CONSOLIDATED GRAPHICS INC /TX/
Form 10-Q
February 01, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended December 31, 2005
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number 001-12631

CONSOLIDATED GRAPHICS, INC.

(Exact name of Registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	**76-0190827** (I.R.S. Employer Identification No.)
5858 Westheimer Road, Suite 200 **Houston, Texas** (Address of principal executive offices)	**77057** (Zip Code)

Registrant s telephone number, including area code: **(713) 787-0977**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes o No ý

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accerlerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

The number of shares of Common Stock, par value $.01 per share, of the Registrant outstanding at January 15, 2006 was 13,682,973.

CONSOLIDATED GRAPHICS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2005

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PART I FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

CONSOLIDATED GRAPHICS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2005 (Unaudited)	March 31, 2005 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,284	$ 7,752
Accounts receivable, net	145,230	136,824
Inventories	36,927	37,149
Prepaid expenses	5,742	5,913
Deferred income taxes	7,599	7,843
Total current assets	205,782	195,481
PROPERTY AND EQUIPMENT, net	283,827	297,600
GOODWILL AND OTHER INTANGIBLE ASSETS, net	91,718	85,755
OTHER ASSETS	9,538	11,393
	$ 590,865	$ 590,229
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 8,846	$ 7,595
Accounts payable	50,230	46,705
Accrued liabilities	77,435	75,143
Income taxes payable	3,447	1,813
Total current liabilities	139,958	131,256
LONG-TERM DEBT, net of current portion	78,570	111,895
DEFERRED INCOME TAXES	64,981	63,746
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Common stock, $.01 par value; 100,000,000 shares authorized; 13,682,973. and 13,760,042 issued and outstanding	137	138
Additional paid-in capital	169,487	168,905
Retained earnings	137,732	114,289
Total shareholders equity	307,356	283,332
	$ 590,865	$ 590,229

See accompanying notes to consolidated financial statements.

CONSOLIDATED GRAPHICS, INC.

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2005	**2004**	**2005**	**2004**
SALES	$ 226,204	$ 208,640	$ 657,112	$ 581,298
COST OF SALES	170,472	157,077	495,512	437,753
Gross profit	55,732	51,563	161,600	143,545
SELLING EXPENSES	23,325	21,232	67,868	60,458
GENERAL AND ADMINISTRATIVE EXPENSES	15,091	14,140	44,554	40,796
Operating income	17,316	16,191	49,178	42,291
INTEREST EXPENSE, net	1,449	1,083	4,239	3,879
Income before taxes	15,867	15,108	44,939	38,412
INCOME TAXES	5,926	5,364	16,936	14,275
Net income	$ 9,941	$ 9,744	$ 28,003	$ 24,137
BASIC EARNINGS PER SHARE	$ .73	$ .71	$ 2.04	$ 1.77
DILUTED EARNINGS PER SHARE	$ .71	$ .68	$ 1.98	$ 1.70
SHARES USED TO COMPUTE EARNINGS PER SHARE				
Basic	13,657	13,666	13,726	13,623
Diluted	14,093	14,258	14,146	14,180

See accompanying notes to consolidated financial statements.

CONSOLIDATED GRAPHICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended December 31 2005	Nine Months Ended December 31 2004
OPERATING ACTIVITIES		
Net income	$ 28,003	$ 24,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,994	32,001
Deferred income tax provision	1,251	1,202
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(7,451)	(4,380)
Inventories	527	(2,831)
Prepaid expenses	178	(730)
Other assets	(313)	(687)
Accounts payable and accrued liabilities	351	(783)
Income taxes payable	2,624	3,964
Net cash provided by operating activities	60,164	51,893
INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(7,094)	(2,233)
Purchases of property and equipment	(8,961)	(9,623)
Proceeds from asset dispositions	2,019	1,503
Net cash used in investing activities	(14,036)	(10,353)
FINANCING ACTIVITIES		
Proceeds from bank credit facilities	25,300	58,470
Payments on bank credit facilities	(57,977)	(58,232)
Payments on term equipment notes and other debt	(5,950)	(48,947)
Payments to repurchase and retire common stock	(6,655)	
Proceeds from exercise of stock options	1,686	2,177
Net cash used in financing activities	(43,596)	(46,532)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,532	(4,992)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,752	10,472
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 10,284	$ 5,480

See accompanying notes to consolidated financial statements.

CONSOLIDATED GRAPHICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data and percentages)

(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Consolidated Graphics, Inc. and subsidiaries (collectively, the Company). All intercompany accounts and transactions have been eliminated. Such statements have been prepared in accordance with generally accepted accounting principles and the Securities and Exchange Commission s (SEC) rules and regulations for reporting interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the accompanying unaudited consolidated financial statements have been included. Operating results for the nine months ended December 31, 2005 are not necessarily indicative of future operating results. Balance sheet information as of March 31, 2005 has been derived from the 2005 annual audited consolidated financial statements of the Company. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2005, filed with the SEC in June 2005.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, including depreciation of property and equipment and amortization and impairment of intangible assets. The Company evaluates its estimates and assumptions on an ongoing basis and relies on historical experience and various other factors that it believes to be reasonable under the circumstances to determine such estimates. Because uncertainties with respect to estimates and assumptions are inherent in the preparation of financial statements, actual results could differ from these estimates.

Reclassification Certain reclassifications of prior period s data have been made to conform to current period reporting.

Revenue Recognition - The Company recognizes revenue upon delivery of each job, except for bill and hold transactions, in which case such revenue is recognized when all of the service delivery criteria are fully met as per Staff Accounting Bulletin 104 issued by the SEC. Losses, if any, on jobs are recognized at the earliest date such amount is determinable.

Inventories Inventories are valued at the lower of cost or market utilizing the first-in, first-out method for raw materials and the specific identification method for work in progress and finished goods. The carrying values of inventories are set forth below:

	December 31, 2005	March 31, 2005
Raw materials	$ 11,178	$ 11,863
Work in progress	21,723	21,518
Finished goods	4,026	3,768
	$ 36,927	$ 37,149

Goodwill and Other Intangible Assets, net Goodwill totaled $80,628 at December 31, 2005 and represents the excess of our purchase cost over the fair value of the net assets of acquired businesses, net of previously recorded amortization and impairment expense. The net book value of other intangible assets at December 31, 2005 was $11,090. Other intangible assets consist primarily of the value assigned to such items as customer lists, customer contracts and tradenames in connection with the allocation of purchase price for acquisitions under Statement of Financial Accounting Standards (SFAS) No. 142. Other intangible assets are generally amortized on a straight-line basis over periods of up to ten years.

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

Supplemental Cash Flow Information The consolidated statements of cash flows provide information about the Company s sources and uses of cash and exclude the effects of non-cash transactions. Certain of the Company s capital expenditures are considered to be non-cash transactions, including for the nine months ended December 31, 2005, $6,553 which was financed using term notes (see Note 3. Long-Term Debt) and $1,744 which was accrued as a current liability in the accompanying consolidated balance sheet. For the nine months ended December 31, 2005, the Company paid cash for interest and income taxes, net of refunds, totaling $3,912 and $12,228. For the nine months ended December 31, 2004, the Company paid cash for interest and income taxes, net of refunds, totaling $3,912 and $8,262.

Stock-Based Compensation The Company s only element of stock-based compensation is derived pursuant to the Consolidated Graphics, Inc. Long-Term Incentive Plan (the Plan), which has been approved by the Company s shareholders. Under the Plan, employees of the Company and members of the Company s Board of Directors have been, or may be, granted options to purchase shares of the Company s common stock at a price not less than the market price of the stock at the date of grant. The Company accounts for its stock-based compensation programs using the intrinsic value method of accounting established by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, no compensation expense is recognized when the exercise price of an employee stock option is equal to the market price of common stock on the grant date and all other provisions are fixed.

Pro forma information regarding net income and net income per share is required by the SFAS No. 123, *Accounting for Stock-Based Compensation*. The pro forma information has been determined as if the Company had accounted for its stock options under the fair value method. The following is a summary of the Company s net income and earnings per share as reported and pro forma as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. The pro forma effects of applying SFAS No. 123 may not be representative of the effects on reported net income for future years since options vest over several years and additional awards are made each year.

Had the Company used the fair value-based method of accounting for the Plan prescribed by SFAS No. 123 and charged compensation expense against net income over the vesting period based on the fair value of options at the date of grant, net income and earnings per share as reported would have been reduced to the following pro forma amounts:

	Three Month Ended December 31		**Nine Months Ended December 31**	
	2005	**2004**	**2005**	**2004**
Net income as reported	$ 9,941	$ 9,744	$ 28,003	$ 24,137
Less: Pro forma compensation expense	(474)	(311)	(1,515)	(969)
Pro forma net income	$ 9,467	$ 9,433	$ 26,488	$ 23,168
Basic Earnings Per Share:				
Net income as reported	$ .73	$ .71	$ 2.04	$ 1.77
Less: Pro forma compensation expense	(.03)	(.02)	(.10)	(.07)
Pro forma net income	$ .70	$ .69	$ 1.94	$ 1.70
Diluted Earnings Per Share:				
Net income as reported	$ .71	$ .68	$ 1.98	$ 1.70

Less: Pro forma compensation expense	(.03)	(.02)	(.10)	(.06)
Pro forma net income	$ .68	$ .66	$ 1.88	$ 1.64

SFAS No. 123(R), *Share-Based Payment*, was issued in December 2004 and replaces SFAS No. 123, and supercedes APB Opinion No. 25. SFAS No. 123(R) will require compensation costs related to share-based payment transactions to be recognized in the consolidated financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides services in exchange for the award. SFAS No. 123(R) becomes effective for the Company at the beginning of fiscal 2007. The Company expects that the impact of adopting the SFAS No. 123(R) will be materially consistent with the pro forma expense (discussed above), adjusted for future vesting occurrences, grants, cancellations and exercises of stock options, that have been previously disclosed in accordance with SFAS No. 123.

2. ACQUISITIONS

During the nine months ended December 31, 2005, the Company paid cash totaling $6,310 to acquire the operations and assets of three businesses, two of which were immediately merged into other existing operations of the Company. The preliminary allocation of the purchase price of the businesses acquired include current assets of $1,819, property and equipment of $1,645, goodwill and other intangible assets of $4,192 and other assets of $130 less current liabilities of $1,476. Additionally, the Company paid cash totaling $784 in connection with finalization of certain working capital adjustments related to the Company s fiscal 2005 acquisitions. Based on certain additional information received regarding the fiscal 2005 acquisitions, $2,513 of purchase price previously attributed to property and equipment was allocated to goodwill and an allocation of $8,844 was made from goodwill to intangible assets other than goodwill in the nine month period ended December 31, 2005. The Company is awaiting additional information concerning certain asset and liability valuations in order to finalize the allocation of purchase price for certain of the Company s 2006 acquisitions, and expects to receive such information no later than one year following the respective dates of the acquisitions.

In November 2005, the Company announced that it had entered into a non-binding letter of intent to acquire an affiliated group of commercial printing companies operating as Nies/Artcraft Printing, Valcour Printing, and Impression Label in St. Louis, Missouri. The completion of this transaction, which is subject to certain conditions, is expected to occur by the end of the 2006 fiscal year.

3. LONG-TERM DEBT

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

	December 31, 2005	March 31, 2005
Bank credit facilities	$ 37,518	$ 70,195
Term equipment notes	34,460	32,295
Other	15,438	17,000
	87,416	119,490
Less: current portion	(8,846)	(7,595)
	$ 78,570	$ 111,895

The Company s primary bank credit facility (as amended and restated, the Credit Agreement) is composed of a $150,000 revolving credit facility that will mature in July 2007. At December 31, 2005, outstanding borrowings under the Credit Agreement were $30,000 and accrued interest at a weighted average rate of 6.1%.

The proceeds from borrowings under the Credit Agreement can be used to repay certain indebtedness, finance certain acquisitions, provide for working capital and general corporate purposes and, subject to certain restrictions, repurchase the Company s common stock. Borrowings outstanding under the Credit Agreement are secured by substantially all of the Company s assets other than real estate and certain equipment subject to term equipment notes and other financings. Borrowings under the Credit Agreement accrue interest, at the Company s option, at either (1) the London Interbank Offered Rate (LIBOR) plus a margin of 1.25% to 2.00%, or (2) an alternate base rate (based upon the greater of the agent bank s prime lending rate or the Federal Funds effective rate plus ..50%) plus a margin of up to .75%. The Company is also required to pay an annual commitment fee ranging from .275% to .375% on available but unused amounts under the Credit Agreement. The interest rate margin and the commitment fee are based upon certain financial performance measures as set forth in the Credit Agreement and are redetermined quarterly. At December 31, 2005, the applicable LIBOR interest rate margin was 1.25% and the applicable commitment fee was .275%.

The Company is subject to certain covenants and restrictions and must meet certain financial tests under the Credit Agreement. The Company was in compliance with such covenants, restrictions and financial tests at December 31, 2005.

In addition to the Credit Agreement, the Company maintains two auxiliary revolving credit facilities (each an Auxiliary Bank Facility and collectively the Auxiliary Bank Facilities) with commercial banks. Each Auxiliary Bank Facility is unsecured and has a maximum borrowing capacity of $5,000. One facility expires in November 2006 while the

other facility expires in December 2006. At December 31, 2005, borrowings outstanding under the Auxiliary Bank Facilities totaled $7,518 and accrued interest at a weighted average rate of 5.6%. Because the Company currently has the ability to refinance borrowings outstanding under the Auxiliary Bank Facilities expiring in November and December 2006 and plans to do so, such borrowings are classified as long-term debt in the accompanying consolidated balance sheet at December 31, 2005. The Auxiliary Bank Facilities cross-default to the covenants and restrictions set forth in the Credit Agreement.

The Company s term equipment notes consist primarily of notes payable pursuant to financing agreements between the Company and various lenders (the Lender Notes) and between the Company and the finance affiliate of a printing equipment manufacturer (the Equipment Notes). At December 31, 2005, outstanding borrowings under the Lender Notes totaled $20,843 and accrued interest at a weighted average rate of 5.1%. The Lender Notes provide for fixed monthly principal payments plus interest (at fixed rates) for defined periods of up to seven years from the date of issuance, and are secured by certain equipment of the Company. At December 31, 2005, outstanding borrowings under the Equipment Notes totaled $12,177 and accrued interest at a weighted average rate of 5.9%. The Equipment Notes provide for fixed payments of principal and interest (at fixed rates) for defined periods of up to ten years from the date of issuance and are secured by the equipment which was concurrently purchased from the manufacturer. At December 31, 2005, the remaining balance of term equipment notes totaling $1,440 primarily consists of various secured debt obligations assumed by the Company in connection with certain prior year acquisitions. The Company is not subject to any significant financial covenants in connection with any of the term equipment notes; however, the Credit Agreement places certain limitations on the amount of additional term note obligations the Company may incur in the future.

The Company s remaining debt obligations consist of a mortgage totaling $4,844, a promissory note totaling $2,685, industrial revenue bonds totaling $6,995 and various other debt obligations totaling $914. The Company does not have any significant financial covenants or restrictions associated with these other debt obligations.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking information. Readers are cautioned that such information involves known and unknown risks and uncertainties, including those created by general market conditions, competition and the possibility that events may occur beyond our control, which may limit our ability to maintain or improve our operating results or financial condition or acquire additional printing businesses. Our expectations regarding future sales and profitability assume, among other things, stability in the economy and reasonable growth in the demand for our products, the continued availability of raw materials at affordable prices and retention of our key management and operating personnel. In addition, our expectations regarding future acquisitions assume, among other things, our ability to identify new acquisition opportunities and our ability to negotiate and finance such acquisitions on acceptable terms, as well as the ability to successfully absorb and manage such acquisitions. Although management believes that the assumptions underlying the forward looking statements are reasonable, any of the assumptions could be inaccurate and there can be no assurance that any or all of the assumptions underlying the forward-looking statements will prove to be accurate. The inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We expressly disclaim any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this Report on Form 10-Q to reflect the occurrence of events or changes in circumstances or expectations.

The following discussion of the financial condition and performance of our Company should be read in conjunction with the consolidated financial statements included herein and the consolidated financial statements and related notes and other detailed information regarding our Company included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 and other reports filed by us with the Securities and Exchange Commission. Operating results for the nine months ended December 31, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2006 or any periods thereafter.

Overview

Our Organization

Our Company is a leading national provider of commercial printing services and is recognized as the largest sheetfed and half-web commercial printing company in the United States. We currently operate 70 printing businesses in 25 states, with each business operated as a wholly-owned subsidiary. Each of our printing businesses has a well-established operating history, more than 25 years in most cases, and operates as a separate business and reporting unit, with their own management, sales, customer service, estimating and planning, prepress, production and accounting staff. Generally, each facility substantially relies on locally based customers; accordingly, we have a broad diversification of customers by industry-type and geographic orientation, totaling more than 19,000. No individual facility nor any individual customer account for more than 10% of our revenues.

Our corporate headquarters staff provides support to our printing businesses in such areas as human resources, purchasing and management information systems. We also maintain centralized treasury, risk management, tax and consolidated financial reporting activities.

Nature of Our Services

We are a service business that utilizes sophisticated technology and equipment to produce and deliver high quality printed documents, materials and products for our customers to their specification and design, including all content. The scope and extent of services provided to our customers typically varies for each individual order we receive, depending on customer-specific factors including the intended uses for the printed materials. Furthermore, each of our printing businesses generally is capable of providing the complete range of our services to their customers who include fulfillment, mailing or other print-related services. They may also use our Internet-based e-commerce solutions, marketed under the CGX Solutions trademark which are complementary to the production and delivery of the printed materials. Collectively, all of these discrete capabilities comprise a comprehensive range of printing services for which we typically charge an all-inclusive fee. Accordingly, for financial reporting purposes, we report our revenues and results of operations as a single segment.

Our sales are derived from commercial printing services. These services consist of (i) traditional print services, including electronic prepress, printing, finishing, storage and delivery of high-quality printed documents which are custom manufactured to our customers design specifications; (ii) fulfillment and mailing services for such printed materials, and (iii) e-commerce solutions that enable our customers to improve their processes over the procurement and management of printed materials. Examples of the types of documents we print for our customers include high-quality, multicolor marketing materials, product and capability brochures, point-of-purchase displays, direct mail pieces, shareholder communications, catalogs, and training manuals.

The substantial majority of our sales are generated by individual orders through commissioned sales personnel. We recognize revenue from these orders when we deliver the ordered goods and services. To a large extent, continued engagement of our Company by our customers for successive business opportunities depends upon the customers satisfaction with the quality of services we provide. As such, it is difficult for us to predict the number, size, and profitability of printing services that we expect to provide for more than a few weeks in advance.

Our cost of sales mainly consists of raw materials consumed in the printing process, as well as labor and outside services, such as delivery costs. Paper cost is the most significant component of our materials cost; however, fluctuation in paper pricing generally does not materially impact our operating margins because we typically quote, and subsequently purchase, paper for each specific printing job we are awarded. As a result, any changes in paper pricing are effectively passed through to customers by our printing businesses. Additionally, our cost of sales includes salary and benefits paid to operating personnel, maintenance, repair, rental and insurance costs associated with operating our facilities and equipment and depreciation charges.

Our selling expenses generally include the compensation paid to our sales professionals, along with promotional, travel and entertainment costs. Our general and administrative expenses generally include the salary and benefits paid to support personnel at our printing businesses and our corporate staff, as well as office rent, utilities and communications expenses, and various professional services.

Our Strategy

We are focused on adding value to our printing businesses by providing the financial and operational strengths, management support and technological advantages associated with a national organization. Our strategy currently includes the following initiatives to generate sales and profit growth:

Internal Sales Growth We seek to use our competitive advantages to expand market share. We continue to pursue additional experienced sales professionals, invest in new equipment and technology, expand our national accounts customer base and develop new and expanded print-related services.

Disciplined Acquisition Program We selectively pursue opportunities to acquire additional printing businesses at reasonable prices. Some of these acquisitions may include smaller and/or distressed printing businesses for merger into one of our existing businesses.

Cost Savings Because of our size and national presence, we leverage our economies of scale to purchase supplies and equipment at preferential prices, and centralize various administrative services to generate cost savings.

Best Practices/Benchmarking We provide a forum for our printing businesses to share their knowledge of technical processes and best practices with one another, as well as benchmark financial and operational data to help our printing businesses identify and respond to changes in operating trends.

Leadership Development Through our unique Leadership Development Program, we develop talent for future sales and management positions at our printing businesses.

Results of Operations

The following table sets forth our Company s unaudited condensed consolidated income statements for the periods indicated:

	Three Months Ended December 31				Nine Months Ended December 31			
	2005		2004		2005		2004	
	(In millions)				(In millions)			
Sales	$	226.2	$	208.6	$	657.1	$	581.3
Cost of sales		170.5		157.1		495.5		437.7
Gross profit		55.7		51.5		161.6		143.6
Selling expenses		23.3		21.2		67.9		60.5
General and administrative expenses		15.1		14.1		44.6		40.8
Operating income		17.3		16.2		49.1		42.3
Interest expense, net		1.4		1.1		4.2		3.9
Income before taxes		15.9		15.1		44.9		38.4
Income taxes		6.0		5.4		16.9		14.3
Net Income	$	9.9	$	9.7	$	28.0	$	24.1

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

	As a Percentage of Sales Three Months Ended December 31		As a Percentage of Sales Nine Months Ended December 31	
	2005	2004	2005	2004
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	75.4	75.3	75.4	75.3
Gross profit	24.6	24.7	24.6	24.7
Selling expenses	10.3			