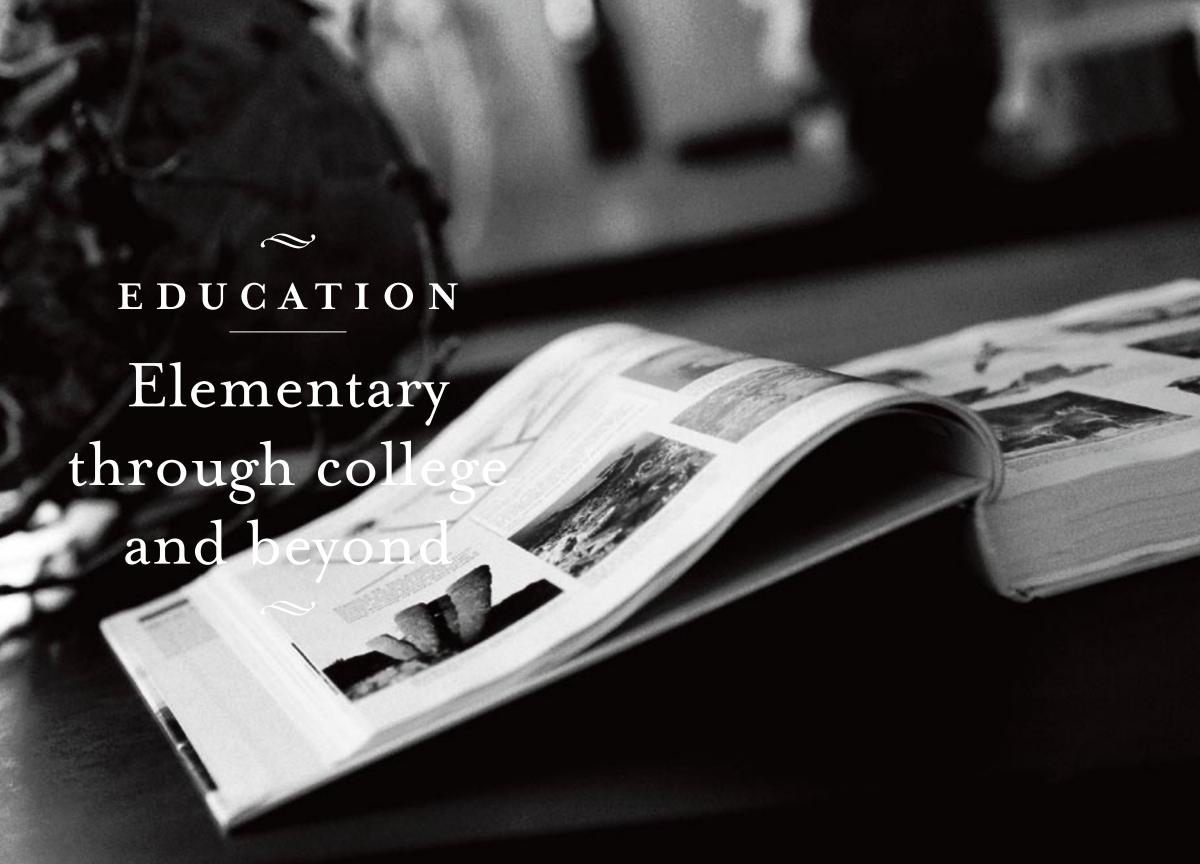
# Steady growth in revenues and profits

Equally important, we are doing all this while continuing to post record revenues and income. For the year ended September 29, 2001, revenues were \$212 million, up from the previous year's \$192 million, which included 53 weeks of operating results. After adjusting prior-year results to a comparable 52-week basis, this year's revenue increase came to 12%.



# BIGGER PROFITS FROM SMALLER ORDERS

Fanatical process control helped boost margins in a challenging year.

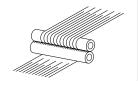


Net income for the year rose 24%, to \$13.2 million, over the prior year's \$10.6 million. Earnings per diluted share rose to \$2.54, up 21% from fiscal 2000's figure of \$2.10. Excluding the effects of gains from the sales of real estate and The Home School, net income rose 17%, to \$12.5 million, and earnings per diluted share rose 14%, to \$2.40.

These figures include positive contributions of \$33 million in revenues and \$1.4 million in pretax income from our Dover operations. These results are virtually a full year ahead of the projections we made last fall at the time of the acquisition. A strong second half and particularly strong fourth quarter indicate the momentum we are starting to build and the value we are already capturing.

All told, we have come through a challenging year in fine style. We have now extended our growth string in both revenues and income to five years in a row. Since 1996 our compound annual growth rate has exceeded 10% in revenue and 39% in income, while the company's 273% growth in total return to shareholders surpassed the S&P 500 index increase of 64%.

For the second straight year, our financial performance qualified us for inclusion in *Forbes* magazine's "200 Best Small Companies in America." Shortly after the close of the fiscal year, we announced an II% dividend increase, continuing a five-year string of double-digit dividend increases. And on the way to these accomplishments, we also paid down \$15 million in debt.



Investing in technology for SPEED AND SERVICE

A \$13 million commitment to industry leadership.

Only a couple of years ago, at the height of the dot-com bubble, these numbers might have seemed boring. Today they demonstrate the triumphant return of real business fundamentals such as knowing your markets, delivering what customers value, and paying attention to the balance sheet.

# Dover integration: ahead of schedule

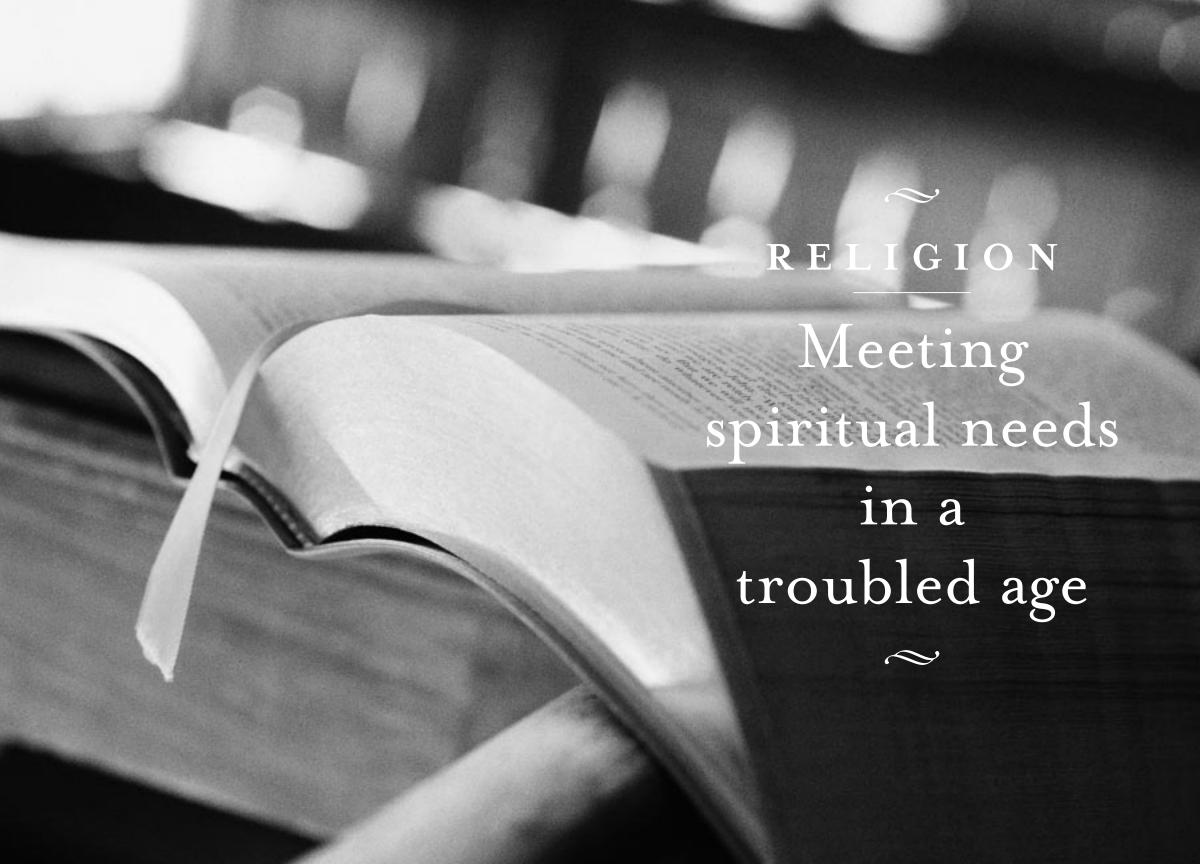
Dover Publications has more than met our initial high expectations. It is also starting to provide a window into opportunities we hadn't even realized were there. Here are just a few of the things we accomplished during this first action-packed year:

- increased sales across all retail channels, from gift shops to superstores;
- opened an online store, increasing direct-to-consumer sales at a rate of 40%;
- launched an electronic direct marketing program, generating sales and hundreds of new product ideas;
- revitalized the sales force under new domestic and international leadership;
- published more higher-value titles, particularly in academic disciplines;
- installed a 2Ist-century information technology infrastructure;
- achieved \$500,000 in annualized savings, surpassing our first-year integration goals.



ONLINE SALES BOOST DOVER'S PERFORMANCE

Business is booming at www.doverpublications.com.



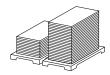
Dover's powerful brand and loyal, outspoken customers continue to impress us. We are thrilled to welcome Dover employees and customers into the Courier family, and we appreciate the warm welcome they have given us.

# Book manufacturing: investing to serve customers better

Courier's book manufacturing operations made the most of last year while positioning themselves for an uptick next year. With book inventories working their way to historic lows among many customers, even modest increases in end-user demand should trigger improvements in orders and turn mid-to-late 2002 into a period of renewed growth. In the meantime, against a 4% sales decline and a corresponding drop in utilization, we actually succeeded in boosting our manufacturing margins—reflecting disciplined investment and scrupulous attention to detail.

Our investment of nearly \$13 million in technology and equipment included a new press for the religious market, which gives Courier a sizable competitive advantage in capacity and efficiency. Across all our operations, upgraded systems have increased automation, enhanced communication and reduced overall cycle time. The results: better value for customers, better productivity for us, and faster turnaround when demand escalates.

Customers clearly appreciate what we have done. The photos and comments sprinkled throughout this Annual Report embody sentiments



#### HEAVY-DUTY CAPACITY IN LIGHTWEIGHT PRINTING

A 35% capacity increase strengthens our competitive edge in the religious market.

we have heard time and again from people who have become lifelong partners and advocates for Courier — as we have been for them.

# Leveraging our position in specialty markets

We continue to strengthen our focus on three targeted markets that offer superior long-term growth potential. Religion, education, and specialty trade contribute roughly equally to Courier's revenues, providing diversification and balance within a manageable set of high-growth sectors.

In education, we concluded that The Home School no longer fit our business model and divested it for a modest gain as mentioned above. This also enabled us to focus management and e-business resources on Dover, which led to immediate sales gains and dramatic improvements in customer service.

# The best place to be

There's no question that the entire world is facing enormous challenges right now, adding to the uncertainty of the economic outlook. But in troubled times, the ability of books to educate, inform, entertain and comfort is more valuable than ever. And in the book markets Courier has targeted, we believe long-term prospects remain excellent.

We have never set out to do everything for everyone; instead we have focused on constituencies and services where we can excel.



#### CREATING THE FUTURE TOGETHER

Strong customer relationships have been and will remain at the heart of Courier's success.



And throughout our organization, we have worked together with professionalism and high spirits. Last year Courier had the honor of being named to a leading industry list of "Best Workplaces in America." This year we were named "Best of the Best." Can we do better next year? I know we'll find a way.

At the same time, we have had the discipline needed to manage through challenging times. Our clear vision, proven execution skills and strong balance sheet enable us to face the future with a full set of strategic options, and full confidence in our ability to make the most of them.

With that in mind, we have set high goals for ourselves in fiscal 2002:

- Continue to drive growth in revenues and income. Extend our winning streak to six years in a row.
- Reinforce our leadership in book manufacturing. Continue to improve customer service, manufacturing efficiency and market share.
- Lead Dover to double-digit gains in sales, earnings and the number of end users served by Dover's online operations.

I know we're up to them. Just as I know we're ready for the new opportunities that are sure to emerge once the economy recovers.

My sincere thanks to all who contributed to our success in 2001. There's much more to come.



James F. Coursey 200

JAMES F. CONWAY III

Chairman, President and Chief Executive Officer

~

Books made with care.





~

If Courier tells me they'll be there, they'll be there.











+24%

Record net income

+18%

Return on average shareholders' investment



Cash dividend: fifth consecutive year of double-digit increase

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Awarded "Best of the Best" Workplace by Printing Industries of America



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FIVE-YEAR FINANCIAL SUMMARY

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FIVE-YEAR FINANCIAL SUMMARY

(Dollar amounts in millions except per share data)	2001	2000*	1999	1998	1997
Net sales	\$211.9	\$192.2	\$166.8	\$155.5	\$135.2
Gross profit	61.4	48.1	40.8	37.7	28.1
Net income	13.2	10.6	8.4	7.7	4.3
Net income per diluted share	2.54	2.10	1.68	1.58	.94
Dividends per share	.36	.32	.28	.26	.21
Working capital	28.7	33.3	21.9	16.5	14.1
LIFO reserve	5.8	5.9	5.5	5.3	5.7
Current ratio (FIFO basis)	2.1	2.0	2.0	1.9	1.8
Total assets	133.6	141.8	91.5	87.6	89.6
Long-term debt	16.5	31.3	1.2	6.8	18.6
Long-term debt as a percentage					
of capitalization	17.0%	31.6%	2.0%	12.0%	30.8%
Depreciation and amortization	11.8	8.1	8.3	8.5	7.2
Capital expenditures	12.8	16.3	5.0	4.1	6.7
Stockholders' equity	80.3	67.8	57.6	49.8	41.7
Return on stockholders' equity	17.8%	17.0%	15.6%	16.9%	10.7%
Stockholders' equity per share	15.71	13.52	11.88	10.47	9.24
Shares outstanding (in 000's)	5,112	5,016	4,850	4,758	4,517
Number of employees	1,504	1,535	1,320	1,254	I,202

Sales and cost of sales have been adjusted to record shipping fees in sales in accordance with EITF 00-10 (See Note A). Freight billings were previously included in cost of sales. Gross profit and net income amounts previously reported are not affected.

Net income per share is based on weighted average shares outstanding; stockholders' equity per share is based on shares outstanding at year end. Shares outstanding and per share amounts have been retroactively adjusted to reflect a three-for-two stock split effected on August 31,2001 (see Note A).

<sup>\*</sup> Fiscal 2000 included 53 weeks.

#### Overview

Courier Corporation, founded in 1824, is one of America's leading book manufacturers and specialty publishers. Courier's industry-leading financial performance, including five straight years of growth in sales and earnings, was achieved through a strong focus on growth markets, technological innovation and outstanding customer service.

The Company has three business segments: full-service book manufacturing, customized education and specialty publishing.

Book Manufacturing — streamlines the process of bringing books from the point of creation to the point of use. Courier is the fifth largest book manufacturer in the United States and largest in the Northeast, offering services from content management, prepress and production through storage and distribution. Courier's principal markets include religious, educational and specialty trade books.

Customized Education — operates businesses that respond to the need for greater choice in education. Courier Custom Publishing offers solutions that enable educators to provide students with customized teaching materials from multi-publisher custom books to out-of-print book reproductions and self-published books. The Home School, which Courier sold in March 2001, was a direct marketer of educational materials to families engaged in educating children at home and was included in the customized education segment prior to its sale.

Specialty Publishing — consists of Dover Publications, acquired by Courier on September 22, 2000. Dover publishes over 7,500 titles in more than 30 specialty categories ranging from literature and poetry classics to paper dolls, and from musical scores to typographical fonts. Dover sells its products through most American bookstore chains, independent booksellers, children's stores, craft stores and gift shops, as well as a diverse range of distributors around the world. Dover also sells its books directly to customers through its specialty catalogs and over the internet at www.doverpublications.com.

Sales by Segment: (in thousands)	2001	2000	1999
Book Manufacturing	\$181,233	\$188,865	\$164,037
Customized Education	1,488	3,361	2,805
Specialty Publishing	33,259	_	_
Intersegment sales	(4,037)	_	_
Total	\$211,943	\$192,226	\$166,842

### Results of Operations

Sales in fiscal 2001 increased 10% to \$211.9 million compared to \$192.2 million in fiscal 2000. Fiscal 2000 included 53 weeks compared to 52 weeks in fiscal 2001. The fiscal 2001 sales increase was 12% if fiscal 2000 is adjusted to a comparable 52-week period. The sales increase in fiscal 2001 was the result of the acquisition of Dover on September 22, 2000. Dover's sales in 2001 were \$33.3 million. Intersegment sales from the book manufacturing segment to Dover of \$4 million in 2001 were eliminated from consolidated sales. Book manufacturing sales in 2001 decreased 4% to \$181.2 million from \$188.9 million last year. Adjusting for the additional week in fiscal 2000 sales for the segment decreased by approximately 2% in 2001. Sales to the specialty trade market fell 17% below last year due to weakness in consumer demand for books on subjects such as computer games, technology, investing, and general business. Meanwhile, sales to educational publishers increased by 4% in 2001, particularly from strong sales of elementary and high school books, which offset softness in sales of college texts. Sales to the religious market increased 9% over the prior year. Customized education segment sales of \$1.5 million in 2001 decreased by \$1.9 million from fiscal 2000 due to the March 2001 sale of The Home School. Sales for Courier Custom Publishing, the Company's college coursepack business, increased 10% over fiscal 2000. Courier's sales in fiscal 2000 increased 15% to \$192.2 million compared to \$166.8 million in fiscal 1999. Fiscal 2000 included 53 weeks compared to 52 weeks in 1999. Sales from Courier's book manufacturing segment were up 15% in fiscal 2000 due to increased sales in all three of our target markets - educational, religious and specialty trade - and because of the extra week. Courier's customized education segment sales grew by 20% in fiscal 2000 to \$3.4 million due to increases at both The Home School and Courier Custom Publishing.

In July, 2000, the emerging issues task force (EITF) of the Financial Accounting Standards Board reached a consensus on Issue OO-IO, "Accounting for Shipping and Handling Fees and Costs." The Company adopted the provisions of EITF OO-IO for the fiscal year ended September 29, 2001 requiring shipping and handling fees to be classified as revenue. Results of prior years have been reclassified to conform with the fiscal 2001 presentation. The impact of this adoption was to increase sales and cost of sales by \$3.8 million, \$3.9 million and \$2.9 million in fiscal 2001, 2000, and 1999, respectively. This accounting change had no impact on Courier's earnings.

Gross profit in fiscal 2001 increased by \$13.3 million, or 28% and, as a percentage of sales, increased to 29% from 25% in fiscal 2000. The increases were primarily the result of the acquisition of Dover. Dover's gross profit in 2001 was \$15 million and, as a percentage of sales, was 46%, which was significantly higher than the Company's other segments. In Courier's book manufacturing segment, the gross margin was comparable to the prior year, despite the drop in sales. Aggressive cost controls, increased productivity levels and lower paper costs offset a drop in recycling income, as well as higher energy costs, health insurance and depreciation expense. Gross profit in fiscal 2000 increased by \$7.3 million, or 18% and, as a percentage of sales, increased to 25% from 24% in 1999.

The improvement in gross profit in fiscal 2000 resulted from increased sales volume combined with productivity gains from investments in capital equipment and increased recycling income.

Selling and administrative expenses increased to \$39.2 million in fiscal 2001 from \$31.4 million in fiscal 2000, and, as a percentage of sales, increased to 18% in 2001 from 16% in 2000. Dover's selling and administrative expenses were \$11 million in 2001 or 33% of their sales, which is a much higher percentage than the rest of Courier's business, in part due to Dover's consumer and retail catalog marketing operations. Selling and administrative expenses in the book manufacturing segment were down 3% in 2001 and, at 15% of sales were comparable to last year. Selling and administrative expenses in the customized education segment were down \$2.3 million in 2001 primarily from the disposition of The Home School in March 2001. Selling and administrative expenses in fiscal 2000 increased to \$31.4 million from \$27.1 million in fiscal 1999, remaining at 16% as a percentage of sales. The increase in selling and administrative expenses resulted primarily from the extra week in fiscal 2000 and from expenses that relate directly to the increase in overall profitability.

Amortization of goodwill and other intangibles increased to \$1.5 million in fiscal 2001 from \$0.7 million in fiscal 2000 and fiscal 1999 due to additional goodwill amortization related to the acquisition of Dover in September 2000. In fiscal 2002, amortization of goodwill and certain other intangibles will be eliminated as a result of the adoption of a new accounting method for goodwill described below.

Interest expense in fiscal 2001 was \$1.9 million compared to \$0.3 million in fiscal 2000 due to an increase in average borrowings of approximately \$27 million, resulting from the acquisition of Dover for \$39 million in cash financed by the Company's revolving credit facility. During 2001, borrowings of \$15 million were repaid using cash generated from operations. Interest expense in fiscal 2000 was \$0.2 million lower than fiscal 1999, reflecting a reduction in average borrowings in 2000 of approximately \$1.3 million. Capitalized interest related to new equipment was approximately \$0.2 million in fiscal 2001 and \$0.1 million in fiscal 2000.

Other income in fiscal 2001 is comprised of a pretax gain of approximately \$0.3 million from the sale of The Home School. In addition, during fiscal 2001 the Company completed the sale of a facility in Raymond, New Hampshire. In February 2000, the Company entered into a lease agreement for this facility, which had been vacant. The lease provided for a purchase option at a price of \$1.3 million. The option was exercised in August 2000 and the transaction closed in October 2000, resulting in a pretax gain of approximately \$0.9 million. Other income also includes net rental income from this facility of \$49,000 in fiscal 2001 and \$119,000 in fiscal 2000.

The Company's effective tax rate for fiscal 2001 was 34% which was higher than the 33% rate for fiscal 2000 due, in part, to increased profitability in fiscal 2001 taxed at a higher statutory federal tax rate. In fiscal 2000, the effective tax rate was 33%, the same rate as 1999.

Income (loss) by segment: (in thousands)	2001	2000	1999
Book Manufacturing	\$ 18,691	\$19,066	\$ 15,155
Customized Education	(848)	(3,299)	(2,598)
Specialty Publishing	1,425	_	_
Other income	1,230	119	_
Intersegment eliminations	(464)	_	_
Income before taxes.	20,034	15,886	12,557
Provision for income taxes	6,817	5,249	4,181
Net income	\$13,217	\$10,637	\$8,376

Net income for fiscal 2001 was \$13.2 million, or \$2.54 per diluted share, compared with \$10.6 million, or \$2.10 per diluted share, for fiscal 2000. Fiscal 2001 included after-tax gains totaling \$750,000 or \$.14 per diluted share from the sale of real estate (\$.10 per diluted share) and the sale of The Home School (\$.04 per diluted share). Excluding these gains, net income in fiscal 2001 was \$12.5 million, up 17% over the prior year, and net income per diluted share was \$2.40, an increase of 14% over last year. Pretax earnings from the Company's book manufacturing segment in 2001 decreased 2% to \$18.7 million from \$19.1 million in the prior year. Pretax earnings from the specialty publishing segment, established in fiscal 2001 with the acquisition of Dover, were \$1.4 million. The customized education segment reduced its pretax loss to \$0.8 million, or \$.11 per diluted share in fiscal 2001, from a pretax loss of \$3.3 million, or \$.43 per diluted share, in fiscal 2000, primarily due to the disposition of The Home School. For fiscal 2000, net income was \$10.6 million, an increase of 27% over net income in fiscal 1999 of \$8.4 million. Net income per share on a diluted basis was up 25% to \$2.10 per share from \$1.68 per share in fiscal 1999. Pretax earnings from the Company's book manufacturing segment increased 26% in fiscal 2000 to \$19.1 million from \$15.2 million in the prior year. The customized education segment incurred a pretax loss of \$3.3 million, or \$.43 per diluted share in fiscal 2000 compared to a pretax loss of \$2.6 million, or \$.34 per diluted share in fiscal 1999. Results for fiscal 2000 in the customized education segment include a \$350,000 pretax charge, or \$.05 per diluted share, for the planned closure of The Home School's retail store.

For purposes of computing net income per diluted share, weighted average shares outstanding increased by approximately 139,000 shares in fiscal 2001 and 81,000 shares in fiscal 2000. These increases were primarily due to options exercised and shares

issued under the Company's stock plans and the impact of potentially dilutive shares. On August 31, 2001, the Company distributed a three-for-two stock split effected in the form of a 50% dividend. Weighted average shares outstanding and net income per share amounts have been restated to give effect to the stock split.

#### Liquidity and Capital Resources

In fiscal 2001, operating activities provided approximately \$28.1 million of cash. Net income for the year was \$13.2 million and depreciation and amortization was \$11.8 million, including \$1.4 million for amortization of goodwill and \$1.5 million for amortization of prepublication costs. Working capital reductions provided approximately \$4.9 million of cash in 2001, primarily from decreases of approximately \$5.5 million in accounts receivable and \$5.3 million in inventories, offset by a decrease in accounts payable of approximately \$5.6 million.

Investment activities in 2001 used approximately \$12.1 million in cash. Capital expenditures were approximately \$12.8 million, primarily for a new press for the religious market and factory automation equipment to improve productivity and service levels. Prepublication costs at Dover were approximately \$1.4 million in 2001. Proceeds from the March 2001 sale of the assets of The Home School were approximately \$0.8 million, while proceeds from the October 2000 sale of the Raymond, NH facility were \$1.3 million. The Company entered into an agreement in January 2000 to sell the unoccupied and underutilized portions of its multi-building manufacturing complex in Westford, MA. In April 2001, the buyer failed to meet certain performance requirements of the agreement, and by its terms, the agreement expired. The Company is currently evaluating its options regarding this property. For fiscal 2002, capital expenditures are expected to drop to approximately \$9 million and prepublication costs are anticipated to increase slightly to approximately \$1.6 million.

Financing activities for fiscal 2001 used approximately \$16.3 million of cash. Approximately \$15.1 million of cash was used to pay down debt. At September 29, 2001, borrowings under the Company's \$60 million long-term revolving credit facility were \$15.8 million. This revolving credit facility matures in March 2004. Dividend payments were \$1.8 million and proceeds from stock plans were \$0.6 million, primarily from the exercise of stock options. The Company believes that its cash from operations and available credit facilities will be sufficient to meet its cash requirements through fiscal 2002.

#### New Accounting Pronouncements

Effective October I, 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS No. 137 in June 1999 and SFAS No. 138 in June 2000); the adoption did not have a material effect on the Company's consolidated financial statements. The Securities and Exchange Commission has issued Staff Accounting Bulletin (SAB) No. 101 ("Revenue Recognition in Financial Statements"), that was implemented

by the Company in the fourth quarter of the Company's fiscal year ending September 29, 2001. The adoption of this SAB did not have a material effect on the Company's consolidated financial statements.

In June 2001, The Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill and other intangible assets from an amortization method to an impairment-only approach. The Company will adopt SFAS No. 142 effective at the beginning of its fiscal year ending September 28, 2002. The Company does not anticipate that the adoption of SFAS No. 142 will change the nature or carrying amounts of its intangible assets. If these rules had applied to goodwill for fiscal 2001, the result would have been to increase fiscal 2001 pretax income by approximately \$1.4 million and net income by approximately \$1.0 million, or \$.20 per diluted share.

### Risks

The Company derived approximately 38% of its fiscal 2001 revenues from two major customers. The loss of either of these customers or a significant reduction in order volumes from them would have a material adverse effect on the Company.

# Forward Looking Information

The Annual Report to shareholders includes forward-looking statements. Statements that describe future expectations, plans or strategies are considered "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission. The words "believe," "expect," "anticipate," "intend," "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those currently anticipated. Factors that could affect actual results include, among others, changes in customers' demand for the Company's products, including seasonal changes in customer orders, changes in raw material costs, pricing actions by competitors, consolidation among customers and competitors, success in the integration of acquired businesses, unanticipated changes in operating expenses, changes in technology, and general changes in economic conditions. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements will prove to be accurate. The forward-looking statements included herein are made as of the date hereof, and the Company undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances.

# CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended	September 29, 2001	September 30, 2000	September 25, 1999
Net sales (Note A)	\$211,943,000	\$192,226,000	\$166,842,000
Cost of sales	150,572,000	144,132,000	126,035,000
Gross profit	61,371,000	48,094,000	40,807,000
Selling and administrative			
expenses	39,202,000	31,351,000	27,065,000
Amortization of goodwill			
and other intangibles	1,466,000	651,000	661,000
Interest expense	1,899,000	325,000	524,000
Other (income) expense			
(Note J)	(1,230,000)	(119,000)	
Income before taxes	20,034,000	15,886,000	12,557,000
Provision for income taxes			
(Note C)	6,817,000	5,249,000	4,181,000
Net income	\$ 13,217,000	\$ 10,637,000	\$ 8,376,000
Net income per share			
(Notes A and K):			
Basic	\$ 2.61	\$ 2.16	\$ 1.74
Diluted	\$2.54	\$2.10	\$1.68
Cash dividends declared			
per share	\$0.36	\$0.32	\$0.28

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

	September 29, 2001	September 30, 2000
Assets		
Current assets:		
Cash and cash equivalents (Note A)	\$ 173,000	\$ 562,000
Accounts receivable, less allowance		
for uncollectible accounts of \$1,964,000		
in 2001 and \$1,391,000 in 2000 (Note A)	33,806,000	39,336,000
Inventories (Note B)	22,140,000	27,421,000
Deferred income taxes (Note C)	2,837,000	2,543,000
Other current assets	753,000	1,016,000
Total current assets	59,709,000	70,878,000
Property, plant and equipment (Notes A and D):		
Land	1,059,000	1,059,000
Buildings and improvements	22,007,000	20,812,000
Favorable building lease	2,816,000	2,816,000
Machinery and equipment	103,205,000	93,392,000
Furniture and fixtures	1,561,000	1,512,000
Construction in progress	2,289,000	2,850,000
	132,937,000	122,441,000
Less: Accumulated depreciation		
and amortization	(88,005,000)	(81,427,000)
Property, plant and equipment, net	44,932,000	41,014,000
Real estate held for sale or lease, net (Note J) Goodwill and other intangibles, net	_	323,000
(Notes A and H)	25,498,000	26,040,000
Prepublication costs (Note A)	2,904,000	2,949,000
Other assets	572,000	562,000
Total assets	\$133,615,000	\$141,766,000

 $\label{thm:companying} \textit{The accompanying notes are an integral part of the consolidated financial statements}.$ 

	September 29, 2001	September 30, 2000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt		
(Notes A and D)	\$ 76,000	\$ 366,000
Accounts payable (Note A)	11,933,000	17,548,000
Accrued payroll	6,139,000	7,126,000
Accrued taxes	6,092,000	5,303,000
Other current liabilities	6,789,000	7,188,000
Total current liabilities	31,029,000	37,531,000
Long-term debt (Notes A and D)	16,501,000	31,327,000
Deferred income taxes (Note C)	2,801,000	2,428,000
Other liabilities	2,959,000	2,709,000
Total liabilities	53,290,000	73,995,000
Commitments and contingencies (Note E)		
Stockholders' equity (Notes A and F):		
Preferred stock, \$1 par value—authorized		
1,000,000 shares; none issued		
Common stock, \$1 par value—authorized		
6,000,000 shares; issued 5,445,000 shares		
in 2001 and 3,750,000 shares in 2000	5,445,000	3,750,000
Additional paid-in capital	1,454,000	2,283,000
Retained earnings	76,944,000	65,551,000
Unearned compensation	(510,000)	(513,000)
Treasury stock, at cost: 333,000 shares		
in 2001 and 406,000 shares in 2000	(3,008,000)	(3,300,000)
Total stockholders' equity	80,325,000	67,771,000
Total liabilities and		
stockholders' equity	\$133,615,000	\$141,766,000

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# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended	September 29,2001	September 30, 2000	September 25, 1999
Operating Activities:			
Net income	\$13,217,000	\$10,637,000	\$8,376,000
Adjustments to reconcile net income to cash provided			
from operating activities:			
Depreciation and amortization	11,796,000	8,062,000	8,282,000
Deferred income taxes (Note C)	79,000	(893,000)	(456,000)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	5,530,000	(2,639,000)	(3,447,000)
Inventory	5,281,000	(1,300,000)	(1,404,000)
Accounts payable	(5,615,000)	5,298,000	2,350,000
Accrued taxes	789,000	(31,000)	227,000
Other elements of working capital	(1,123,000)	2,829,000	(245,000)
Other, net	(1,862,000)	557,000	687,000
Cash provided from operating activities	28,092,000	22,520,000	14,370,000
Investment Activities:			
Business acquisitions, net of cash (Note H)	_	(38,571,000)	_
Capital expenditures	(12,841,000)	(16,347,000)	(4,999,000)
Prepublication costs (Note A)	(1,415,000)	_	_
Proceeds from sale of assets (Note J)	2,124,000	_	_
Cash used for investment activities	(12,132,000)	(54,918,000)	(4,999,000)
Financing Activities:			
Scheduled long-term debt repayments	(366,000)	(338,000)	(312,000)
Borrowings (repayments) of revolving credit facility, net	(14,750,000)	30,500,000	(5,250,000)
Cash dividends	(1,824,000)	(1,572,000)	(1,354,000)
Stock repurchases		(114,000)	(455,000)
Proceeds from stock plans	591,000	1,024,000	738,000
Cash provided from (used for) financing activities	(16,349,000)	29,500,000	(6,633,000)
Increase (decrease) in cash and cash equivalents	(389,000)	(2,898,000)	2,738,000
Cash and cash equivalents at the beginning of the period	562,000	3,460,000	722,000
Cash and cash equivalents at the end of the period	\$ 173,000	\$ 562,000	\$3,460,000
Supplemental cash flow information:			
Interest paid	\$ 1,888,000	\$ 311,000	\$ 396,000
Income taxes paid (net of receipts)	\$ 5,413,000	\$ 6,177,000	\$3,939,000

The accompanying notes are an integral part of the consolidated financial statements.

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# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

IN STOCKHOLDERS EQUITY	Total Stockholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Treasury Stock
Balance, September 26, 1998	\$49,790,000	\$3,750,000	\$ 384,000	\$49,464,000	_	\$(3,808,000)
Net income	8,376,000	_	_	8,376,000	_	_
Cash dividends	(1,354,000)	_	_	(1,354,000)	_	_
Stock repurchase	(455,000)	_	_	_	_	(455,000)
Stock plan activity	1,202,000	_	874,000	_	_	328,000
Balance, September 25, 1999	57,559,000	3,750,000	1,258,000	56,486,000	_	(3,935,000)
Net income	10,637,000	_	_	10,637,000	_	_
Cash dividends	(1,572,000)	_	_	(1,572,000)	_	_
Stock repurchase	(114,000)	_	_	_	_	(114,000)
Restricted stock grant/amortization activity, net	45,000	_	386,000	_	(513,000)	172,000
Other stock plan activity	1,216,000	_	639,000	_	_	577,000
Balance, September 30, 2000	67,771,000	3,750,000	2,283,000	65,551,000	(513,000)	(3,300,000)
Net income	13,217,000	_	_	13,217,000	_	_
Cash dividends	(1,824,000)	_	_	(1,824,000)	_	_
Stock dividend (Note A)	_	1,695,000	(1,695,000)	_	_	_
Restricted stock grant/amortization activity, net	III,000	_	64,000	_	3,000	44,000
Other stock plan activity	1,050,000	_	802,000	_	_	248,000
Balance, September 29, 2001	\$80,325,000	\$5,445,000	\$1,454,000	\$ 76,944,000	\$(510,000)	\$(3,008,000)

The accompanying notes are an integral part of the consolidated financial statements.

# A. Summary of Significant Accounting Policies

Business: Courier Corporation and its subsidiaries ("Courier" or the "Company") are focused on streamlining and enhancing the process by which printed books and digital content reach end-user markets, primarily for educational, religious, and specialty book publishers. Courier has three business segments: full-service book manufacturing, customized education and, beginning in fiscal 2001 with the acquisition of Dover Publications, Inc. ("Dover"), specialty publishing (see Note H).

Principles of Consolidation and Presentation: The consolidated financial statements, prepared on a fiscal year basis, include the accounts of Courier Corporation and its subsidiaries after elimination of all significant intercompany transactions. Such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require the use of certain estimates and assumptions. Fiscal years 2001 and 1999 were 52-week periods compared with fiscal year 2000 which was a 53-week period. Certain amounts for fiscal years 2000 and 1999 have been reclassified in the accompanying financial statements in order to conform to the current year's classification.

Financial Instruments: Financial instruments consist primarily of cash, accounts receivable, accounts payable and debt obligations. The Company classifies as cash and cash equivalents amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase. The Company estimates the fair value of financial instruments based on interest rates available to the Company and by comparison to quoted market prices. At September 29, 2001 and September 30, 2000, the fair market value of the Company's financial instruments approximated their carrying values.

Property, Plant and Equipment: Property, plant and equipment are recorded at cost, including interest on funds borrowed to finance the acquisition or construction of major capital additions. Interest capitalized in fiscal years 2001 and 2000 was approximately \$170,000 and \$102,000, respectively. No interest was capitalized in fiscal year 1999. The Company provides for depreciation of property, plant and equipment on a straight-line basis over periods ranging from 3 to 11 years, except for depreciation on buildings and improvements which is based on estimated useful lives ranging from 10 to 40 years.

Leasehold improvements and a favorable building lease are amortized on a straightline basis over the shorter of their useful life or the term of the lease. Expenditures for maintenance and repairs are charged against income as incurred; betterments that increase the value or materially extend the life of the related assets are capitalized. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Goodwill: Goodwill arising from business acquisitions is amortized using the straight-line method over 20 years. Amortization expense was approximately \$1,411,000 for fiscal year 2001 and approximately \$596,000 for both fiscal years 2000 and 1999. The Company continues to carry goodwill of approximately \$1.2 million

arising from the purchase of a company prior to October 31, 1970; such amount is not being amortized because management believes that the value has not diminished.

On June 30, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment-only approach. The Company will adopt SFAS No. 142 effective at the beginning of its fiscal year ending September 28, 2002. The Company does not anticipate that it will change the nature or carrying amounts of its intangible assets as a result of adopting this standard. If these rules had applied to goodwill for fiscal 2001, the result would have been to increase fiscal 2001 pretax income by approximately \$1.4 million and net income by approximately \$1.0 million, or \$.20 per diluted share.

Long-Lived Assets: Management periodically reviews long-lived assets for impairment and does not believe that there is any material impairment of any asset of the Company as measured in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

*Prepublication Costs:* Prepublication costs, associated with the specialty publishing segment, are amortized using the straight-line method over an estimated useful life of four years.

Income Taxes: Deferred income tax liabilities and assets are determined based upon the differences between the financial statement and tax bases of assets and liabilities, and are measured by applying enacted tax rates and laws for the taxable years in which these differences are expected to reverse.

Revenue Recognition: Revenue is recognized upon shipment of goods to customers or upon the transfer of ownership for those customers whom the Company provides manufacturing and distribution services. Revenue for distribution services is recognized as services are provided.

Shipping and Handling Fees: In July 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF 00-10 requires companies to classify as revenues shipping and handling fees billed to customers. Previously, such revenues, and related expenses, were included in cost of sales. All periods presented in the accompanying financial statements have been reclassified to conform to the current year presentation. The adoption of this standard increased net sales and cost of sales by approximately \$3.8 million, \$3.9 million and \$2.9 million for 2001, 2000 and 1999, respectively, and thus had no impact on reported earnings.

Use of Estimates: The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results may differ from these estimates.

Net Income per Share: Basic net income per share is based on the weighted average number of common shares outstanding each period. Diluted net income per share also includes potentially dilutive items such as options (see Note K).

Stock Split: On August 31, 2001, the Company distributed a three-for-two stock split effected in the form of a 50% stock dividend, except for treasury shares. Previously authorized but unissued shares were used to effect this dividend. Weighted average shares outstanding and per share amounts for periods prior to August 31, 2001 presented in the accompanying financial statements have been restated to give effect to the stock split.

Treasury Stock: The Company has historically used treasury stock for stock options exercised and stock grants and intends to continue to use treasury stock for such purposes.

New Accounting Pronouncements: Effective October I, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS No. 137 in June 1999 and SFAS No. 138 in June 2000); the adoption did not have a material effect on the Company's consolidated financial statements. The Securities and Exchange Commission has issued Staff Accounting Bulletin (SAB) No. 101 ("Revenue Recognition in Financial Statements"), that was implemented by the Company in the fourth quarter of the Company's fiscal year ending September 29, 2001. The adoption of this SAB did not have a material effect on the Company's consolidated financial statements.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," which was discussed above under "Goodwill." SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001.

### B. Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the lastin, first-out (LIFO) method for approximately 39% and 47% of the Company's inventories at September 29, 2001 and September 30, 2000, respectively. Other inventories are determined on a first-in, first-out (FIFO) basis.

	2001	2000
Raw materials Work in process Finished goods	\$ 2,573,000 5,743,000 13,824,000	\$ 3,619,000 8,018,000 15,784,000
Total	\$22,140,000	\$27,421,000

On a FIFO basis, reported year-end inventories would have been higher by \$5.8 million in fiscal 2001 and \$5.9 million in fiscal 2000.

# C. Income Taxes

The provision for income taxes differs from that computed using the statutory federal income tax rates for the following reasons:

	2001	2000	1999
Federal taxes at statutory rates	\$6,942,000	\$5,430,000	\$4,269,000
State taxes, net of federal			
tax benefit	401,000	474,000	397,000
Foreign sales corporation (FSC)			
export related income	(710,000)	(643,000)	(499,000)
Other	184,000	(12,000)	14,000
Total	\$ 6,817,000	\$5,249,000	\$ 4,181,000

The provision for income taxes consisted of the following:

	2001	2000	1999
Currently payable:			
Federal	\$6,017,000	\$5,353,000	\$3,972,000
State	721,000	789,000	665,000
	6,738,000	6,142,000	4,637,000
Deferred:			
Federal	193,000	(822,000)	(392,000)
State	(114,000)	(71,000)	(64,000)
	79,000	(893,000)	(456,000)
Total	\$6,817,000	\$5,249,000	\$ 4,181,000

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of September 29, 2001 and September 30, 2000:

	2001	2000
Deferred tax assets:		
Vacation accrual not currently deductible	\$ 620,000	\$ 589,000
Other accruals not currently deductible	632,000	567,000
Non-deductible reserves	1,571,000	1,364,000
Other	14,000	23,000
Classified as current	2,837,000	2,543,000
Deferred compensation arrangements	1,142,000	1,059,000
Other	253,000	232,000
Total deferred tax assets	\$4,232,000	\$3,834,000
Defended by the transfer		
Deferred tax liabilities:	0.0	
Accelerated depreciation	4,088,000	3,719,000
Goodwill amortization	108,000	_
Total deferred tax liabilities	\$4,196,000	\$ 3,719,000

Non-current deferred tax assets have been netted against non-current deferred tax liabilities for balance sheet classification purposes.

# D. Long-Term Debt

Long-term debt consisted of the following:

	2001	2000
Obligation under revolving bank credit facility at 3.88% as of September 29, 2001 Obligation under industrial development bond arrangement at 3%, payable in monthly	\$15,750,000	\$30,500,000
installments through May 2011	827,000	901,000
9.5% secured promissory note	_	292,000
Less: Current maturities	16,577,000 76,000	31,693,000 366,000
Total	\$16,501,000	\$ 31,327,000

Scheduled aggregate principal payments of long-term debt are \$76,000 in fiscal 2002, \$78,000 in fiscal 2003, \$15,830,000 in fiscal 2004, \$83,000 in fiscal 2005, \$85,000 in fiscal 2006 and \$425,000 thereafter.

The Company has a \$60 million long-term revolving credit facility in place under which the Company can borrow at a rate not to exceed LIBOR plus 1.5%. The revolving credit facility matures in March 2004 and borrowings of \$15,750,000 are included in scheduled aggregate principal payments due in 2004. The Company has not had any short-term borrowings during the three fiscal years ended September 29, 2001.

The revolving credit facility contains restrictive covenants including provisions relating to the maintenance of working capital, the level of capital expenditures, the incurring of additional indebtedness and a quarterly test of EBITDA to debt service. It also provides for a commitment fee not to exceed 3/8% per annum on the unused portion. The industrial bond arrangement provides for a lien on the assets acquired with the proceeds.

# E. Commitments and Contingencies

The Company is committed under various operating leases to make annual rental payments for certain buildings and equipment. Amounts charged to operations under such leases approximated \$5,239,000 in fiscal 2001, \$3,956,000 in fiscal 2000 and \$3,553,000 in fiscal 1999. As of September 29, 2001, minimum annual rental commitments under the Company's long-term operating leases are approximately \$3,785,000 in fiscal 2002, \$3,182,000 in fiscal 2003, \$2,874,000 in fiscal 2004, \$2,075,000 in fiscal 2005 and \$2,571,000 in the aggregate thereafter. The Company leases one of its facilities from a corporation owned in part by an executive of the Company. The lease agreement requires annual payments of approximately \$216,000 over the initial term of July 1997 through July 2002. At September 29, 2001 and September 30, 2000, the Company had letters of credit outstanding of \$909,000 and \$542,000, respectively.

In the ordinary course of business, the Company is subject to various legal proceedings and claims. The Company believes that the ultimate outcome of these matters will not have a material adverse effect on its consolidated financial statements.

# F. Stock Arrangements

Stock Option/Incentive Plans: The Courier Corporation 1993 Stock Incentive Plan, as amended and restated, replaced the expiring 1983 Stock Option Plan. In January 2001, stockholders approved an amendment to the plan which provided an increase in the number of shares available for the granting of stock options and stock grants under the plan by 150,000 to a total of 817,500 shares. Under the provisions of each plan, both non-qualified and incentive stock options to purchase shares of the Company's common stock may be granted to key employees. The option price per share may not be less than the fair market value of stock at the time the option is granted and incentive stock options must expire not later than ten years from the date of grant. During fiscal years 2001 and 2000, 5,000 and 27,000 shares, respectively, of restricted stock were granted which vest over a four-year period. Amortization expense relating to the fiscal years 2001 and 2000 stock grants was \$111,000 and \$45,000, respectively.

Directors' Option Plan: A 1989 plan, as amended and restated, allows members of the Company's Board of Directors to make an election to apply either 50% or 100% of their annual retainer fee, including the committee chair retainer, toward the annual grant of stock options to be offered at a price per share \$5 below the fair market value of the Company's common stock at the time the option is granted. Retainer fees for fiscal 2001 amounted to \$16,000 per director; in addition, the three committee chair fees amounted to a total of \$17,000 for fiscal 2001. The plan, as approved by stockholders, provides a total of 375,000 shares for the issuance of such options.

The following is a summary of all option activity for these plans:

	Stock Option/Incentive Plans		Directors' Option Plan	
	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding at September 26, 1998	398,336	\$ 8.26	66,600	\$ 6.48
Issued	7,500	15.83	27,000	10.50
Exercised	(88,994)	7.09	(30,900)	6.98
Cancelled	_	_	_	_
Outstanding at September 25, 1999	316,842	\$ 8.77	62,700	\$ 7.96
Issued	118,200	17.92	30,150	12.76
Exercised	(105,123)	6.95	(19,050)	9.57
Cancelled	(11,874)	14.24	_	_
Outstanding at September 30, 2000	318,045	\$12.56	73,800	\$9.51
Issued	61,225	21.92	30,099	15.89
Exercised	(70,393)	7.49	(12,450)	6.58
Cancelled	(8,880)	17.55	(17,499)	10.57
Outstanding at September 29, 2001	299,997	\$15.52	73,950	\$12.35
Exercisable at September 29, 2001	167,172	\$12.17	73,950	\$12.35
Available for future grants	198,643		123,000	

The following tables present information with regards to stock options outstanding at September 29, 2001:

	Stock Option/Incentive Plans			
		\$ 6.33-	\$10.39-	\$15.83-
Range of Exercise Prices	\$ 3.11	\$ 9.45	\$15.22	\$23.73
Options outstanding	6,750	59,222	61,275	172,750
Weighted average exercise price				
of options outstanding	\$ 3.11	\$ 8.27	\$13.20	\$19.31
Weighted average remaining life	I.2 years	2 years	2.8 years	5.6 years
Options exercisable	6,750	59,222	60,275	40,925
Weighted average exercise price				
of options exercisable	\$ 3.11	\$ 8.27	\$13.17	\$17.83

	Directors' Option Plan
Range of Exercise Prices	\$7.15-\$15.89
Options outstanding	73,950
Weighted average exercise price of options outstanding	\$12.35
Weighted average remaining life	2.8 years
Options exercisable	73,950
Weighted average exercise price of options exercisable	\$12.35

Stock Grant Plan: The Company established a stock grant plan in 1977 entitling key employees to receive shares of common stock of the Company. Shares granted are either fully vested or vest over periods up to 5 years. The maximum number of shares of common stock that may be awarded under the stock grant plan is 298,125 and no more than 50,625 shares may be awarded in any one fiscal year. The numbers of shares granted under the plan were 6,000 in fiscal 2000 and 150 in fiscal 1999. No shares were granted under this plan in fiscal 2001. As of September 29, 2001, there were 1,242 shares available for future grants under the plan.

Employee Stock Purchase Plan: The Company's 1999 Employee Stock Purchase Plan ("ESPP"), approved by stockholders in January 1999 to replace the expiring 1989 ESPP, covers an aggregate of 150,000 shares of Company common stock for issuance under the plan. Eligible employees may purchase shares of Company common stock at not less than 85% of fair market value at the beginning or end of the grant period. During fiscal 2001, 16,892 shares were issued under the plan at an average price of \$16.57 per share. Since inception, 48,837 shares have been issued. At September 29, 2001, an additional 101,163 shares were reserved for future issuances.

Stockholders' Rights Plan: In March 1999, the Board of Directors adopted a ten-year stockholders' rights plan, replacing a plan which expired in October 1998. Under the plan, the Company's stockholders of record at March 19, 1999 received rights to purchase one one-thousandth of a share of preferred stock for each share of common stock held on that date. The rights are not exercisable, or transferable apart from the common stock, until certain events occur.

Pro forma Disclosures: The Company accounts for its stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Had compensation cost for grants under the ESPP and for stock options granted after 1995 been determined under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income would have been \$12,653,000, or \$2.43 per diluted share, for fiscal 2001; \$10,145,000, or \$2.01 per diluted share, for fiscal 2000; and \$8,026,000, or \$1.61 per diluted share, for fiscal 1999. The pro forma effect on net income and net income per diluted share for fiscal 2001, fiscal 2000 and fiscal 1999 is not representative of the pro forma effect on net

income in future years, because it does not take into consideration pro forma compensation expense related to options granted prior to fiscal 1996.

For purposes of pro forma disclosures, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The following key assumptions were used to value options issued:

	2001	2000	1999
Risk-free interest rate	4.5%	5.9%	6.3%
Expected volatility	34%	39%	42%
Expected dividend yields	1.7%	1.7%	1.7%
Estimated life for grants under:			
1993 Stock Incentive Plan	7 years	7 years	7 years
Directors' Option Plan	5 years	5 years	5 years
ESPP	0.5 years	0.5 years	0.5 years

For purposes of pro forma disclosure, following is a summary of the weighted average fair value per share of options granted during each of the past three fiscal years.

	1993 Stock Incentive Plan		Directors' Option Plan		n Plan	
On grant date:	2001	2000	1999	2001	2000	1999
Exercise price was equal						
to stock price	\$7.88	\$7.63	\$7.17	_	_	_
Exercise price was in						
excess of stock price	\$5.96	\$6.05	_	_	_	_
Exercise price was less						
than stock price	_	_	_	\$4.90	\$6.92	\$6.21

# G. Retirement Plans

The Company and its consolidated subsidiaries maintain various defined contribution retirement plans covering substantially all of its employees, except for Dover employees. Dover, acquired in September 2000 (see Note H), provides retirement benefits through a defined benefit plan as described below.

Retirement costs of multi-employer union plans consist of defined contributions determined in accordance with the respective collective bargaining agreements. Retirement benefits for non-union employees are provided through the Courier Profit Sharing and Savings Plan, which includes an Employee Stock Ownership Plan (ESOP). Retirement costs included in the accompanying financial statements amounted to approximately \$2,600,000 in fiscal 2001, \$2,500,000 in fiscal 2000 and \$2,330,000 in fiscal 1999.

The Courier Profit Sharing and Savings Plan is qualified under Section 40I(k) of the Internal Revenue Code. The plan allows eligible employees to contribute up to 100% of their compensation, subject to IRS limitations, with the Company matching 25% of the first 6% of pay contributed by the employee. The Company also makes contributions to the plan annually based on profits each year for the benefit of all eligible non-union employees.

Shares of Company common stock may be allocated to participants' ESOP accounts annually based on their compensation as defined in the plan. During fiscal years 2001, 2000 and 1999, no such shares were allocated to eligible participants. At September 29, 2001, the ESOP held 240,589 shares on behalf of the participants.

Dover has a noncontributory, defined benefit pension plan covering substantially all of its employees. The Company's funding policy for the plan is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as the Company may determine to be appropriate.

At September 30,2000, the projected benefit obligation was \$3,647,000 and the fair value of plan assets was \$3,471,000. Accordingly, the accrued pension obligation was \$176,000. The following tables provide information regarding the plan for the year ended September 29, 2001.

### Change in projected benefit obligation:

Obligation at beginning of year	\$3,647,000
Service cost	149,000
Interest cost	234,000
Actuarial (gain)	(177,000)
Benefits paid	(243,000)
Obligation at end of year	\$3,610,000

Change in plan assets:	
Fair value of plan assets at beginning of year Actual return on plan assets Employer contributions Benefits paid	\$3,471,000 406,000 82,000 (243,000)
Fair value of plan assets at end of year	\$3,716,000
Reconciliation of funded status:	
Funded status at end of year Unrecognized net actuarial (gain) and other	\$ 106,000 (260,000)
Accrued pension cost	\$ (154,000)
Components of the net periodic benefit cost:	
Service cost	\$ 149,000
Interest cost	234,000
Expected return on plan assets	(254,000)
Amortization of prior service cost	14,000
Net periodic benefit cost	\$ 143,000
Actuarial assumptions used to determine costs and benefit obligations 2001 and 2000:	
Discount rate	7.0%
Compensation increases	5.0%
Return on assets for the year	7.5%

# H. Business Acquisitions

On September 22, 2000, the Company acquired all of the outstanding capital stock of Dover Publications, Inc., a Mineola, New York publisher of special-interest books. The Company paid approximately \$39 million in cash to the former stockholders of Dover for their shares of capital stock. The acquisition was accounted for as a purchase and, accordingly, Dover's financial results have been included in the consolidated financial statements from the date of acquisition. The financial statements reflect the allocation of the purchase price to the assets acquired and liabilities assumed, based on their appraised fair value at the date of acquisition. The excess purchase price over the fair value of the net assets acquired amounted to \$17 million which has been accounted for as goodwill and is expected to be deductible for tax purposes. Approximately \$1 million of appraisal adjustments were recorded in 2001, increasing goodwill to \$17 million and decreasing the fair value initially assigned to the net assets acquired at September 22, 2000. The Company recorded approximately \$0.9 million of goodwill amortization in 2001 relating to the Dover acquisition. The Company will adopt SFAS No. 142, "Goodwill and Other Intangible Assets," effective with the beginning of fiscal 2002 (See Note A). SFAS No. 142 requires that goodwill no longer be amortized over its estimated useful life. Accordingly, the Company will cease to amortize goodwill.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Dover as if the acquisition had occurred at the beginning of fiscal 2000, with pro forma adjustments to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects.

(Unaudited) 2000

 Net sales
 \$220,182,000

 Net income
 10,881,000

 Net income per diluted share
 2.15

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the business combination been in effect at the beginning of fiscal 2000 or of future results of operations of the consolidated entities.

# I. Business Segments

The Company historically operated in one primary business segment, book manufacturing, with a second smaller business segment in customized education. On September 22, 2000, the Company acquired Dover Publications, Inc. (see Note H) which operates in a third segment, specialty publishing. Operating results of the specialty publishing segment are not included in the fiscal 2000 segment information because the results of operations for the period prior to September 30, 2000 were not significant.

The Company has aggregated its book manufacturing business into one segment because of strong similarities in the economic characteristics, the nature of products and services, production processes, class of customer and distribution methods used. The book-manufacturing segment offers a full range of services from production through storage and distribution for education, religious and specialty book publishers. The customized education segment responds to the demand for increased choice in the way educational information is received and used. Operations include Courier Custom Publishing, a provider of customized college coursepacks and textbooks and The Home School, a direct marketer of educational materials to families engaged in home-based learning. Substantially all of the assets of The Home School were sold in March 2001 and The Home School ceased operations.

The accounting policies of the segments are the same as those described in Note A. In evaluating segment performance, management primarily focuses on income or loss before taxes and other income. The elimination of intersegment sales and related profit represents sales from the book-manufacturing segment to the specialty publishing segment. Other income, discussed in Note J, is reflected as "unallocated" in the following table. Corporate expenses that are allocated to the segments include various support functions such as information technology services, finance, human resources and engineering, and include depreciation and amortization expense related to corporate assets. The corresponding corporate asset balances are not allocated to the segments. Unallocated corporate assets consist primarily of cash and cash equivalents and fixed assets used by the corporate support functions.

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# Notes to Consolidated Financial Statements

The following table provides segment information as required under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

	Total Company	Book Manufacturing	Specialty Publishing	Customized Education	Unallocated	Intersegment Elimination
Fiscal 2001						
Net sales	\$211,943,000	\$181,233,000	\$33,259,000	\$ 1,488,000	_	\$(4,037,000)
Earnings (loss) before income taxes	20,034,000	18,691,000	1,425,000	(848,000)	\$ 1,230,000	(464,000)
Assets	133,615,000	83,735,000	40,670,000	341,000	8,869,000	
Depreciation and amortization	11,796,000	8,990,000	2,690,000	116,000		
Capital expenditures	12,841,000	12,149,000	225,000	_	467,000	
Interest (income)/expense	1,899,000	(161,000)	2,060,000			
Fiscal 2000						
Net sales	\$192,226,000	\$188,865,000		\$ 3,361,000	_	
Earnings (loss) before income taxes	15,886,000	19,066,000		(3,299,000)	\$ 119,000	
Assets	141,766,000	88,748,000	\$ 41,577,000	848,000	10,593,000	
Depreciation and amortization	8,062,000	7,844,000		218,000	_	
Capital expenditures	16,347,000	15,665,000		13,000	669,000	
Interest expense	325,000	272,000		53,000	_	
Fiscal 1999						
Net sales	\$166,842,000	\$164,037,000		\$2,805,000	_	
Earnings (loss) before income taxes	12,557,000	15,155,000		(2,598,000)	_	
Assets	91,512,000	74,900,000		1,470,000	\$15,142,000	
Depreciation and amortization	8,282,000	7,988,000		294,000	_	
Capital expenditures	4,999,000	3,848,000		107,000	1,044,000	
Interest expense	524,000	445,000		79,000		

Export sales as a percentage of consolidated sales were approximately 19% in fiscal 2001 and 18% in both fiscal 2000 and fiscal 1999. Sales to the Company's largest customer amounted to approximately 25% of consolidated sales in fiscal 2001, 26% in fiscal 2000 and 27% in fiscal 1999. In addition, sales to another customer amounted to 13% of consolidated sales in fiscal 2001, 17% in fiscal 2000 and 15% in fiscal 1999. No other customer accounted for more than 10% of consolidated sales. Customers are granted credit on an unsecured basis.

# J. Other (Income) Expense

In March 2001, the Company sold substantially all of the assets of its subsidiary, The Home School, and ceased operating the business. The proceeds from the sale were \$0.8 million resulting in a pretax gain of approximately \$0.3 million, and an after-tax gain of approximately \$0.2 million, or \$0.04 per diluted share.

During fiscal 2001, the Company completed the sale of its Raymond, New Hampshire facility; such facility comprised the September 30, 2000 balance sheet caption "Real estate held for sale or lease, net". In February 2000, the Company entered into a five-year lease agreement for this facility, which had been vacant. The lease provided for a purchase option at a price of \$1.3 million. The option was exercised in August 2000 and the transaction closed in October 2000, resulting in a pretax gain of approximately \$0.9 million and an after-tax gain of approximately \$0.6 million, or \$.10 per diluted share. Other (income) expense also includes net rental income from this facility of \$49,000 in fiscal 2001 and \$119,000 in fiscal 2000.

# K. Net Income per Share

Following is a reconciliation of the shares used in the calculation of basic and diluted net income per share. Potentially dilutive shares, calculated using the treasury stock method, consist of shares issued under the Company's stock option plans. These shares have been adjusted to reflect a three-for-two stock split effected in the form of a dividend distributed on August 31, 2001 (see Note A).

	2001	2000	1999
Average shares outstanding for basic Effect of potentially dilutive	5,058,000	4,915,000	4,806,000
shares	140,000	144,000	172,000
Average shares outstanding			
for dilutive	5,198,000	5,059,000	4,978,000

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Courier Corporation, North Chelmsford, MA:

We have audited the accompanying consolidated balance sheets of Courier Corporation and subsidiaries ("the Company") as of September 29, 2001 and September 30, 2000, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 29, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 29, 2001 and September 30, 2000, and the results of its operations and its cash flows for each of the three years in the period ended September 29, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloute & Touchelle

Boston, Massachusetts November 8, 2001

# QUARTERLY DATA

# Quarterly Financial and Market Data (Unaudited)

s) First	Second	Third	Fourth
\$54,190	\$49,954	\$50,871	\$56,928
14,624	13,778	15,293	17,676
2,952	2,133	2,966	5,166
.57	.41	.57	.99
.09	.09	.09	.09
20.50	21.17	27.33	28.65
18.00	19.33	19.97	20.00
ts) First	Second	Third	Fourth*
\$46,044	\$45,410	\$48,259	\$52,513
11,084	11,543	12,159	13,308
2,169	2,351	2,517	3,600
.43	.47	.50	.70
.08	.08	.08	.08
16.42	16.67	17.83	20.50
14.25	14.83	15.42	18.00
	\$54,190 14,624 2,952 .57 .09 20.50 18.00 44,044 11,084 2,169 .43 .08 16.42	\$54,190 \$49,954 14,624 13,778 2,952 2,133 .57 .41 .09 .09  20.50 21.17 18.00 19.33  45 First Second  \$46,044 \$45,410 11,084 11,543 2,169 2,351 .43 .47 .08 .08  16.42 16.67	\$54,190 \$49,954 \$50,871 14,624 13,778 15,293 2,952 2,133 2,966 .57 .41 .57 .09 .09 .09  20.50 21.17 27.33 18.00 19.33 19.97  (s) First Second Third  \$46,044 \$45,410 \$48,259 11,084 11,543 12,159 2,169 2,351 2,517 .43 .47 .50 .08 .08  16.42 16.67 17.83

Sales and cost of sales have been adjusted to record freight billings in accordance with EITF 00-10 (See Note A). Freight billings were previously included in cost of sales. Gross profit and net income amounts previously reported are not affected.

Net income per share is based on weighted average shares outstanding. Per share amounts have been retroactively adjusted to reflect a three-for-two stock split effected on August 31, 2001 (see Note A).

Common shares of the Company are traded over-the-counter on the Nasdaq National Market - symbol "CRRC."

There were approximately 780 stockholders of record as of September 29, 2001.

<sup>\*</sup> Fourth Quarter of Fiscal 2000 included 14 weeks.

### OFFICERS AND DIRECTORS

# Corporate Officers

James F. Conway III Chairman, President and Chief Executive Officer

George Q. Nichols Senior Vice President

Robert P. Story, Jr. Senior Vice President and Chief Financial Officer

Lee E. Cochrane
Vice President and Treasurer

Peter R. Conway
Vice President

William A. Flavell Vice President

Peter M. Folger
Vice President and Controller

Gary S. Gluckow Vice President

David J. LaFauci Vice President

John W. Pugsley
Vice President

Diana L. Sawyer Vice President

Clarence C. Strowbridge Vice President

Peter D. Tobin
Vice President

Eric J. Zimmerman
Vice President

F. Beirne Lovely, Jr. Clerk and Secretary

# National Publishing Company

George Q. Nichols Chairman

William A. Flavell

John W. Pugsley
Executive Vice President

William L. Lampe, Jr. Treasurer

# Book-mart Press, Inc. Gary S. Gluckow President

Michelle S. Gluckow Executive Vice President

# Courier Companies, Inc.

Peter D. Tobin

Executive Vice President

Joseph L. Brennan
Vice President - Engineering

Anthony F. Caruso Vice President -Manufacturing

Peter A. Clifford Vice President -Production Services

Peter R. Conway Vice President - Sales

Stephen M. Franzino Vice President - Technology

# Dover Publications, Inc.

Clarence C. Strowbridge President

Paul Negri Senior Vice President

Frank Fontana

Vice President

Leonard Roland Vice President

### Directors

James F. Conway III Chairman, President and Chief Executive Officer

+\*△ Kathleen Foley Curley Senior Vice President and Chief Community Builder, Communispace Corp.

+\*△ Richard K. Donahue Vice Chairman of NIKE, Inc.

+\*△ Edward J. Hoff

Vice President, Learning

IBM Learning Center

+\*△ Arnold S. Lerner Vice Chairman, Enterprise Bank and Trust Co.

> George Q. Nichols Corporate Senior Vice President and Chairman of National Publishing Company

Robert P. Story, Jr. Senior Vice President and Chief Financial Officer

+\*△W. Nicholas Thorndike

Corporate Director and Trustee

- \* Member of Compensation and Management Development Committee
- △ Member of Audit and Finance Committee
- + Member of Nominating Committee

### CORPORATE INFORMATION

# Corporate Office

Courier Corporation
15 Wellman Avenue
North Chelmsford,
Massachusetts 01863
(978) 251-6000
www.courier.com

# Subsidiary Locations

Courier Companies, Inc. 15 Wellman Avenue North Chelmsford, Massachusetts 01863 (978) 251-6000

# Courier

Kendallville, Inc. 2500 Marion Drive Kendallville, Indiana 46755 (219) 349-6800

Courier Stoughton 200 Shuman Avenue Stoughton, Massachusetts 02072 (978) 251-6000

Courier Westford 22 Town Farm Road Westford, Massachusetts 01886 (978) 251-6000

# National Publishing Company

11311 Roosevelt Boulevard Philadelphia, Pennsylvania 19154 (215) 676–1863

Book-mart Press, Inc. 2001 Forty-Second Street North Bergen, New Jersey 07047 (201) 864-1887

Dover Publications, Inc. 31 East 2nd Street Mineola, New York 11501 (516) 294-7000

Courier Custom
Publishing, Inc.
15 Wellman Avenue
North Chelmsford,
Massachusetts 01863
(978) 251-6000

### Counsel

Goodwin Procter LLP

### Auditors

Deloitte & Touche LLP

# Transfer Agent and Registrar EquiServe Trust

Company, N.A.

### Common Shares

Traded over-the-counter on the Nasdaq National Market as "CRRC"

# Annual Meeting of Stockholders

The annual meeting will be held at the Boston University Corporate Education Center 72 Tyng Road Tyngsboro, Massachusetts on January 17, 2002

# Annual Report on Form 10-K

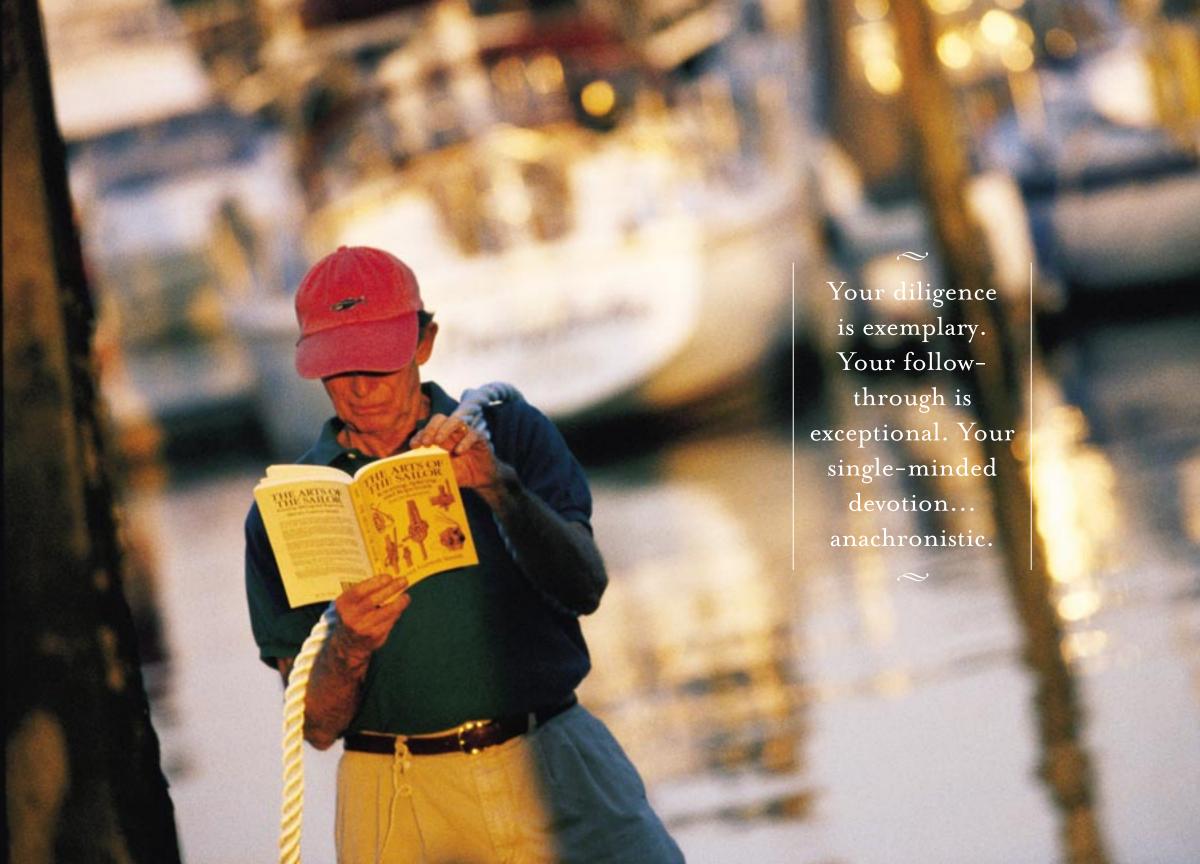
The Form 10-K filed with the Securities and Exchange Commission is available to stockholders and may be obtained without charge upon written request to:

Robert P. Story, Jr.
Senior Vice President and
Chief Financial Officer
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Massachusetts 01863
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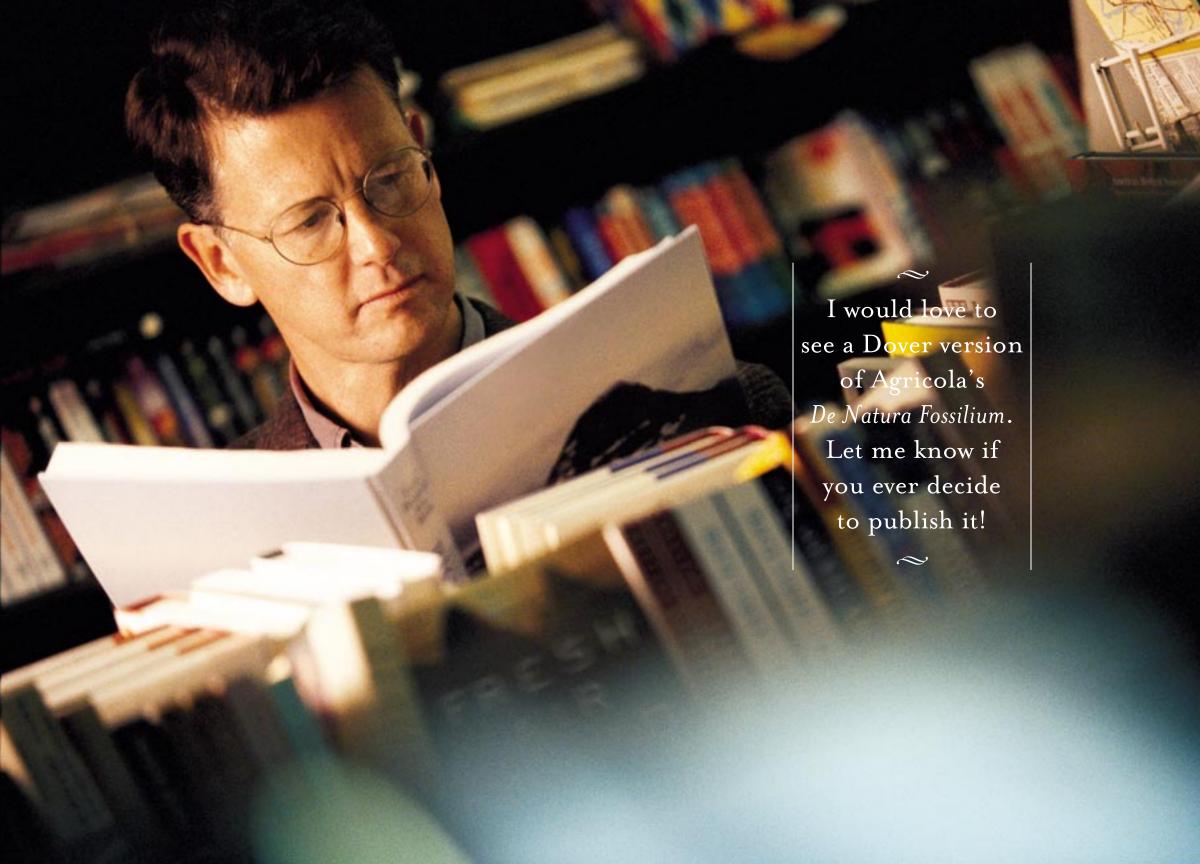
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Dover readers react.











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Thanks for reading.





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