

Courier Corporation

Annual Meeting of Shareholders

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Remarks made by

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Chairman, President and Chief Executive Officer

“Turning the Page on a Difficult Chapter”

As everybody knows, 2008 was a tough year for our company, our industry and the whole global economy. We have had to take difficult steps, both during last year and again in recent days, to enable our organization to weather the recession and position us favorably for opportunities down the road. But we are confident these measures will help us do that. Hence our title, *“Turning the page on a difficult chapter.”*

Perspective

First I want to add a bit of perspective to the current situation. And at Courier, we have a lot of perspective. To be exact, we have 185 years of perspective. During that time we’ve lived through dozens of ups and downs in the economy, and in our markets. We’ve had to take extraordinary measures many times. Yet we’re still here.

We’ve survived and succeeded by adhering to a few basic principles — choosing our markets carefully, focusing on customer needs, managing with discipline, and always being ready to meet the market with innovations in technology and service, and sometimes even a whole new version of our company.

We’ve evolved steadily from our early days in the newspaper business, to a producer of telephone directories and insurance documents, to our unique role in today’s book industry, as manufacturer and publisher. By executing on these principles, we’ve achieved some pretty impressive results over the years.

- We’re a world leader in the production of Bibles and other scriptures.
- We’re one of the top three manufacturers in North America of four-color textbooks for every level from elementary school through college and beyond.

- And our plant in Kendallville, Indiana is increasingly becoming a venue of choice for producing four-color trade books as well.
- Our businesses span the whole book industry chain, from publishing and printing to sales and merchandising.
- And our mix of customers and markets helps us optimize our efficiency and cushion the impact of declines in individual areas, including in fiscal 2008.
- Finally, lest we forget, we've just had twelve straight years of dividend growth.

State of things today

But with all that said, we are living in exceptional times today, with financial markets in disarray and the economy currently locked in recession. So today our ability to execute in accordance with our principles is more important than ever. That's why we're listening harder than ever to our customers, managing our resources extra carefully, and focusing our investment on core areas where the returns are most predictable and likely to be greatest. At the same time, we haven't stopped innovating. In fact, we've intensified our pursuit of an important emerging opportunity — the move to greener books.

But right now, the drumbeat is very discouraging. Every day we get new confirmation about the poor state of the economy. Last week we heard that the unemployment rate had passed 7 percent and is now the highest in 16 years. On top of that, it was the worst holiday season for retailers since 1969. Meanwhile, virtually everyone's 401k is down sharply, and individuals and businesses alike are being forced to act defensively in the face of a difficult year.

State of the book industry

Across the book industry, both manufacturers and publishers have seen sales decline. Courier reported a sales decline of 5 percent from last year's first quarter. Many others have fared worse than we did. One result is a very aggressive pricing environment, as vendors everywhere scramble to gain a bigger share of a smaller pie. Another is that companies are taking a closer look at where their strengths are, and playing to those strengths. In our case, in the education market, following several years of high growth in elementary and high school textbooks, we are now strengthening our focus on college textbooks, which are less subject to state and local budget crunches. And we continue to focus on the religious market that has historically proved relatively independent of conditions elsewhere in the economy.

On the publishing side, we have felt the downturn acutely. With consumers cautious everywhere, all kinds of retailers have suffered, and bookstores among them. But with the troubles in the housing sector still front and center, we have felt it most acutely at Creative Homeowner. With traffic off at home improvement centers, the consumers have simply not been there to pick up Creative Homeowner's award-winning books. And so, while many Creative titles are still category leaders, the decline in overall category sales contributed to an operating loss of \$5 million at Creative Homeowner for fiscal 2008 — which was reflected in the cost-cutting measures we announced last fall.

Opportunities

So in an environment like this, where are the opportunities? The good news is that they actually play to some of Courier's strengths.

- We have a long track record of service leadership leading to share gains. And that's a record we are doing our best to extend right now.
- We also have a long history of focusing on specific market niches where we can outperform our competition.
- As a manufacturer, we are already experts at tailoring our capabilities to changing customer needs.
- As a publisher, we have become increasingly adept at targeting new products to proven constituencies.
- Finally, there are also opportunities in certain new categories such as Green Editions, which I'll talk about.

But we have to execute in a couple of areas simultaneously. On the one hand, we have to lock in business where we can in the short term, while also keeping our eye on longer-term opportunities. And on the other hand, we have to make sure our cost structure stays in line with the cards we've been dealt by the economy. Hence our focus on four-color college textbooks and trade books, where we have strong relationships and good margins. But hence also our very painful move to close Book-mart Press and thereby reduce our capacity for one-color work, where the much lower margins and utilization were unsustainable.

In publishing, we've taken several steps to reduce losses and reposition ourselves for current conditions. The most dramatic was Creative Homeowner's exit from its side business as a general book distributor serving a single customer. Following this transition, the customer, a nationwide retailer, continues as a major sales channel for books published by Creative Homeowner.

We have also slimmed down the Creative Homeowner product line, bringing out lower-priced books that offer exceptional value for the dollar and address a wider range of consumers. And we've increasingly been out in front on the industry-wide move to greener books, which has potential benefits for both sides of our business.

Service leadership

I talked about service leadership driving share gains. This has always been a key tactic in Courier's arsenal. But despite the current sales environment, today's customers need more service than ever. Many of them have seen consolidation and layoffs in their own organizations, so they're trying to do more jobs with fewer people. They're also managing inventories tightly, so they have shorter lead times and can't afford to miscalculate. And on top of that, they're starting to feel pressure on the environmental front. So they need suppliers with the knowledge, stability and 'can do' attitude that Courier is famous for which helps us a lot.

Early wins in book manufacturing

And despite the dismal environment, we've already seen some positive results from these factors. In book manufacturing, we reached agreements with major textbook publishers that will help keep our 4-color presses at Kendallville humming for the next several months. We've had an influx of new trade customers, and we've had share gains at some existing customers as well. We've even seen signs that publishers who've been shipping their printing to China are having second thoughts about the hidden costs, and are starting to bring that business back home.

Early wins in publishing

In publishing, we had two big wins this quarter at Creative Homeowner, and we're having another one at Dover. I already mentioned Creative Homeowner's exit from the book distribution business. Why was it a winner?

1. It will probably save several million dollars a year.
2. We achieved it without hurting our strong relationship with this national retailer as a book publisher.
3. It has helped Creative Homeowner focus on what it does best — create great books for today's consumers.

The second win complemented our successful transition out of the book distribution business, in that we reached a new agreement with another national retailer that will significantly extend our presence there.

Finally, I would be remiss if I didn't point out the spectacular success Dover has had with this year's presidential campaign paper doll books. These have been popular in the past, but this year is truly over the top. As you can imagine, we've been shipping large quantities of Obama paper dolls to Washington in anticipation of the inauguration festivities.

Green Editions

Now I'll talk briefly about our new initiative called Green Editions. First let me explain why it's important and then what we're doing about it.

Why go green?

- It's good for the planet
- It's good for business

It's about doing the right thing for the planet, to reduce the carbon footprint. Good citizenship requires us to act. And increasingly, so does the regulatory environment.

Equally important, consumers are looking for green choices when buying books, and they are driving the movement.

Here at Courier, there are also real opportunities in content, production, and marketing that span both sides of our business.

- As an environmentally responsible publisher, we can increase our visibility in the marketplace and ultimately sell more books.
- Meanwhile, as a book manufacturer, we can give other publishers a way to be more responsible, and to get credit for it. And the more we can help them, the more books we'll print.

What is a green book?

There's no standard definition for a green book, so we created our own using three common-sense elements:

1. What the book is made of
2. How it's made
3. And where it's made

What the book is made of

Let's look first at what the book is made of, i.e. papers, inks and coatings. One obvious green-book factor is the use of recycled papers. A less obvious one is using papers that are certified to conform with proper forestry, shipping and manufacturing practices. And since 2008, Courier has had what's called Chain-of-Custody certification from the Forest Stewardship Council, a major authority on the subject. Finally, as you can imagine, the inks, coatings and solvents that are part of the manufacturing process also have to conform to rigorous environmental standards to make a book green.

How the book is made

The second factor is how the book is made. Digital prepress, paperless proofing, computerized press controls, imaging systems that eliminate film, high-efficiency binderies — they all help reduce waste and help make books greener. And we offer them all to our customers.

Where the book is made

And finally, where the book is made is absolutely crucial. Did you know that ocean freighters produce more sulfur dioxides than all the cars, trucks and buses in the world combined? They do, according to the *Wall Street Journal*. And when you manufacture books overseas, that's how they get to the U.S. market. By making books here in the USA, you avoid pollution both at the factory and enroute. Because here in the USA, environmental standards are high, and they're enforced. Not to mention that when you have books made in the USA, you don't have to wait for them to cross the ocean before you get them. Making books here is both better for the environment, and better for business. Even though we're just getting started, we're already making a difference.

We've published a total of 180 Green Edition books since the program was launched in June 2008, with a total savings of 2,202 trees, nearly a million gallons of water and several hundred thousand pounds of emissions and waste. On top of that, we've moved the printing of 350 million pages to the U.S. from overseas. And there's much more to come.

That's what we think goes into a green book, or as we call it, a *Green Edition*. I hope you'll see the Green Edition symbol a lot in the months and years ahead — both on the books we publish, and on those we print for others. It's our way of publicizing both the need to be green, and our own leadership in environmental responsibility.



Review of 2008

And now let's turn to our results for fiscal 2008 and the first quarter of fiscal 2009.

There's no question fiscal 2008 was a challenging year.

- Revenues were \$280 million, down from \$295 million in 2007.
- Sales were unexpectedly slow in education, and off substantially in our publishing segment, particularly at Creative Homeowner in the wake of the nationwide housing collapse.
- Because of the poor results at Creative Homeowner, we took a one-time, non-cash impairment charge of \$24 million, which canceled out our profits for the year and left us with a net loss of 3 cents per share.
- Excluding that charge, income was still down sharply, to \$15 million or \$1.22 per share from \$26 million or \$2.03 per share in fiscal 2007.
- But we still got a lot accomplished. With the completion of upgrades at both our Kendallville and Philadelphia plants, we now have two of the most efficient facilities in our industry and can look forward to significantly lower capital expenditures.
- And in publishing, we finally have a unified sales force that can sell across product lines, and unified IT systems to manage all the businesses in an efficient, integrated way.

First Quarter of 2009

Turning to the first quarter of fiscal 2009, given the horrendous economy, we didn't do too badly.

- Sales were \$60 million, down 5%.
- And earnings per share were 6 cents, versus 11 cents a year ago.

But both segments faced serious challenges.

In publishing, sales were down double digits in all three businesses. As the recession deepened, consumers became very cautious, and retailers kept inventories lean in a tight credit environment. Both of these factors were compounded for Creative Homeowner by the continuing crisis in the housing market. On the plus side, Creative successfully completed the transition out

of the book distribution business in December, which should significantly reduce their losses going forward.

Things were better in book manufacturing, with double-digit growth in four-color sales and modest growth in religious books. But at the same time, one- and two-color sales were off sharply, leaving us with more one-color capacity than we could afford to keep. The good news was that we succeeded in locking in some key four-color business, as I mentioned earlier. In addition, publishers have reacted very positively to our *Green Editions* concept.

So where does that leave us today?

We are a leaner company than we were a year ago. Unfortunately, we've had to let go of some very good people due to changes in the business and the current recession. As we move through 2009 and hopefully to better times, we'll continue to do what we have to do to succeed. We'll question, we'll reinvent, and we'll work together to make sure that Courier continues to represent the very best in American industry...

- always an innovator,
- always a service leader,
- more efficient than ever,
- and always ready to go the extra mile for customers, employees and shareholders.

That's the Courier way, and it always will be.

And speaking of the Courier way, I want to finish this morning by saluting a man who embodied the very best in our company for the last 35 years. As many of you know, last spring we mourned the passing of George Nichols, longtime head of National Publishing Company and a valued colleague and mentor to everyone throughout Courier Corporation. For everyone who knew and loved George, we are better for having known him, and we draw inspiration from his great deeds as we go forward.