Bought a book lately?

Courier

1 9 9 9 ANNUAL REPORT

If you've bought a book lately, you've experienced the abundance of opportunity, variety, and choice that make these the best of times for readers and users of information. We can buy books so easily and in so many ways today — superstores, online, in a café. We can buy books 24 hours a day and choose from millions of titles when we do.

There's never been
A BETTER TIME
to be a reader.

We can find books on any specialized subject, supplied by any number of niche publishers proliferating across the industry, and there are endless sources of information about books to help us make our selection. The content of books comes to us fresher, with time from author to market compressed in some cases to a matter of days. Meanwhile, many books stay in print longer, and out-of-print books are being re-released.

And books are spawning other ways to get information. They offer links to supplemental web sites where we can find out more and keep up to date. They come with CD-ROMs so we can try out what we've learned or sample a related product. College professors are designing custom reading collections that combine chapters from multiple publishers with magazine articles, newspaper clippings, and broadcast transcripts. Intellectual property in the public domain is being mined for content and repackaged for modern readers of print and digital media.

Courier's net income from operations has increased steadily from $1.41 per diluted share in 1997 to $2.52 in 1999.

There's never been
a better year
for Courier.

C H A I R M A N ' S

Dear shareholders, customers, and employees,

This is a terrific business. I love being a part of the exhilarating changes that have begun to transform the publishing industry in the 1990s. Courier's ability to welcome change and capitalize on the opportunities it brings has enabled us to complete another record-breaking year — the best year in our 176-year history.

Net income in 1999 jumped 27% to $8.4 million or $2.52 per diluted share compared to $6.6 million or $2.03 per diluted share last year (excluding a one-time gain of $1.1 million or $.34 per diluted share in 1998 from the sale of real estate). Sales reached $164 million in 1999, up 8% over 1998.

Over the course of this decade, we have transformed Courier from a company that was underperforming our industry to one that consistently outperforms it. Today, we're the nation's fifth largest book manufacturer and one of its most profitable.

We've also transformed Courier from a company whose only business was book manufacturing to a company that is also engaged in custom publishing, direct marketing, and e-commerce. Through our new businesses, we have developed these additional competencies, which will be of immense importance in the next decade as the pace of change accelerates.

This report looks at the strategies that brought us from where we were at the beginning of the decade to where we are today. These strategies emerged from an intensive planning process launched in 1993, when we looked hard at what we were doing and disciplined ourselves to make pivotal choices. We scrutinized the markets we were competing in, the customers we were serving, and what we were doing for them. We identified the growth markets where we could be the best and sought out customers who would value us most.

The markets Courier chose to focus on — religion, education, and specialized publishing — have grown at a much faster pace than the publishing industry overall. Moreover, they are driven by social megatrends that we believe will keep them vital, both in print and other media, well into the next century.

Focusing on a few strong markets has enabled Courier to look beyond book manufacturing to surprising opportunities we might otherwise not have recognized. In both the college coursepack and homeschooling markets student needs were being unmet or only partially satisfied. To capitalize on these opportunities, we acquired and developed new businesses, Copyright Management Services ("CMS") and The Home School. While these businesses address markets with potential for dynamic growth, the most important thing about them is that they've given us the opportunity to learn how to sell directly to niche markets.

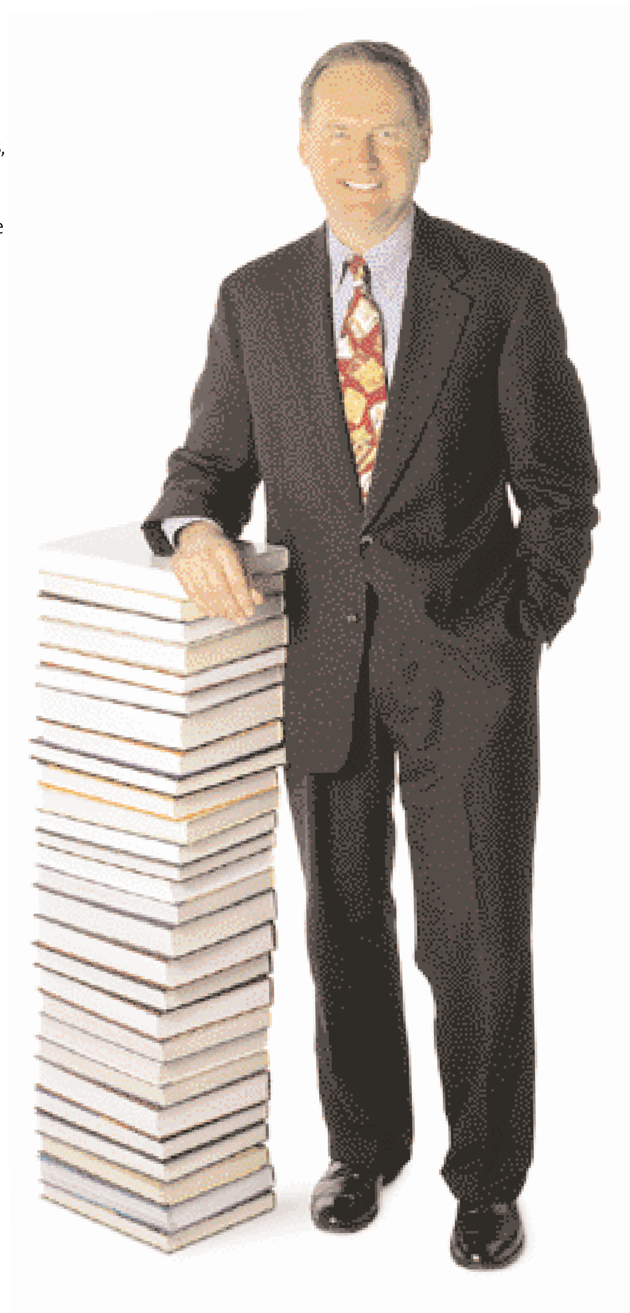
As we approach the new millennium, Courier is a company that can no longer be defined simply as "book manufacturer." Yet we do have a clearly defined and easily stated mission: **Our job is to enhance and accelerate the process of getting books and information from the point of creation to the point of use.** How we do it varies and will become even more variable in the future.

LETTER

The truth is that the process of getting books from publishers to readers will change far more in the next 10 years than it has since the days of Gutenberg, nearly 600 years ago. Recent changes have been concentrated on how books are bought and sold. Looking ahead, there will be more changes which will streamline further the way books are brought to the point of sale. These changes will bring more benefits to readers and create more opportunities for Courier. And books, in all their permutations, will continue to be a great business to be in.

I look back on 1999 with gratitude to the shareholders, customers, and employees who have helped make this year an extraordinary one for Courier. I look forward to the coming year with great excitement about what's next.

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



How we got from where we were to where we are today

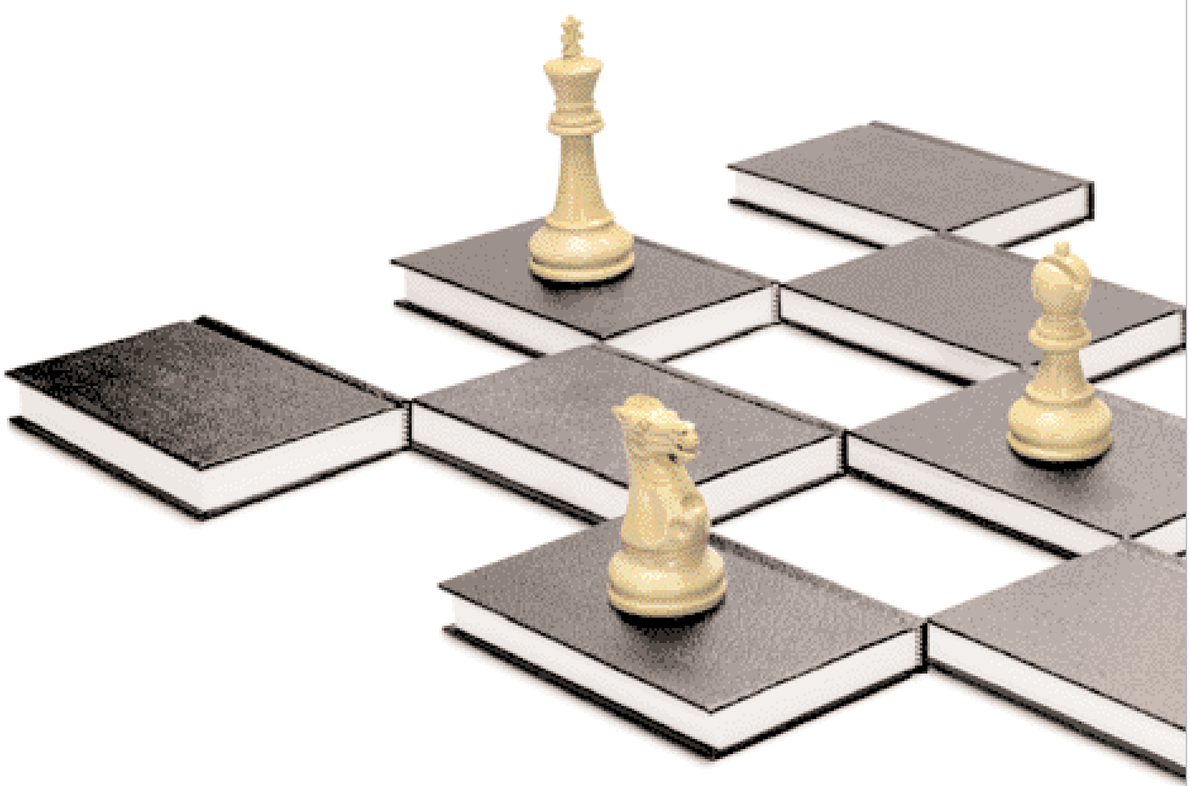
In the early 1990s Courier began an intensive planning process that resulted in 3 key business strategies. Over the course of the decade, these strategies have brought our core book manufacturing business from underperforming the industry to consistently outperforming it, while enabling Courier to make investments that are expanding our business into surprising new areas.

Strategies

1. Choose publishing markets where growth is driven by potent social trends

2. Determine what each customer uniquely needs for success and create a customized offering that delivers it to them

3. Build new businesses that focus on providing information directly to emerging niche markets



The following pages offer several examples of how these strategies have played out for Courier and its customers.

People are passionate about their interests and hungry for information that addresses them.

SPECIALIZATION

Prima Publishing, twice named to the Inc. 500 list of fastest growing independent companies, has rocketed to success by publishing for special interest markets covering subjects as diverse as alternative healthcare, computer games and life styles. The company, which doubled its business in computer game strategy guides in 1999, is #1 worldwide in this niche market. Prima complements its book sales with web sites such as PrimaGames.com and the recently launched TheNaturalPharmacist.com.

Ben Dominitz, Founder, CEO & Chairman:

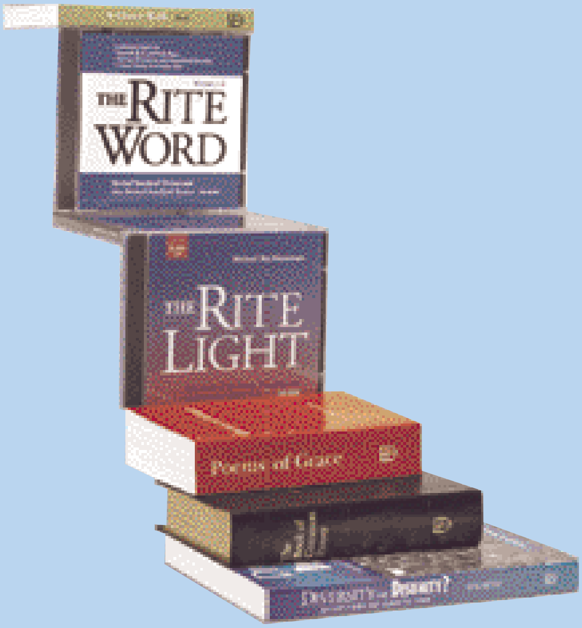
"We no longer see ourselves as a 'book publisher,' but as an owner of content brands. Our goal is to become the trusted content brand in our chosen specialty markets. We're trusted because when we enter a market, we establish a standard for quality. In alternative health-care, for example, there's a glut of information, but tremendous variation in reliability and completeness. What our customers want and what saves them time is having one trusted source they can go to."

John Clark, Prima Director of Manufacturing:

"We look for vendors that are like Prima, not the largest, but the most agile and fast moving. We need vendors who can do miracles on a daily basis. A few years ago we would have been in awe of a 5-day turnaround; today we've come to expect it. Courier is proactive about asking us where we're going next and what they can do to help us continue to grow."

Courier frequently produces as many as five versions of a product simultaneously — managing all aspects of production and drop shipping the product, packaged to store specifications, directly to Prima customers.

COMMITMENT



RELIGIOUS PUBLISHING

Interest in religion is rising worldwide, fueled by the desire for a spiritual touchstone amidst the pace and disorientations of modern life.

Church Publishing Group, the publishing arm of the Episcopal Church, produces all of the official liturgical and musical publications as well as a growing list of religious trade titles in areas such as theology, global Church issues, and spirituality. It sells its publications through direct mail and a new e-commerce site as well as through religious bookstores and other retail outlets.

Frank Hemlin, Senior Vice President and Publisher:

"Our business has grown rapidly, particularly sales of music CDs and our expanding list of religious trade books. Many ideas for new products emerge from conversations with our customers, with whom we have a direct, primary relationship. The web is a tremendous benefit because it allows us to have this type of relationship with customers all over the world, and makes it financially feasible to publish for small, geographically dispersed markets."

Marilyn Haskel, Church Publishing Vice President, Marketing Director:

"Thanks to Courier's excellent fulfillment operations, Church Publishing, like Amazon.com or L.L. Bean, ships books within 24 hours. The recent flooding in North Carolina gave us a dramatic example of Courier's commitment. Several churches lost all of their liturgical materials in the disaster. We received a call Wednesday evening asking if we could get 200 copies each of the *Book of Common Prayer* and *The Hymnal 1982* to North Carolina for Sunday services. We contacted Courier Thursday morning, and the books were received at the flood-stricken church on Friday. They were a tremendous source of comfort to its members during difficult times."

The Church Publishing list includes a surprising variety of products, including finely bound gilded leather volumes, pocket-sized essays and meditations, and liturgical and spiritual world music. Quality is critical since many of these products will be used daily for decades. Courier handles all production and assembles and ships individual orders directly to Church customers.

EDUCATIONAL PUBLISHING

As knowledge advances rapidly, there's more to be learned at all stages of life and more ways to learn than ever before.

EXCELLENCE

SINAUER ASSOCIATES, INC., is one of the nation's foremost publishers of college biology and psychology textbooks. Known for uncompromising excellence in both the physical and aesthetic quality of its books and in their scientific content, the company is well-respected in the academic and research communities. An increasing number of Sinauer titles also include a CD-ROM, and many have supplemental web sites.

ANDREW SINAUER, PRESIDENT & CEO:

"College textbook publishing is benefiting from favorable demographic trends and the increasing number of people continuing their education. At the same time, multimedia, which had been perceived as a threat, has turned out to be complementary. Sinauer has done well because we've focused on being the high-quality provider in just two disciplines and because we've been quick to spot opportunities. We published the first textbooks in conservation biology, for example, which is now taught on nearly every college campus. And as subdisciplines have proliferated in the neurosciences, we've moved into these niche markets."

CHRISTOPHER SMALL, SINAUER PRODUCTION AND MANUFACTURING MANAGER:

"Our biggest challenge is to produce these very complex, very high-quality books within shorter and shorter schedules. It's critical that we get our books to scientific and academic meetings, where we can reach many potential adopters in one place. We work very closely with our authors and involve them in the layout of their books, which can be time consuming but is part of delivering on our promise of excellence. That's why we greatly value working with Courier, a manufacturing partner who is flexible and responsive. When a book arrives late, they can give us extra time here and there to complete our process while still meeting both our exceptionally demanding quality standards and our delivery dates."

Sinauer books typically contain 700-900 pages full of detailed color illustrations, charts, and graphs, paying careful attention to design and layout for visual balance and usability. Courier is equally painstaking in reproducing colors accurately, ensuring the visibility of fine lines in images and type, and delivering a product that in overall workmanship fully reflects the excellence of its contents.

COLLEGE COURSEPACKS

With today's focus on education, there's demand for more choice in how we teach and learn and how we access academic information.

Professor Beth S. Kolp was a member last spring of a Seminar Committee developing a new freshman introductory seminar on the Liberal Arts. The course, which covers a range of disciplines — English, history, government, economics, and behavioral studies — is being taught in 27 sections to some 400 students.

Professor Kolp, SUNY Dutchess Community College:

"We needed a set of readings that addressed the definition and values of a Liberal Arts education and couldn't find a text that actually did that. So faculty members on the committee from the various disciplines each chose essays we liked for the coursepack. The experience of working with CMS was outstanding. Everyone I talked to there was knowledgeable and helpful. The web site was a very convenient way to check on status. The coursepacks looked great. And, since we needed to get them to the instructors by July 1 to give them plenty of time to prepare, CMS delivered the books a month early."

Kerry McLaughlin, CMS Coursepack Counselor:

"My job is to help busy professors accomplish something they want to do but don't have time to do. When college professors call me they're usually worried about how much work might be involved in putting together a custom set of readings. And they're concerned about the outcome because a coursepack, unlike a text bought off the shelf, reflects the professor's own knowledge and teaching style. I reassure them that the process will be easy, we're going to do everything for them, and the finished coursepack is going to be exactly what they wanted it to be."

The Dutchess liberal arts seminar coursepack includes 14 selections chosen by faculty members in 5 disciplines. Many of the copyrights were difficult to determine since the essays came from anthologies or did not have complete biographical data. Included in the selection were pieces owned by the George Orwell Literary Estate and Martin Luther King Estate. CMS cleared all the articles within 2 weeks, electronically cleaned up the original copies received from Prof. Kolp, and delivered perfect bound coursepacks to the campus bookstore.

FLEXIBILITY

Parents want more control over how their children are educated, and an increasing number are choosing to school their children at home.

Cammy Franks is representative of the hundreds of thousands of families nationwide involved in schooling more than 2 million children or doing supplemental study at home. The decision to homeschool brings up lots of questions and requires parents to make choices that will profoundly affect their child's educational success. Parents want to be sure they make the right choices, and they're looking for resources and advice to help them do it.

Mrs. Franks, Parent & Homeschooler:

"I want my son to learn more than he can in public school, to use all of his abilities. When I received The Home School catalog it was the answer to my prayers. Thank goodness there was a number to call for advice, because I really didn't know where to start. But the advisor I talked with was wonderful — I've given her name to other parents. The program she suggested has everything I need for the year, and within weeks of starting, my son has already learned more than he learned in school the entire year before."

Kirsten Bussard, Senior Advisor, The Home School:

"I love helping homeschoolers find answers and make good choices. For example, one day I had a conversation with a parent whose son was having difficulty with 3rd grade math. As we talked, I realized that her child had a hands-on learning style, so I recommended some math games along with a multiplication song cassette. Later I helped a student attending a public high school who wanted to excel in math. I recommended a book designed for self-study that wasn't too overwhelming so it wouldn't interfere with her other studies."

The Home School's direct mail catalog and web site — ***www.thehomeschool.com*** *— bring thousands of books and educational resources, many developed specifically for homeschooling, together in one convenient place. Free telephone advice from experienced homeschoolers helps customers find out about state educational requirements, assess children's skill levels and needs, design a curriculum to achieve specific objectives, and select books and materials that fit each child's learning style. Direct one-to-one counseling with as many as 500 homeschoolers a day has also enabled The Home School to develop its own products, including a Daily Planner, which has become a bestseller.*

CHOICE

There's never been A better time to be a reader.

The pace of change in publishing is accelerating, and change will benefit us all by expanding choice and increasing convenience and customization in how we access and use information.

Courier is prepared and extremely optimistic. The business ventures we launched in the 1990s have given us not only a strong presence in markets with potential for dynamic growth but opportunities to learn how to market, sell, and deliver to end users in specialized niches. They've prompted us to develop competencies in customized publishing, direct marketing, and e-commerce.

Combining these new competencies with our core operations in book manufacturing, Courier now has the ability to add value to the entire publishing process. We can take books and other intellectual properties from creation of content, through production of the physical product, to delivery to the user.

We started the last decade of the 20th Century as a book manufacturer. We start the first decade of the 21st century as much more. In the days ahead we will continue to build value for Courier stockholders in bold new ways.

And it's going to get even better.

1999 Financials

Five-Year Financial Summary

FIVE-YEAR FINANCIAL SUMMARY

(Dollar amounts in millions except per share data)	1999	1998	1997	1996	1995*
Net sales	$164.0	$151.6	$131.4	$125.2	$120.7
Gross profit	40.8	37.7	28.1	22.6	26.3
Net income	8.4	7.7	4.3	2.6	5.2
Net income per diluted share	2.52	2.37	1.41	.82	1.73
Dividends per share	.42	.385	.32	.32	.267
Working capital	21.9	16.5	14.1	13.7	11.0
LIFO reserve	5.5	5.3	5.7	6.0	5.9
Current ratio (FIFO basis)	2.0	1.9	1.8	1.9	1.8
Total assets	91.5	87.6	89.6	74.8	73.0
Long-term debt	1.2	6.8	18.6	9.3	9.5
Long-term debt as a percentage of capitalization	2.0%	12.0%	30.8%	19.3%	20.5%
Depreciation and amortization	8.3	8.5	7.2	6.5	6.0
Capital expenditures	5.0	4.1	6.7	7.3	15.0
Stockholders' equity	57.6	49.8	41.7	38.8	36.8
Return on stockholders' equity	14.6%	15.5%	10.3%	6.6%	14.2%
Stockholders' equity per share	17.80	15.70	13.87	12.74	12.23
Shares outstanding (000s omitted)	3,233	3,172	3,011	3,044	3,011
Number of employees	1,320	1,254	1,202	1,050	1,103

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 June 1, 1998 (see Note A).

* *Fiscal 1995 included 53 weeks.*

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Sales in fiscal 1999 increased 8% to $164.0 million compared to $151.6 million in fiscal 1998. Sales from the Company's core book manufacturing segment were also up 8% for the year reflecting increased sales across all of the Company's major publishing markets. The Company's customized education segment consists of The Home School and Copyright Management Services (CMS). The Home School, which was acquired on September 30, 1997, is a direct marketer of books and other educational products for supplementing or replacing traditional education with home-based learning. CMS provides customized coursepacks and copyright clearance services primarily to colleges and universities. Revenues from these two newer businesses grew by 37% in fiscal 1999 to $2.8 million. Total sales in fiscal 1998 increased 15% to $151.6 million compared to $131.4 million in fiscal 1997. Sales from the Company's core book manufacturing segment increased 14% over fiscal 1997. Strong sales to educational and religious publishers provided much of the growth, while sales to software customers continued to drop, reflecting a reduction in the use of printed instruction manuals. The acquisition in July 1997 of Book-mart Press, Inc. ("Book-mart"), a short-run book manufacturer, accounted for approximately half of the fiscal 1998 sales increase. Sales from the Company's two newer businesses, The Home School and CMS, added approximately $1.6 million in revenues in fiscal 1998.

Gross profit increased to $40.8 million in fiscal 1999, up 8% from $37.7 million in fiscal 1998. The increase in gross profit reflects the impact of the increased sales volume. As a percentage of sales, gross profit was comparable to fiscal 1998 at 25% of sales. Gross profits in fiscal 1998 increased by $9.6 million or 34% and, as a percentage of sales, increased to 25% from 21% in fiscal 1997. The improvement in gross profits in fiscal 1997 resulted from increased sales volume and an improved mix of sales combined with productivity gains and cost savings. Inflation has not had a significant impact on the Company's gross profits, nor on its overall operations, during the past three years.

Selling and administrative expenses increased to $27.7 million in fiscal 1999, up 4% from $26.7 million in fiscal 1998. The increase was due to costs associated with improvements to the Company's information systems and to expenses which relate directly to the increase in profitability. As a percentage of sales, selling and administrative expenses decreased to 17% from 18% last year. Selling and administrative expenses increased to $26.7 million in 1998 from $20.9 million in 1997 and, as a percentage of sales, were 18% in 1998 compared to 16% in 1997. The increase as a percentage of sales resulted from increased expenses of approximately $1 million for improvements to the Company's information systems and infrastructure, including expenses related to "Year 2000" remediation efforts, incremental selling and marketing expenses of approximately $1 million associated with the Company's newer businesses, The Home School and CMS, goodwill amortization of approximately $0.5 million related to the acquisition of Book-mart, and other expenses that relate directly to the increase in profitability.

Interest expense was $0.5 million in fiscal 1999 compared to $1.3 million in fiscal 1998, reflecting a reduction in average borrowings of $13 million due to cash generated from operations as well as a slightly lower average interest rate in fiscal 1999. Interest expense was $1.3 million in fiscal 1998 compared to $0.9 million in fiscal 1997, reflecting increased average borrowings of approximately $6 million. Increased borrowings of approximately $16 million to finance the acquisitions of Book-mart and The Home School were offset by cash generated from operations which reduced borrowings by approximately $12 million during fiscal 1998.

Other income (expense) in fiscal 1998 resulted from a gain on the sale of a former manufacturing facility in Philadelphia. During fiscal 1997, the Company had completed the consolidation of its operations in Philadelphia from this older facility to a recently expanded, more efficient manufacturing facility also in Philadelphia. The selling price of the facility was $4.6 million, resulting in a pretax gain of approximately $2.0 million and an after-tax gain of approximately $1.1 million, or $.34 per diluted share. In fiscal 1997, other income (expense) resulted from a pretax loss of approximately $0.3 million from the Company's donation of its former corporate headquarters. The donation had no impact on fiscal 1997 net income as the pretax loss was offset by a comparable tax benefit.

The Company's effective tax rate for fiscal 1999 was 33% compared to 34% for fiscal 1998. The decrease was due to higher state and local taxes in the prior year related to the sale of the Philadelphia real estate, as well as an increased benefit from export related income in fiscal 1999. The Company's effective tax rate for fiscal 1998 was 34% compared to 33% for fiscal 1997, exclusive of the $0.3 million tax benefit related to the donation of property in fiscal 1997. The 1998 tax rate was higher than fiscal 1997 primarily due to nondeductible goodwill related to the acquisition of Book-mart.

Net income was $8.4 million in fiscal 1999, up 27% over last year's net income of approximately $6.6 million, when adjusted to exclude the after-tax gain from the sale of real estate of approximately $1.1 million. Net income per share on a diluted basis increased 24% to $2.52 per share compared to $2.03 per diluted share in fiscal 1998, after adjusting to exclude the real estate gain of $.34 per share. Pretax earnings from the Company's core book manufacturing operations increased to $15.2 million, a 19% increase over last year, reflecting increased sales volume. The Company's newer businesses, CMS and The Home School, reduced fiscal 1999 pretax earnings by $2.6 million, or $.52 per diluted share, compared to a reduction of $3.1 million pretax, or $.62 per diluted share, last year. Net income for fiscal 1998, including the real estate gain, was $7.7 million or $2.37 per diluted share, compared to $4.3 million, or $1.41 per diluted share, for fiscal 1997. The increase in net income in fiscal 1998, in addition to the real estate gain, was due to a significant increase in sales and gross profits. Pretax earnings from the Company's core book manufacturing operations increased to $12.8 million in fiscal 1998, a 62% increase over fiscal

1997. The customized education segment, CMS and The Home School, reduced fiscal 1998 pretax earnings by $3.1 million, or $.62 per diluted share, compared to a reduction of $1.6 million in pretax earnings, or $.33 per diluted share, in fiscal 1997.

For purposes of computing diluted net income per share, weighted average shares outstanding increased by approximately 65,000 shares in fiscal 1999, primarily due to shares exercised under the Company's stock option plans. Similarly, weighted average shares outstanding increased by approximately 187,000 shares in fiscal 1998. The increase was due to shares exercised under the stock option plans, shares issued as compensation for noncompetition agreements pursuant to a business acquisition, and the impact of potentially dilutive shares which increased primarily due to the increase in the price per share of the Company's stock.

On April 16, 1998, the Company announced a three-for-two stock split effected in the form of a 50% stock dividend, which was distributed on June 1, 1998 to stockholders of record on May 15, 1998. Weighted average shares outstanding and net income per share amounts have been restated to give effect to the stock split.

Effective September 27, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income and net income were the same for each of the three years ended September 25, 1999. The Financial Accounting Standards Board has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS No. 137 in June 1999), which will be effective in the Company's fiscal year ending September 29, 2001. The Company is currently evaluating the impact, if any, that the adoption of this new standard will have on the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 1999, operations provided approximately $14.4 million of cash. Net income for the year was approximately $8.4 million and depreciation and amortization were $8.3 million. Working capital utilized approximately $2.5 million of cash, primarily from an increase in accounts receivable related to the increase in sales volume.

Investment activities in 1999 used approximately $5.0 million in cash for capital expenditures for new binding equipment, computer-to-plate equipment, information systems improvements and other equipment to lower costs and improve throughput. Fiscal 2000 capital expenditures are expected to be approximately $12 million. The Company's Raymond, New Hampshire facility, which had been leased through June 1996, continues to be vacant pending sale or lease. In addition, the Company intends to sell the old, unoccupied and underutilized portions of its multi-building manufacturing complex in Westford, Massachusetts, which would result in reductions in building operating costs while maintaining current levels of book manufacturing at the site.

Financing activities used approximately $6.6 million of cash, $5.6 million of which was used to reduce long-term debt. Dividend payments were $1.4 million and proceeds from the Company's stock plans were $0.7 million, primarily from the exercise of stock options. During 1999, the Company repurchased a block of 20,000 shares of its common stock for $0.5 million because the Company believed the stock was attractively priced. At September 25, 1999, the Company had no borrowings under its $30 million long-term revolving credit facility. During 1999, the maturity of this revolving credit facility was extended to March 2002.

The Company does not hold any derivative financial instruments, derivative commodity instruments or other financial instruments except as noted in Note A to the financial statements. The Company engages neither in speculative nor derivative trading activities.

The Company expects that its cash from operations and available credit facilities will be sufficient to meet its cash requirements through 2000.

YEAR 2000 ISSUE

The statements in the following section include "Year 2000 readiness disclosure" within the meaning of the Year 2000 Information and Readiness Disclosure Act.

Historically, many computer programs were written using two digits rather than four to specify the year. Such software may recognize the year 2000 as "00" which could result in computer system failures or miscalculations, commonly referred to as the Year 2000 (Y2K) issue. The Company recognizes the need to ensure that its operations will not be adversely impacted by a Year 2000 software failure. Incomplete or untimely resolution of the Y2K issue by the Company, key suppliers, customers and other parties could have a material adverse effect on the Company's results of operations, financial condition and cash flows. The Company established a Year 2000 Management Task Force to address the Y2K issue. This Task Force is coordinating efforts to identify, assess and implement changes to information technology ("IT") systems and operational systems such as presses and binders, telecommunications equipment, building security and environmental controls, and is evaluating the Y2K readiness of key suppliers, customers and other parties.

Operational systems have been inventoried and assessment and testing have been completed. Less than 2% of operational systems were found to be non-compliant. Remediation has been completed.

The Company completed inventories and assessments of its IT systems in use at each of its locations and determined that many of the IT systems were not compliant. The Company has replaced or upgraded these systems with enterprise-wide systems across all of the Company's operations, utilizing a common IT infrastructure which collectively is designed to give the Company the benefit of new technology with enhanced functionality and resultant improvements in service and productivity. Implementation and testing to verify compliance of the IT systems has been completed.

The Company has assessed the Y2K readiness of third parties (including suppliers, financial institutions and customers) with which it has a material relationship to identify potentially non-compliant parties. The Company has performed site visits and continues to actively work with the key suppliers of raw materials, such as paper mills and film and plate manufacturers. The Company believes that its most reasonably likely, worst-case Y2K scenario may involve non-compliant third parties, including suppliers of utilities. The Company is continually assessing the degree of exposure and risk of non-compliance by such third parties, which could include possible consequences such as temporary plant disruptions and delays in the receipt of key materials, the receipt of orders, the delivery of finished products and the preparation of invoices. The Company has developed contingency plans to establish processes and procedures for responding to potential Y2K-related disruptions.

The Company estimates the cost of achieving Y2K compliance to be approximately $1.8 million of which approximately half will be capital expenditures, primarily for new IT systems. Costs incurred in fiscal 1999 directly related to Y2K remediation were approximately $0.8 million bringing total costs to date to approximately $1.6 million, of which approximately $0.7 million was expensed. The Y2K costs have been funded through operating cash flows. The Company does not separately track internal costs incurred for the Y2K project, particularly the payroll costs of its engineering and information technology groups.

FORWARD-LOOKING INFORMATION

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 certain risks and uncertainties which 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, changes in raw material costs and availability, seasonal changes in customer orders, pricing actions by competitors, consolidation among customers, success in the integration of acquired businesses, Year 2000 issues, 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 25, 1999	September 26, 1998	September 27, 1997
Net sales	$163,991,000	$151,591,000	$131,433,000
Cost of sales	123,184,000	113,923,000	103,311,000
Gross profit	40,807,000	37,668,000	28,122,000
Selling and administrative expenses	27,726,000	26,653,000	20,945,000
Interest expense	524,000	1,303,000	867,000
Other income (expense) (Note J)	–	2,043,000	(306,000)
Income before taxes	12,557,000	11,755,000	6,004,000
Provision for income taxes (Note C)	4,181,000	4,030,000	1,688,000
Net income	$ 8,376,000	$ 7,725,000	$ 4,316,000
Net income per share (Notes A and H):			
Basic	$2.61	$2.49	$1.44
Diluted	$2.52	$2.37	$1.41
Cash dividends declared per share	$ .42	$.385	$ .32

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

CONSOLIDATED BALANCE SHEETS

ASSETS	September 25, 1999	September 26, 1998
Current assets:		
Cash and cash equivalents (Note A)	$ 3,460,000	$ 722,000
Accounts receivable, less allowance for uncollectible accounts of $937,000 in 1999 and $1,078,000 in 1998	31,388,000	27,941,000
Inventories (Note B)	12,232,000	10,828,000
Deferred income taxes (Note C)	1,915,000	1,758,000
Other current assets	271,000	847,000
Total current assets	49,266,000	42,096,000
Property, plant and equipment (Notes A and D):		
Land	1,059,000	1,059,000
Buildings and improvements	19,052,000	18,803,000
Favorable building lease	2,816,000	2,816,000
Machinery and equipment	79,967,000	77,490,000
Furniture and fixtures	1,700,000	1,668,000
Construction in progress	1,723,000	523,000
	106,317,000	102,359,000
Less-Accumulated depreciation and amortization	(75,689,000)	(69,102,000)
Property, plant and equipment, net	30,628,000	33,257,000
Real estate held for sale or lease, net (Note J)	344,000	336,000
Goodwill and other intangibles, net (Notes A and I)	10,750,000	11,421,000
Other assets	524,000	520,000
Total assets	$ 91,512,000	$ 87,630,000

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

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY			September 25, 1999	September 26, 1998
Current liabilities:				
Current maturities of long-term debt (Note D)			$ 338,000	$ 312,000
Accounts payable			11,644,000	9,294,000
Accrued payroll			5,173,000	4,319,000
Accrued taxes			5,162,000	4,935,000
Other current liabilities			5,034,000	6,709,000
Total current liabilities			27,351,000	25,569,000
Long-term debt (Note D)			1,193,000	6,781,000
Deferred income taxes (Note C)			2,693,000	2,992,000
Other liabilities			2,716,000	2,498,000
Total liabilities			33,953,000	37,840,000
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:				
Shares	1999	1998		
Authorized	6,000,000	6,000,000		
Issued	3,750,000	3,750,000		
Outstanding	3,233,000	3,172,000	3,750,000	3,750,000
Additional paid-in capital			1,258,000	384,000
Retained earnings			56,486,000	49,464,000
Treasury stock, at cost: 517,000 shares in 1999 and 578,000 shares in 1998			(3,935,000)	(3,808,000)
Total stockholders' equity			57,559,000	49,790,000
Total liabilities and stockholders' equity			$ 91,512,000	$ 87,630,000

Consolidated Statements of Cash Flows

	For the Years Ended		
	September 25, 1999	September 26, 1998	September 27, 1997
Operating Activities:			
Net income	$ 8,376,000	$ 7,725,000	$ 4,316,000
Adjustments to reconcile net income to cash provided from operating activities:			
Depreciation and amortization	8,282,000	8,541,000	7,237,000
Deferred income taxes	(456,000)	(499,000)	(812,000)
Change in accounts receivable	(3,447,000)	(2,022,000)	1,671,000
Change in inventory	(1,404,000)	(1,010,000)	(705,000)
Change in accounts payable	2,350,000	(263,000)	(472,000)
Change in accrued taxes	227,000	(26,000)	364,000
Change in other elements of working capital	(245,000)	1,891,000	1,431,000
Other, net	687,000	(1,695,000)	1,051,000
Cash provided from operating activities	14,370,000	12,642,000	14,081,000
Investment Activities:			
Business acquisitions (Note I)	–	(563,000)	(12,701,000)
Capital expenditures	(4,999,000)	(4,147,000)	(6,732,000)
Proceeds from sale of assets (Note J)	–	4,600,000	–
Cash used for investment activities	(4,999,000)	(110,000)	(19,433,000)
Financing Activities:			
Scheduled long-term debt repayments	(312,000)	(387,000)	(466,000)
Other long-term borrowings (repayments)	(5,250,000)	(11,500,000)	7,404,000
Cash dividends	(1,354,000)	(1,205,000)	(969,000)
Stock repurchases	(455,000)	–	(882,000)
Proceeds from stock plans	738,000	1,255,000	259,000
Cash provided from (used for) financing activities	(6,633,000)	(11,837,000)	5,346,000
Increase (decrease) in cash and equivalents	2,738,000	695,000	(6,000)
Cash and equivalents at the beginning of the period	722,000	27,000	33,000
Cash and equivalents at the end of the period	$ 3,460,000	$ 722,000	$ 27,000
Supplemental cash flow information:			
Interest paid	$ 396,000	$ 1,243,000	$ 774,000
Income taxes paid (net of receipts)	$ 3,939,000	$ 4,498,000	$ 2,060,000

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

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Stockholders' Equity
Balance, September 28, 1996	$ 4,500,000	$ 9,055,000	$ 48,713,000	$ (23,504,000)	$ 38,764,000
Net income	–	–	4,316,000	–	4,316,000
Cash dividends	–	–	(969,000)	–	(969,000)
Stock repurchases	–	–	–	(882,000)	(882,000)
Stock plan activity	–	125,000	–	194,000	319,000
Shares issued in connection with business acquisition (Note I)	–	97,000	–	103,000	200,000
Balance, September 27, 1997	4,500,000	9,277,000	52,060,000	(24,089,000)	41,748,000
Net income	–	–	7,725,000	–	7,725,000
Cash dividends	–	–	(1,205,000)	–	(1,205,000)
Stock plan activity	–	734,000	–	788,000	1,522,000
Convert treasury shares (Note A)	(2,000,000)	(9,627,000)	(7,866,000)	19,493,000	–
Stock dividend (Note A)	1,250,000	–	(1,250,000)	–	–
Balance, September 26, 1998	3,750,000	384,000	49,464,000	(3,808,000)	49,790,000
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	–	874,000	–	328,000	1,202,000
Balance, September 25, 1999	$ 3,750,000	$ 1,258,000	$ 56,486,000	$ (3,935,000)	$ 57,559,000

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

A. Summary of Significant Accounting Policies

Business: Courier Corporation ("Courier" or the "Company") helps organizations manage the process of creating and distributing intellectual properties. Courier's book manufacturing business offers services from preparation, production, media replication, kitting and packaging through storage and distribution for education, religious and consumer book publishers. Courier also operates businesses which respond to the need for greater choice in education, providing Internet-based solutions for custom coursepacks, as well as direct marketing of educational materials to families engaged in educating children at home.

Principles of Consolidation: 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 generally accepted accounting principles which require the use of certain estimates and assumptions. Certain amounts for fiscal years 1998 and 1997 have been reclassified in the accompanying financial statements in order to conform with the current year's presentation.

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 25, 1999 and September 26, 1998, 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. No interest was capitalized in fiscal years 1999 and 1998; approximately $34,000 was capitalized in fiscal 1997. 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 straight-line 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 which 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 recent business acquisitions, which are discussed more fully in Note I, is being amortized using the straight-line method over periods ranging from 5 to 20 years. Amortization expense was approximately $597,000 for fiscal years 1999 and 1998, and approximately $97,000 for fiscal 1997. 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.

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.

Use of Estimates: The process of preparing financial statements in conformity with generally accepted accounting principles 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 H).

Stock Split: In June 1998, the Company distributed a three-for-two stock split effected in the form of a 50% stock dividend. Per share amounts for periods prior to June 1998 presented in the accompanying consolidated financial statements have been restated to give effect to the stock split. In addition, related to this stock split, the Company converted 2,000,000 shares of treasury stock to authorized but unissued shares.

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

New Accounting Pronouncements: Effective September 27, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income and net income were the same for each of the three years ended September 25, 1999. The Financial Accounting Standards Board has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS No. 137 in June 1999), which will be effective in the Company's fiscal year ending September 29, 2001. The Company is currently evaluating the impact, if any, that the adoption of this new standard will have on the consolidated financial statements.

B. INVENTORIES

Inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) method for most inventories. Inventories as of September 25, 1999 and September 26, 1998 consisted of the following:

	1999	1998
Raw materials	$ 2,945,000	$ 3,171,000
Work in process	5,899,000	4,903,000
Finished goods	3,388,000	2,754,000
Total	$12,232,000	$10,828,000

On a first-in, first-out (FIFO) basis, reported year-end inventories would have been higher by $5.5 million in fiscal 1999 and $5.3 million in fiscal 1998.

C. INCOME TAXES

The statutory federal tax rate is 34%. The total provision differs from that computed using the statutory federal income tax rate for the following reasons:

	1999	1998	1997
Federal income taxes at statutory rate	$4,269,000	$3,997,000	$2,041,000
State income taxes, net of federal income tax benefit	397,000	428,000	189,000
Export related income	(499,000)	(310,000)	(288,000)
Donation of real estate	–	–	(300,000)
Other	14,000	(85,000)	46,000
Total	$4,181,000	$4,030,000	$1,688,000

The provision for income taxes consisted of the following:

	1999	1998	1997
Currently payable:			
Federal	$3,972,000	$3,697,000	$2,040,000
State	665,000	832,000	460,000
	4,637,000	4,529,000	2,500,000
Deferred:			
Federal	(392,000)	(315,000)	(638,000)
State	(64,000)	(184,000)	(174,000)
	(456,000)	(499,000)	(812,000)
Total	$4,181,000	$4,030,000	$1,688,000

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of September 25, 1999 and September 26, 1998:

	1999	1998
Deferred tax assets:		
Vacation accrual not currently deductible	$ 510,000	$ 444,000
Other accruals not currently deductible	238,000	375,000
Non-deductible reserves	1,138,000	881,000
Other	29,000	58,000
Classified as current	1,915,000	1,758,000
Deferred compensation arrangements	1,019,000	1,058,000
Charitable contributions carryforward	–	74,000
Other	133,000	75,000
Total deferred tax assets	$3,067,000	$2,965,000
Deferred tax liabilities:		
Accelerated depreciation	$3,845,000	$4,199,000

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:

	1999	1998
Obligation under industrial development bond arrangement at 3%, payable in monthly installments through May 2011	$ 972,000	$1,041,000
9.5% secured promissory note, payable in monthly installments through October 2001	559,000	802,000
Obligation under revolving bank credit facility	–	5,250,000
	1,531,000	7,093,000
Less: Current maturities	338,000	312,000
Total	$1,193,000	$6,781,000

Scheduled aggregate principal payments of long-term debt are $338,000 in fiscal 2000, $366,000 in fiscal 2001, $76,000 in fiscal 2002, $78,000 in fiscal 2003, $80,000 in fiscal 2004 and $593,000 thereafter.

In July 1999, the Company amended its $30 million long-term revolving credit facility with State Street Bank and Trust Company and BankBoston, N.A. to add a third bank, KeyBank National Association. The amendment also extended the maturity date of the revolving credit facility to March 2002. Under this credit facility, the Company can borrow at a rate not to exceed the lesser of LIBOR plus 1.5% or the bank's money market rates. There were no borrowings under this facility at September 25, 1999. The Company has not had any short-term borrowings during the three fiscal years ended September 25, 1999.

The revolving credit facility contains restrictive covenants including provisions relating to the maintenance of working capital, 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 and the 9.5% promissory note provide 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 against income under such leases approximated $3,553,000 in fiscal 1999, $2,872,000 in fiscal 1998 and $2,365,000 in fiscal 1997. As of September 25, 1999, minimum annual rental commitments under the Company's long-term operating leases are approximately $3,556,000 in fiscal 2000, $3,282,000 in fiscal 2001, $2,120,000 in fiscal 2002, $1,682,000 in fiscal 2003, $1,556,000 in fiscal 2004 and $3,024,000 in the aggregate thereafter.

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 1999, 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 100,000 shares to a total of 445,000 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.

Directors' Option Plan: A 1989 plan, as amended in November 1993, 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 a stock option 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 1999 amounted to $16,000 per director; in addition, the two committee chair fees amounted to a total of $15,000 for fiscal 1999. In January 1999, the stockholders approved amendments to the plan increasing the number of shares available for issuance by the plan by 100,000 to a total of 250,000 shares and deleting the termination date, which would have been September 28, 1999.

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 28, 1996	362,778	$ 9.85	35,100	$ 8.77
Issued during period	31,538	14.50	21,000	7.46
Exercised during period	(5,250)	6.38	(13,200)	7.40
Canceled during period	(2,250)	12.89	–	–
Expired during period	(15,450)	13.25	–	–
Outstanding at September 27, 1997	371,366	$10.13	42,900	$ 8.69
Issued during period	35,300	21.46	24,000	11.29
Exercised during period	(137,510)	8.69	(22,500)	9.43
Canceled during period	(3,599)	10.11	–	–
Outstanding at September 26, 1998	265,557	$12.39	44,400	$ 9.72
Issued during period	5,000	23.75	18,000	15.75
Exercised during period	(59,329)	10.63	(20,600)	10.47
Outstanding at September 25, 1999	211,228	$13.15	41,800	$11.95
Exercisable at September 25, 1999	160,925	$11.76	41,800	$11.95
Available for future grants	159,537	–	110,500	–

The following table presents information with regard to all stock options outstanding at September 25, 1999:

	Stock Option/Incentive Plans				Directors' Option Plan
Range of Exercise Prices	$ 4.67	$ 8.83–$13.17	$14.17–$20.75	$22.83–$27.25	$ 7.46–$15.75
Options outstanding	5,250	130,241	61,887	13,850	41,800
Weighted average exercise price of options outstanding	$ 4.67	$10.37	$17.36	$23.64	$11.95
Weighted average remaining life	3.2 years	2.2 years	5.0 years	5.0 years	3.1 years
Options exercisable	5,250	118,978	33,747	2,950	41,800
Weighted average exercise price of options exercisable	$ 4.67	$10.44	$16.48	$23.58	$11.95

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 which may be awarded under the stock grant plan is 198,750 and no more than 33,750 shares may be awarded in any one fiscal year. The number of shares granted under the plan were 100 in fiscal 1999, 2,000 in fiscal 1998 and 3,000 in fiscal 1997. The related compensation expense, based on the amortization over the vesting period of the fair market value of the shares on the date granted, was $42,000 in fiscal 1999, $52,000 in fiscal 1998 and $22,000 in fiscal 1997. As of September 25, 1999, there were 4,828 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 100,000 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 1999, 9,737 shares were issued under the plan at an average price of $17.23 per share. At September 25, 1999, an additional 90,263 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 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 $8,026,000, or $2.42 per diluted share, for fiscal 1999; $7,511,000, or $2.31 per diluted share, for fiscal 1998; and $4,230,000, or $1.38 per diluted share, for fiscal 1997. The pro forma effect on net income and net income per diluted share for fiscal 1999, fiscal 1998 and fiscal 1997 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 grants issued:

	1999	1998	1997
Risk-free interest rate	6.3%	4.9%	6.2%
Expected volatility	42%	35%	34%
Expected dividend yields	1.7%	2.0%	2.3%
Estimated life for grants under:			
1993 Stock Incentive Plan	7 years	7 years	7 years
Directors' Option Plan	5 years	5 years	5 years
Employee Stock Purchase Plan	6 months	6 months	6 months

Using the Black-Scholes model, 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		
On grant date:	1999	1998	1997	1999	1998	1997
Exercise price was equal to stock price	$10.76	$7.74	$5.29	–	–	–
Exercise price was in excess of stock price	–	$5.98	$4.16	–	–	–
Exercise price was less than stock price	–	–	–	$9.31	$5.79	$3.73

G. RETIREMENT PLANS

The Company and its consolidated subsidiaries maintain various retirement plans covering substantially all of its employees. 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 amounted to $2,330,000 in fiscal 1999, $2,202,000 in fiscal 1998 and $1,730,000 in fiscal 1997.

The Profit Sharing and Savings Plan is qualified under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute up to 16% of their compensation, with the Company matching 25% of the first 6% of employee contributions. 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 1999, 1998 and 1997, no such shares were allocated to eligible participants. At September 25, 1999, the ESOP held 177,741 shares on behalf of the participants.

H. 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 and stock grant plans.

	1999	1998	1997
Average shares outstanding for basic	3,204,000	3,100,000	3,007,000
Effect of potentially dilutive shares	115,000	154,000	60,000
Average shares outstanding for dilutive	3,319,000	3,254,000	3,067,000

I. BUSINESS ACQUISITIONS

On July 21, 1997, the Company acquired all of the outstanding capital stock of Book-mart Press, Inc. ("Book-mart"), a North Bergen, New Jersey book manufacturer specializing in short to medium runs of softcover and hardcover books. The Company paid approximately $12.7 million in cash to the former stockholders of Book-mart for their shares of capital stock. At the time of the closing, Book-mart had approximately $2.3 million of outstanding bank indebtedness which was subsequently paid in full. In connection with the acquisition, 16,667 shares of Courier common stock (based upon a valuation of $12 per share) were issued to two key executives of Book-mart for non-compete agreements.

In addition, one of such executives was issued 25,000 shares (subject to a four-year vesting schedule) in connection with an employment agreement. The acquisition was accounted for as a purchase and, accordingly, Book-mart's results of operations have been included in the consolidated financial statements from July 21, 1997 forward. The excess of the purchase price over the fair value of net assets acquired amounted to approximately $10 million, which has been accounted for as goodwill and is being amortized on a straight-line basis over twenty years. Book-mart leases its office and plant facility from a corporation owned by two of the former stockholders of Book-mart, one of whom remains as a key executive of Book-mart. The lease agreement requires annual payments of approximately $216,000 and the initial term expires five years from the date of acquisition.

On September 30, 1997, the Company purchased The Home School Books & Supplies ("The Home School"), based in Arlington, Washington. The Home School is a direct marketer of educational materials to families engaged in educating children at home. The purchase price was approximately $0.5 million.

J. OTHER INCOME (EXPENSE)

Other income (expense) as reported in the accompanying consolidated income statements consisted of gains or losses from the sale or donation of real estate. In June 1998, the Company completed the sale of a former manufacturing facility in Philadelphia which had been vacant. During fiscal 1997, the Company had consolidated its operations in Philadelphia from this older, multistory facility to a recently expanded, more efficient manufacturing facility also in Philadelphia. The selling price of the property was $4.6 million, resulting in a pretax gain of approximately $2.0 million. The after-tax gain of approximately $1.1 million, or $.34 per diluted share, generated approximately $3.2 million of cash after taxes.

In September 1996, the Company relocated its corporate headquarters into an existing facility in North Chelmsford, Massachusetts. In August 1997, the Company finalized the donation of its former corporate headquarters in Lowell, Massachusetts. The donation had no impact on 1997 net earnings as a pretax loss of approximately $300,000 was offset by a comparable tax benefit.

The Company's Raymond, New Hampshire facility, which had been leased through June 1996, is now vacant pending sale or lease and is included in the September 25, 1999 balance sheet as "Real estate held for sale or lease, net." Management does not believe that there is any material impairment of this or any other 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."

K. BUSINESS SEGMENTS AND FOREIGN OPERATIONS

The Company operates in one primary business segment, book manufacturing, with a second smaller business segment in customized education. 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 services from preparation, production, media replication, kitting and packaging through storage and distribution for education, religious and consumer book publishers. The customized education segment responds to the demand for increased choice in the way educational information is received and used. Operations include The Home School, a direct marketer of educational materials to families engaged in home-based learning, and Copyright Management Services, a provider of customized college coursepacks.

The accounting policies of the segments are the same as those described in Note A. Intersegment sales are not significant. In evaluating segment performance, management primarily focuses on income or loss before taxes and non-operating items such as gains or losses from asset disposals as disclosed in the following table. Corporate expenses which are allocated to the segments include various support functions such as information technology services, finance, human resources and engineering, and includes 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, fixed assets and intangibles used by the corporate support functions.

The following table provides segment information as required under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which the Company adopted in fiscal 1999.

	Book Manufacturing	Customized Education	Unallocated	Total Company
Fiscal 1999				
Net sales	$161,186,000	$ 2,805,000	–	$163,991,000
Earnings (loss) before income taxes	15,155,000	(2,598,000)	–	12,557,000
Assets	73,606,000	1,218,000	$ 16,688,000	91,512,000
Depreciation and amortization	7,988,000	294,000	–	8,282,000
Capital expenditures	3,848,000	107,000	1,044,000	4,999,000
Interest expense	445,000	79,000	–	524,000
Fiscal 1998				
Net sales	$149,546,000	$ 2,045,000	–	$151,591,000
Earnings (loss) before income taxes	12,769,000	(3,057,000)	$ 2,043,000	11,755,000
Assets	71,735,000	1,817,000	14,078,000	87,630,000
Depreciation and amortization	8,328,000	213,000	–	8,541,000
Capital expenditures	3,239,000	307,000	601,000	4,147,000
Interest expense	1,221,000	82,000	–	1,303,000
Fiscal 1997				
Net sales	$130,973,000	$ 460,000	–	$131,433,000
Earnings (loss) before income taxes	7,866,000	(1,556,000)	$ (306,000)	6,004,000
Assets	73,061,000	640,000	15,942,000	89,643,000
Depreciation and amortization	7,165,000	72,000	–	7,237,000
Capital expenditures	4,961,000	269,000	1,502,000	6,732,000
Interest expense	857,000	10,000	–	867,000

Export sales as a percentage of consolidated sales were approximately 18% in fiscal 1999, 17% in fiscal 1998 and 18% in fiscal 1997. Sales to the Company's largest customer amounted to approximately 27% of consolidated sales in fiscal 1999, 26% in fiscal 1998 and 28% in fiscal 1997. In addition, sales to another customer amounted to 15% of consolidated sales in fiscal 1999, 12% in fiscal 1998 and 11% in fiscal 1997. No other customer accounted for more than 10% of consolidated sales. Customers are granted credit on an unsecured basis.

Auditors' Report and Quarterly Data

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Courier Corporation:

We have audited the accompanying consolidated balance sheets of Courier Corporation and subsidiaries ("the Company") as of September 25, 1999 and September 26, 1998, 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 25, 1999. 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 generally accepted auditing standards. 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 25, 1999 and September 26, 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 25, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Boston, Massachusetts
November 4, 1999

QUARTERLY FINANCIAL AND MARKET DATA (UNAUDITED)

Fiscal 1999 *(Dollars in thousands except per share amounts)*	First	Second	Third	Fourth
Operating Results:				
Net sales	$39,301	$40,480	$40,731	$43,479
Gross profit	9,338	10,224	9,806	11,439
Net income	1,420	1,867	1,826	3,263
Net income per diluted share	.43	.56	.55	.98
Dividends declared per share	.105	.105	.105	.105
Stock Price:				
Highest bid	31	26	23 3/8	25 3/4
Lowest bid	18 9/16	19 5/8	18	22 3/4

Fiscal 1998 *(Dollars in thousands except per share amounts)*	First	Second	Third	Fourth
Operating Results:				
Net sales	$35,306	$39,136	$36,903	$40,246
Gross profit	8,794	9,232	9,312	10,330
Net income	1,210	1,358	2,572	2,585
Net income per diluted share	.38	.42	.79	.78
Dividends declared per share	.093	.093	.093	.105
Stock Price:				
Highest bid	20 3/8	19 3/8	30	29
Lowest bid	13 7/8	17 3/8	17 3/4	20 3/4

There were approximately 740 stockholders of record as of September 25, 1999.

Corporate Information

DIRECTORS

JAMES F. CONWAY III
Chairman, President and Chief Executive Officer

*▲ KATHLEEN FOLEY CURLEY
Director of Research, Lotus Institute

*▲ RICHARD K. DONAHUE
Vice Chairman of NIKE, Inc. and partner in Donahue & Donahue

*▲ EDWARD J. HOFF
President, Leadership Development Inc.

*▲ ARNOLD S. LERNER
Vice Chairman, Enterprise Bank and Trust Co. and partner in six radio stations

GEORGE Q. NICHOLS
Corporate Senior Vice President and President of National Publishing Company

*▲ CHARLES E. OTTO
Consultant; Retired Senior Vice President, Xerox Corporation

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*

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

THOMAS G. OSENTON
Senior Vice President and Chief Marketing Officer

GARY S. GLUCKOW
Vice President

WILLIAM A. FLAVELL
Vice President

JOHN W. PUGSLEY
Vice President

PETER M. FOLGER
Vice President and Controller

PETER R. CONWAY
Vice President

DIANA L. SAWYER
Vice President

LEE E. COCHRANE
Vice President and Treasurer

F. BEIRNE LOVELY, JR.
Clerk and Secretary

NATIONAL PUBLISHING COMPANY

GEORGE Q. NICHOLS
President

WILLIAM A. FLAVELL
Executive Vice President

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

THE HOME SCHOOL, INC.

WILLIAM H. JURY, JR.
Executive Vice President

COURIER COMPANIES, INC.

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

PETER D. TOBIN
Vice President - Sales and Marketing

COUNSEL

GOODWIN, PROCTER & HOAR LLP

AUDITORS

DELOITTE & TOUCHE LLP

TRANSFER AGENT AND REGISTRAR

STATE STREET BANK AND TRUST COMPANY

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 20, 2000*

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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(978) 251-6000
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