

ENNIS, INC.  
Form 10-Q  
October 05, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended August 31, 2016**

**OR**

**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 1-5807**

**ENNIS, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Texas</b> <b>(State or Other Jurisdiction of</b>	<b>75-0256410</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>2441 Presidential Pkwy., Midlothian, Texas</b> <b>(Address of Principal Executive Offices)</b>	<b>76065</b> <b>(Zip code)</b>
<b>(972) 775-9801</b>	
<b>(Registrant's Telephone Number, Including Area Code)</b>	

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Edgar Filing: ENNIS, INC. - Form 10-Q

Large accelerated Filer  Accelerated filer  x  
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No  x

As of September 28, 2016, there were 25,960,267 shares of the Registrant's common stock outstanding.

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**  
**TABLE OF CONTENTS**

**PART I: FINANCIAL INFORMATION**

<b><u>Item 1. Financial Statements</u></b>	3
<u>Unaudited Consolidated Balance Sheets at August 31, 2016 and February 29, 2016</u>	3
<u>Unaudited Consolidated Statements of Operations for the three and six months ended August 31, 2016 and August 31, 2015</u>	5
<u>Unaudited Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended August 31, 2016 and August 31, 2015</u>	6
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended August 31, 2016 and August 31, 2015</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	20
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	29
<b><u>Item 4. Controls and Procedures</u></b>	29

**PART II: OTHER INFORMATION**

<b><u>Item 1. Legal Proceedings</u></b>	30
<b><u>Item 1A. Risk Factors</u></b>	30
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	30
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	30
<b><u>Item 4. Mine Safety Disclosures</u></b>	30
<b><u>Item 5. Other Information</u></b>	30
<b><u>Item 6. Exhibits</u></b>	30
<b><u>SIGNATURES</u></b>	32

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****ENNIS, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands)*

	<b>August 31, 2016</b>	<b>February 29, 2016</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 85,225	\$ 7,957
Accounts receivable, net of allowance for doubtful receivables of \$1,820 at August 31, 2016 and \$2,041 at February 29, 2016	37,017	36,546
Prepaid expenses	749	1,443
Prepaid income taxes	6,215	1,318
Inventories	28,227	27,619
Deferred income taxes	3,134	3,134
Assets held for sale		464
Current assets of discontinued operations		100,494
<b>Total current assets</b>	<b>160,567</b>	<b>178,975</b>
Property, plant and equipment, at cost		
Plant, machinery and equipment	131,819	131,346
Land and buildings	55,912	54,985
Other	22,724	22,686
<b>Total property, plant and equipment</b>	<b>210,455</b>	<b>209,017</b>
Less accumulated depreciation	162,019	158,226
<b>Net property, plant and equipment</b>	<b>48,436</b>	<b>50,791</b>
Goodwill	64,537	64,537
Trademarks and trade names	15,291	15,291
Other intangible assets, net	34,902	36,973
Deferred finance charges, net	300	
Other assets	246	274
Long-term assets of discontinued operations		46,337
<b>Total assets</b>	<b>\$ 324,279</b>	<b>\$ 393,178</b>

*See accompanying notes to consolidated financial statements.*



**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except for par value and share amounts)*

	<b>August 31, 2016</b>	<b>February 29, 2016</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Accounts payable	\$ 11,362	\$ 13,738
Accrued expenses		
Employee compensation and benefits	11,829	11,798
Taxes other than income	1,078	172
Income taxes payable		64
Other	2,371	2,133
Current liabilities of discontinued operations		12,495
Total current liabilities	26,640	40,400
Long-term debt	30,000	40,000
Liability for pension benefits	9,974	8,696
Deferred income taxes	4,670	4,670
Other liabilities	875	866
Total liabilities	72,159	94,632
Commitments and contingencies		
Shareholders equity		
Preferred stock \$10 par value, authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at August 31 and February 29, 2016	75,134	75,134
Additional paid-in capital	120,578	121,597
Retained earnings	147,824	206,105
Accumulated other comprehensive loss:		
Foreign currency translation, net of taxes		(9,940)
Minimum pension liability, net of taxes	(17,345)	(17,345)
Total accumulated other comprehensive loss	(17,345)	(27,285)
Treasury stock	(74,071)	(77,005)
Total shareholders equity	252,120	298,546
Total liabilities and shareholders equity	\$ 324,279	\$ 393,178

*See accompanying notes to consolidated financial statements.*



Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

*(Dollars in thousands, except share and per share amounts)*

	Three months ended		Six months ended	
	August 31,		August 31,	
	2016	2015	2016	2015
Net sales	\$ 91,246	\$ 100,455	\$ 181,656	\$ 197,224
Cost of goods sold	64,208	69,092	127,924	135,897
Gross profit margin	27,038	31,363	53,732	61,327
Selling, general and administrative	16,057	16,116	32,128	32,169
(Gain) loss from disposal of assets	(4)	(8)	2	(10)
Income from operations	10,985	15,255	21,602	29,168
Other income (expense)				
Interest expense	(231)	(3)	(233)	(6)
Other, net	11	3	4	3
	(220)		(229)	(3)
Earnings from continuing operations before income taxes	10,765	15,255	21,373	29,165
Provision for income taxes	3,981	5,644	7,906	10,791
Earnings from continuing operations	6,784	9,611	13,467	18,374
Income from discontinued operations, net of tax		1,435	2,481	1,843
Loss on sale of discontinued operations, net of tax			(26,042)	
Earnings (loss) from discontinued operations, net of tax		1,435	(23,561)	1,843
Net earnings (loss)	\$ 6,784	\$ 11,046	\$ (10,094)	\$ 20,217
Weighted average common shares outstanding				
Basic	25,893,218	25,662,828	25,847,051	25,636,203
Diluted	25,910,375	25,693,256	25,868,799	25,657,519

Edgar Filing: ENNIS, INC. - Form 10-Q

Earnings (loss) per share - basic					
Continuing operations	\$	0.26	\$	0.37	\$ 0.52 \$ 0.72
Discontinued operations	\$		\$	0.06	\$ (0.91) \$ 0.07
Net earnings (loss)	\$	0.26	\$	0.43	\$ (0.39) \$ 0.79
Earnings (loss) per share - diluted					
Continuing operations	\$	0.26	\$	0.37	\$ 0.52 \$ 0.72
Discontinued operations	\$		\$	0.06	\$ (0.91) \$ 0.07
Net earnings (loss)	\$	0.26	\$	0.43	\$ (0.39) \$ 0.79
Cash dividends per share	\$	1.675	\$	0.175	\$ 1.850 \$ 0.350

*See accompanying notes to consolidated financial statements.*

Table of Contents**ENNIS, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)***(Dollars in thousands)*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net earnings (loss)	6,784	\$ 11,046	\$ (10,094)	\$ 20,217
Foreign currency translation adjustment, net of deferred taxes		(2,611)	9,940	(3,275)
Comprehensive income (loss)	\$ 6,784	\$ 8,435	\$ (154)	\$ 16,942

*See accompanying notes to consolidated financial statements.*

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Dollars in thousands)*

	<b>Six months ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net earnings (loss)	\$ (10,094)	\$ 20,217
<b>Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:</b>		
Depreciation	4,002	3,798
Amortization of deferred finance charges	9	
Amortization of customer lists, noncompete, and patent	2,321	2,257
Pre-tax loss on sale of discontinued operations	36,775	
Operating cash flows of discontinued operations	538	31,334
(Gain) loss from disposal of assets	2	(10)
Bad debt expense, net of recoveries	103	(114)
Stock based compensation	679	657
<b>Changes in operating assets and liabilities, net of the effects of acquisitions:</b>		
Accounts receivable	(426)	1,675
Prepaid expenses and income taxes	(4,199)	1,758
Inventories	(373)	(1,203)
Other assets	(281)	221
Accounts payable and accrued expenses	(1,265)	(1,085)
Other liabilities	9	(421)
Liability for pension benefits	1,278	1,103
<b>Net cash provided by operating activities</b>	<b>29,078</b>	<b>60,187</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(927)	(2,358)
Purchase of businesses, net of cash acquired	(907)	(331)
Proceeds from sale of discontinued operations	107,354	
Investing cash flows of discontinued operations	(279)	(162)
Proceeds from disposal of plant and property	12	27
<b>Net cash provided by (used in) investing activities</b>	<b>105,253</b>	<b>(2,824)</b>
<b>Cash flows from financing activities:</b>		
Repayment of debt	(10,000)	(36,010)
Dividends	(48,187)	(9,012)
Financing cash flows of discontinued operations		(7,490)
Purchase of treasury stock	(1,786)	
Proceeds from exercise of stock options	2,910	

Net cash used in financing activities	(57,063)	(52,512)
Effect of exchange rate changes on cash		(1,834)
Net change in cash and cash equivalents	77,268	3,017
Cash at beginning of period	7,957	13,357
Cash and cash equivalents at end of period	\$ 85,225	\$ 16,374

*See accompanying notes to consolidated financial statements.*

---

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

**1. Significant Accounting Policies and General Matters**

**Basis of Presentation**

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively referred to as the Company, Registrant, Ennis, or we, us, or our ) for the period ended August 31, 2016 have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 29, 2016, from which the accompanying consolidated balance sheet at February 29, 2016 was derived. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included and are of a normal recurring nature. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

On May 25, 2016, the Company sold Alstyle Apparel, LLC and its subsidiaries, which constituted the Company's Apparel Segment, to Gildan Activewear Inc. (Gildan). As a result of this action, the current year and prior year disclosures reflect these operations as discontinued operations and prior year financial information has been restated to reflect this accounting treatment.

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. For lessors, ASU 2016-02 also modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and is effective in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which institutes a number of modifications to the reporting of financial assets and liabilities. These modifications include: (i) measurement of non-equity method assets and liabilities at fair value, with changes to fair value recognized through net income, (ii) performance of qualitative impairment assessments of equity investments without readily determinable fair values at each reporting period, (iii) elimination

of the requirement to disclose methods and significant assumptions used in calculating the fair value of financial instruments measured at amortized cost, (iv) measurement of the fair value of financial instruments measured at amortized cost using the exit price notion consistent with Topic 820, Fair Value Measurement, (v) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk, (vi) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (vii) evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU is effective for financial statements issued with fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact the adoption of ASU 2016-01 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which requires all deferred tax assets and liabilities to be classified as noncurrent

**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED AUGUST 31, 2016****1. Significant Accounting Policies and General Matters-continued**

on the balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016, which includes the Company's fiscal year 2017 beginning in March of 2017. The Company does not expect the adoption of this pronouncement to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing revenue recognition guidance in U.S. GAAP. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (ASU 2015-14), which defers the effective date of ASU 2014-09 to January 1, 2018. Early adoption of ASU 2014-09 is permitted in the first quarter of 2017. The guidance permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

**2. Accounts Receivable and Allowance for Doubtful Receivables**

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Substantially all of the Company's receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests, and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers' receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance in the period the payment is received. Credit losses from continuing operations have consistently been within management's expectations.

The following table presents the activity in the Company's allowance for doubtful receivables (in thousands):

Three months ended		Six months ended	
August 31,		August 31,	
2016	2015	2016	2015



Edgar Filing: ENNIS, INC. - Form 10-Q

Balance at beginning of period	\$ 1,787	\$ 2,257	\$ 2,041	\$ 2,158
Bad debt expense, net of recoveries	101	(332)	103	(114)
Accounts written off	(68)	(68)	(324)	(187)
Balance at end of period	\$ 1,820	\$ 1,857	\$ 1,820	\$ 1,857

**3. Inventories**

The Company uses the lower of last-in, first-out ( LIFO ) cost or market to value certain of its business forms inventories and the lower of first-in, first-out ( FIFO ) cost or market to value its remaining forms inventories. The Company regularly reviews inventories on hand, using specific aging categories, and writes down the carrying value of its inventories for excess and potentially obsolete inventories based on historical usage and estimated future usage. In assessing the ultimate realization of its inventories, the Company is required to make judgments as to future demand requirements. As actual future demand or market conditions may vary from those projected by the Company, adjustments to inventories may be required.

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED AUGUST 31, 2016

**3. Inventories-continued**

The following table summarizes the components of inventories at the different stages of production as of the dates indicated (in thousands):

	August 31, 2016	February 29, 2016
Raw material	\$ 15,852	\$ 15,983
Work-in-process	3,657	3,099
Finished goods	8,718	8,537
	\$ 28,227	\$ 27,619

**4. Acquisitions**

On August 12, 2016, the Company acquired the assets of Atlas Tag Company of Canada Inc. ( Atlas ) for \$0.3 million in cash. Atlas is located in Ajax, Ontario, Canada. Management considers this acquisition immaterial.

On March 19, 2016, the Company acquired the assets of Major Business Systems, Inc. ( Major ) for \$0.6 million in cash. Major is located in Hillsborough, North Carolina. Major's products will be sold through the Company's normal sales channel of independent distributors, which allows the Company to enhance its current product mix and to pursue more expansive product lines in the integrated document market. Management considers this acquisition immaterial.

On July 31, 2015, the Company acquired the assets of CMC Group, Inc. for \$0.3 million in cash plus the assumption of certain accrued liabilities. Management considers this acquisition immaterial.

**5. Discontinued Operations**

On April 1, 2016, the Company entered into a Unit Purchase Agreement (the Initial Purchase Agreement ) with Alstyle Operations, LLC (the Initial Buyer ) and, for the limited purpose set forth in such Initial Purchase Agreement, Steve S. Hong. Under the Initial Purchase Agreement, the Initial Buyer agreed to acquire Alstyle Apparel, LLC and its subsidiaries (the Apparel Segment ) from the Company for an aggregate purchase price of \$88.0 million, consisting of \$76.0 million in cash to be paid at closing, subject to a working capital adjustment, and an additional \$12.0 million to be paid pursuant to a capital lease covering certain equipment utilized by the Apparel Segment that was to have been retained by the Company. The Initial Purchase Agreement contemplated post-closing transition services for up to 18 months.

Under the Initial Purchase Agreement, the Company retained the right to terminate such agreement in the event that the Company received an unsolicited purchase offer for the Apparel Segment that was not matched by the Initial Buyer, which, in the judgment of the Board of Directors of the Company (the Board ) in the exercise of its fiduciary duties on behalf of the Company's shareholders, deemed such offer to be a superior offer to the transactions contemplated by the Initial Purchase Agreement.

On May 4, 2016, the Company received what the Board determined to be a superior offer from Gildan. In connection therewith, the Company terminated the Initial Purchase Agreement and paid the required \$3.0 million termination fee to the Initial Buyer. In connection with the superior offer, the Company and Gildan entered into a Unit Purchase Agreement, dated May 4, 2016 (the Gildan Purchase Agreement ), pursuant to which on May 25, 2016 Gildan acquired the Apparel Segment from the Company for an all-cash purchase price of \$110.0 million, subject to a working capital adjustment, customary indemnification arrangements, and the other terms of the Gildan Purchase Agreement. The Company is providing transition assistance to Gildan for certain administrative, financial, human resource, and information technology matters and is subleasing from Gildan a portion of real property located in Anaheim, California. As part of the purchase price, Gildan funded the Company's payment of the \$3.0 million termination fee payable to the Initial Buyer as result of the termination of the Initial Purchase Agreement.

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**5. Discontinued Operations-continued**

Balance sheet information for the Apparel Segment presented as discontinued operations is summarized as follows

*(in thousands):*

	<b>February 29, 2016</b>
<b>Current assets:</b>	
Cash	\$ 2,468
Accounts receivable, net	18,325
Prepaid expenses and income taxes	3,859
Inventories	72,691
Deferred income taxes	3,151
<b>Total current assets</b>	<b>\$ 100,494</b>
<b>Long-term assets:</b>	
Property, plant and equipment, net	\$ 30,543
Trademarks and trade names	9,170
Customer lists	5,499
Other assets	1,125
<b>Total long-term assets</b>	<b>\$ 46,337</b>
<b>Current liabilities:</b>	
Accounts payable	\$ 8,050
Employee compensation and benefits	4,065
Other current liabilities	380
<b>Total current liabilities</b>	<b>\$ 12,495</b>

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to the Apparel Segment and that will be eliminated from ongoing operations. The key components from discontinued operations related to the Apparel Segment were as follows (in thousands):

Edgar Filing: ENNIS, INC. - Form 10-Q

Sales price	\$ 110,000
Net book value of assets	(130,174)
Expenses related to sales (1)	(4,365)
Loss on sale before write-off of foreign currency translation adjustment	(24,539)
Write-off of foreign currency translation adjustments recorded in other comprehensive income	(16,109)
Loss on sale of sale of discontinued operations	\$ (40,648)

- (1) The termination fee, in the amount of \$3.0 million, paid as a result of the termination of the Initial Purchase Agreement for the sale of the Apparel Segment is included in this amount.

**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED AUGUST 31, 2016****5. Discontinued Operations-continued**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net sales	\$	\$ 50,306	\$ 41,038	\$ 104,113
Income from discontinued operations before income taxes		2,277	3,873	2,925
Loss on sale of discontinued operations before income taxes			(40,648)	
Income (loss) on discontinued operations before income taxes		2,277	(36,775)	2,925
Income tax expense (benefit)		842	(13,214)	1,082
Net earnings (loss) from discontinued operations	\$	\$ 1,435	\$ (23,561)	\$ 1,843

**6. Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis as of November 30 of each year, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. The impairment test for goodwill uses a two-step approach. Step one compares the fair value of the reporting unit to which goodwill is assigned to its carrying amount. If the carrying amount exceeds its estimated fair value, a potential impairment is indicated and step two is performed. Step two compares the carrying amount of the reporting unit's goodwill to its implied fair value. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the assets and liabilities, including unrecognized intangible assets of that reporting unit based on their fair values, similar to the allocation that occurs in a business combination. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. If the implied fair value of goodwill exceeds the carrying amount, goodwill is not impaired. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record additional impairment charges relating to these assets in the future.

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 15 years). Trademarks and trade

names with indefinite lives are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

The carrying amount and accumulated amortization of the Company's intangible assets at each balance sheet date are as follows (in thousands):

<b>As of August 31, 2016</b>	<b>Weighted Average Remaining Life (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Amortized intangible assets</b>				
Trade names		\$ 1,234	\$ 1,234	\$
Customer lists	9.0	53,669	19,079	34,590
Noncompete	1.3	175	57	118
Patent	1.5	783	589	194
<b>Total</b>	<b>9.0</b>	<b>\$ 55,861</b>	<b>\$ 20,959</b>	<b>\$ 34,902</b>

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**6. Goodwill and Other Intangible Assets-continued**

<b>As of February 29, 2016</b>	<b>Weighted Average Remaining Life (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Amortized intangible assets</b>				
Trade names		\$ 1,234	\$ 1,234	\$
Customer lists	8.7	53,519	16,852	36,667
Noncompete	1.8	75	29	46
Patent	2.0	783	523	260
<b>Total</b>	<b>8.7</b>	<b>\$ 55,611</b>	<b>\$ 18,638</b>	<b>\$ 36,973</b>
<b>August 31,      February 29,</b>				
<b>2016                      2016</b>				
<b>Non-amortizing intangible assets</b>				
Trademarks and trade names			\$ 15,291	\$ 15,291

Aggregate amortization expense for the six months ended August 31, 2016 and August 31, 2015 was \$2.3 million and \$2.3 million, respectively.

The Company's estimated amortization expense for the next five fiscal years ending in February of the stated fiscal year is as follows (in thousands):

2017	\$ 4,716
2018	4,504
2019	3,987
2020	3,867
2021	3,797

Changes in the net carrying amount of goodwill as of the dates indicated are as follows (in thousands):

Balance as of March 1, 2015	\$ 64,489
-----------------------------	-----------



Edgar Filing: ENNIS, INC. - Form 10-Q

Goodwill acquired	48
Goodwill impairment	
Balance as of February 29, 2016	64,537
Goodwill acquired	
Goodwill impairment	
Balance as of August 31, 2016	\$ 64,537

During the six months ended August 31, 2015, a \$48,000 purchase price allocation adjustment was added to goodwill related to the acquisition of Sovereign Business Forms.

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED AUGUST 31, 2016

**7. Other Accrued Expenses**

The following table summarizes the components of other accrued expenses as of the dates indicated (in thousands):

	August 31, 2016	February 29, 2016
Accrued taxes	\$ 228	\$ 156
Accrued legal and professional fees	340	409
Accrued interest	156	147
Accrued utilities	90	90
Accrued acquisition related obligations	652	666
Accrued credit card fees	123	246
Other accrued expenses	782	419
	\$ 2,371	\$ 2,133

**8. Long-Term Debt**

Long-term debt consisted of the following as of the dates indicated (in thousands):

	August 31, 2016	February 29, 2016
Revolving credit facility	\$ 30,000	\$ 40,000

On August 11, 2016, the Company entered into the Sixth Amendment to its Second Amended and Restated Credit Agreement (as amended, the Credit Facility ). The Sixth Amendment extends the maturity date of the Credit Facility to August 11, 2020 and provides the Company and its subsidiaries with up to \$100.0 million in revolving credit, as well as a \$20.0 million sublimit for the issuance of letters of credit and a \$15.0 million sublimit for swing-line loans. Under the Credit Facility, the Company or any of its subsidiaries also can request up to three increases in the aggregate commitments in an aggregate amount not to exceed \$50.0 million. Under the Credit Facility: (i) the Company's net leverage ratio may not exceed 3.00:1.00, (ii) the Company's fixed charge coverage ratio may not be less than 1.25:1.00, and (iii) the Company may make dividends or distributions to shareholders so long as (x) no event of default has occurred and is continuing and (y) the Company's net leverage ratio both before and after giving effect to any such dividend or distribution is equal to or less than 2.50:1.00.

The Credit Facility bears interest at the London Interbank Offered Rate ( LIBOR ) plus a spread ranging from 1.0% to 2.0%, or 1.80% (3 month LIBOR + 1.0%) at August 31, 2016 and 1.76% (30 day LIBOR + 1.25%) at February 29,

2016, depending on the Company's ratio of total funded debt to the sum of net earnings from continuing operations plus interest, tax, depreciation, and amortization (EBITDA). As of August 31, 2016, the Company had \$30.0 million of borrowings under the revolving credit line and \$2.1 million outstanding under standby letters of credit arrangements, leaving approximately \$67.9 million available. The Credit Facility is secured by substantially all of the Company's assets (other than real property), as well as all capital securities of each of the Company's subsidiaries.

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED AUGUST 31, 2016

**9. Shareholders' Equity**

Changes in shareholders' equity accounts for the six months ended August 31, 2016 are as follows (in thousands, except share amounts):

	Common Stock		Additional	Accumulated		Treasury Stock		Total	
	Shares	Amount	Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)		Shares		Amount
<b>Balance</b>									
<b>March 1, 2016</b>	30,053,443	\$ 75,134	\$ 121,597	\$ 206,105	\$ (27,285)	(4,437,005)	\$ (77,005)	\$ 298,546	
Net loss				(10,094)				(10,094)	
Foreign currency translation, net of deferred tax of \$6,087					9,940			9,940	
Dividends paid (\$1.85 per share)				(48,187)				(48,187)	
Stock based compensation			679					679	
Stock based compensation allocated to loss on sale of discontinued operations			112					112	
Exercise of stock options and restricted stock			(1,810)			282,988	4,720	2,910	
Stock repurchases						(103,705)	(1,786)	(1,786)	
	30,053,443	\$ 75,134	\$ 120,578	\$ 147,824	\$ (17,345)	(4,257,722)	\$ (74,071)	\$ 252,120	

**Balance  
August 31,  
2016**

The Board has authorized the repurchase of up to an aggregate of \$20.0 million of the Company's outstanding common stock through a stock repurchase program. Under the repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

During the six months ended August 31, 2016, the Company repurchased 103,705 shares of common stock at an average price of \$17.22 per share. Since the program's inception in October 2008, there has been 822,216 common shares repurchased at an average price of \$14.18 per share. As of August 31, 2016 there was \$8.3 million available to repurchase shares of the Company's common stock under the program.

**10. Stock Option Plan and Stock Based Compensation**

The Company grants stock options and restricted stock to key executives and managerial employees and non-employee directors. At August 31, 2016, the Company had one stock option plan, the 2004 Long-Term Incentive Plan of Ennis, Inc., as amended and restated as of June 30, 2011, formerly the 1998 Option and Restricted Stock Plan amended and restated as of May 14, 2008 (the Plan). The Company has 601,308 shares of unissued common stock reserved under the Plan for issuance as of August 31, 2016. The exercise price of each stock option granted under the Plan equals a referenced price of the Company's common stock as reported on the New York Stock Exchange on the date of grant, and an option's maximum term is ten years. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from grant date up to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the three months ended August 31, 2016 and August 31, 2015, the Company included compensation expense related to share-based compensation of \$0.4 million (\$0.2 million net of tax), and \$0.4 million (\$0.2 million net of tax), respectively, in selling, general, and administrative expenses. For the six months ended August 31, 2016 and August 31, 2015, the Company included compensation expense related to share-based compensation of \$0.7 million (\$0.4 million net of tax), and \$0.7 million (\$0.4 million net of tax), respectively, in selling, general, and administrative expenses.

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**10. Stock Option Plan and Stock Based Compensation-continued**Stock Options

The Company had the following stock option activity for the six months ended August 31, 2016:

	Number of Shares <i>(exact quantity)</i>	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life <i>(in years)</i>	Aggregate Intrinsic Value(a) <i>(in thousands)</i>
Outstanding at March 1, 2016	370,949	\$ 15.38	5.9	\$ 1,616
Granted				
Terminated				
Exercised	(193,453)	15.04		
Outstanding at August 31, 2016	177,496	\$ 15.76	4.7	\$ 279
Exercisable at August 31, 2016	172,423	\$ 15.79	4.6	\$ 268

(a) Intrinsic value is measured as the excess fair market value of the Company's common stock as reported on the New York Stock Exchange over the applicable exercise price.

No stock options were granted during the six months ended August 31, 2016. The following is a summary of the assumptions used and the weighted average grant-date fair value of the stock options granted during the six months ended August 31, 2015:

	<b>August 31, 2015</b>
Expected volatility	24.06%
Expected term (years)	3
Risk free interest rate	0.89%
Dividend yield	4.92%
Weighted average grant-date fair value	\$ 2.24

A summary of the stock options exercised and tax benefits realized from stock based compensation is presented below (in thousands):

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Total cash received	\$	\$	\$ 2,910	\$
Income tax benefits				
Total grant-date fair value			532	
Intrinsic value			969	

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED AUGUST 31, 2016

**10. Stock Option Plan and Stock Based Compensation-continued**

A summary of the Company's unvested stock options at August 31, 2016 and the changes during the six months ended August 31, 2016 are presented below:

	Number of Options	Weighted Average Grant Date Fair Value
Unvested at March 1, 2016	76,425	\$ 2.32
New grants		
Vested	(71,352)	2.32
Forfeited		
Unvested at August 31, 2016	5,073	\$ 2.41

As of August 31, 2016, there was \$7,000 of unrecognized compensation cost related to unvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 1.3 years.

Restricted Stock

The Company had the following restricted stock grant activity for the six months ended August 31, 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at March 1, 2016	189,396	\$ 14.36
Granted	64,685	19.63
Terminated		
Vested	(89,535)	14.46
Outstanding at August 31, 2016	164,546	\$ 16.37



As of August 31, 2016, the total remaining unrecognized compensation cost related to unvested restricted stock granted under the Plan was approximately \$2.2 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 1.9 years.

**11. Pension Plan**

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan (the Pension Plan ), covering approximately 21% of aggregate employees. Benefits are based on years of service and the employee s average compensation for the highest five compensation years preceding retirement or termination.

Table of Contents

## ENNIS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED AUGUST 31, 2016

**11. Pension Plan-continued**

Pension expense is composed of the following components included in cost of goods sold and selling, general, and administrative expenses in the Company's consolidated statements of earnings (in thousands):

	Three months ended August 31,		Six months ended August 31,	
	2016	2015	2016	2015
Components of net periodic benefit cost				
Service cost	\$ 292	\$ 326	\$ 583	\$ 651
Interest cost	593	592	1,186	1,184
Expected return on plan assets	(916)	(982)	(1,832)	(1,964)
Amortization of:				
Prior service cost		(22)		(43)
Unrecognized net loss	670	637	1,341	1,275
Net periodic benefit cost	\$ 639	\$ 551	\$ 1,278	\$ 1,103

The Company is required to make contributions to the Pension Plan. These contributions are required under the minimum funding requirements of ERISA. Due to the enactment of the Highway and Transportation Funding Act (HATFA) in August 2014, plan sponsors can calculate the discount rate used to measure the Pension Plan liability using a 25-year average of interest rates plus or minus a corridor. The Company's minimum required contribution to the Pension Plan is zero for the Pension Plan year ending February 28, 2017. However, the Company expects to make a cash contribution to the Pension Plan of between \$2.0 million and \$3.0 million during fiscal year 2017. The Company contributed \$3.0 million to the Pension Plan during fiscal year 2016.

**12. Earnings (loss) per Share**

Basic earnings (loss) per share have been computed by dividing net earnings by the weighted average number of common shares outstanding during the applicable period. Diluted earnings (loss) per share reflect the potential dilution that could occur if stock options or other contracts to issue common shares were exercised or converted into common stock.

For the three months ended August 31, 2016, 42,500 shares related to stock options were not included in the diluted earnings per share computation because the exercise price of such shares exceeded the average fair market value of the Company's stock. For the six months ended August 31, 2016, all shares related to stock options were included in the diluted loss per share computation because the average fair market value of such shares exceeded the exercise price of the Company's stock. For the three and six months ended August 31, 2015, 172,543 and 203,961 shares, respectively,

related to stock options were not included in the diluted earnings per share computation because their exercise price exceeded the average fair market value of the Company's stock. The following table sets forth the computation for basic and diluted earnings (loss) per share for the periods indicated:

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**12. Earnings (loss) per Share-continued**

	Three months ended		Six months ended	
	August 31,		August 31,	
	2016	2015	2016	2015
Basic weighted average common shares outstanding	25,893,218	25,662,828	25,847,051	25,636,203
Effect of dilutive options	17,157	30,428	21,748	21,316
Diluted weighted average common shares outstanding	25,910,375	25,693,256	25,868,799	25,657,519
Earnings (loss) per share - basic and diluted				
Earnings per share on continuing operations	\$ 0.26	\$ 0.37	\$ 0.52	\$ 0.72
Earnings per share on discontinued operations		0.06	0.10	0.07
Loss per share on sale of discontinued operations			(1.01)	
Earnings (loss) on discontinued operations		0.06	(0.91)	0.07
Net earnings (loss)	\$ 0.26	\$ 0.43	\$ (0.39)	\$ 0.79
Cash dividends	\$ 1.675	\$ 0.175	\$ 1.85	\$ 0.35

**13. Concentrations of Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and trade receivables. Cash is placed with high-credit quality financial institutions. The Company believes its credit risk with respect to trade receivables is limited due to industry and geographic diversification. As disclosed on the Consolidated Balance Sheets, the Company maintains an allowance for doubtful receivables to cover the Company's estimate of credit losses associated with accounts receivable.

The Company, for quality and pricing reasons, purchases its paper, cotton and yarn products from a limited number of suppliers. To maintain its high standard of color control associated with its apparel products, the Company purchases its dyeing chemicals from limited sources. While other sources may be available to the Company to purchase these

products, they may not be available at the cost or at the quality the Company has come to expect.

For the purposes of the Consolidated Statements of Cash Flows, the Company considers cash to include cash on hand and in bank accounts. The Federal Deposit Insurance Corporation ( FDIC ) insures accounts up to \$250,000. At August 31, 2016, cash balances included \$84.6 million that was not federally insured because it represented amounts in individual accounts above the federally insured limit for each such account. This at-risk amount is subject to fluctuation on a daily basis. While management does not believe there is significant risk with respect to such deposits, we cannot be assured that we will not experience losses on our deposits.

#### **14. Subsequent Events**

On September 23, 2016, the Board declared a quarterly cash dividend of 17 ½ cents per share, which will be paid on November 7, 2016 to the shareholders of record on October 14, 2016.

---

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

Ennis, Inc. (formerly Ennis Business Forms, Inc.) was organized under the laws of Texas in 1909. Ennis, Inc. and its subsidiaries print and manufacture a broad line of business forms and other business products. We distribute business products and forms throughout the United States primarily through independent dealers. This distributor channel encompasses independent print distributors, commercial printers, direct mail, fulfillment companies, payroll and accounts payable software companies, and advertising agencies, among others. We also sell products to many of our competitors to satisfy their customer's needs.

On April 1, 2016, we entered into a Unit Purchase Agreement (the "Initial Purchase Agreement") with Alstyle Operations, LLC (the "Initial Buyer") and, for the limited purpose set forth in such Initial Purchase Agreement, Steve S. Hong. Under the Initial Purchase Agreement, the Initial Buyer agreed to acquire Alstyle Apparel, LLC and its subsidiaries (the "Apparel Segment") from us for an aggregate purchase price of \$88.0 million, consisting of \$76.0 million in cash to be paid at closing, subject to a working capital adjustment, and an additional \$12.0 million to be paid pursuant to a capital lease covering certain equipment utilized by the Apparel Segment that was to have been retained by us. The Initial Purchase Agreement contemplated post-closing transition services for up to 18 months.

Under the Initial Purchase Agreement, we retained the right to terminate such agreement in the event that the Company received an unsolicited purchase offer for the Apparel Segment that was not matched by the Initial Buyer, which, in the judgment of our Board of Directors (the "Board") in the exercise of its fiduciary duties on behalf of the our shareholders, deemed such offer to be a superior offer to the transactions contemplated by the Initial Purchase Agreement.

On May 4, 2016, the Company received what the Board determined to be a superior offer from Gildan Activewear Inc. ("Gildan"). In connection therewith, we terminated the Initial Purchase Agreement and paid the required \$3.0 million termination fee to the Initial Buyer. In connection with the superior offer, the Company and Gildan entered into a Unit Purchase Agreement, dated May 4, 2016 (the "Gildan Purchase Agreement"). Gildan acquired the Apparel Segment for an all-cash purchase price of \$110.0 million, subject to a working capital adjustment, customary indemnification arrangements, and the other terms of the Gildan Purchase Agreement. We are providing transition assistance to Gildan for certain administrative, financial, human resource, and information technology matters, and we are subleasing from Gildan a portion of a real property located in Anaheim, California. As part of the purchase price, Gildan funded our payment of the \$3.0 million termination fee payable to the Initial Buyer in connection with the termination of the Initial Purchase. We filed with the Securities and Exchange Commission Current Reports on Form 8-K on May 4, 2016 and June 1, 2016 regarding the Gildan Purchase Agreement and the consummation of the sale of the Apparel Segment, respectively, and reference is made herein to those current reports for further explanation.

Based on certain tax elections expected to be made, we anticipate that we will be able to treat the loss arising from the sale of the Apparel Segment as an operating loss for tax purposes.

On August 12, 2016, we acquired the assets of Atlas for \$0.3 million in cash. Atlas is located in Ajax, Ontario, Canada. Management considers this acquisition immaterial.

On March 19, 2016, we acquired the assets of Major Business Systems, Inc. (Major ) for \$0.6 million in cash. Major is located in Hillsborough, North Carolina. Major's products will be sold through our normal sales channel of independent distributors, which allows us to enhance our product mix and pursue more expansive product lines in the integrated document market. Major, which generated approximately \$3.4 million in unaudited sales for the twelve-month period ended April 30, 2015, will continue to operate under its brand name.

On July 31, 2015, we acquired the assets of CMC Group, Inc. for \$0.3 million in cash plus the assumption of certain accrued current liabilities. Management considers this acquisition immaterial.

---

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

During the fourth quarter of fiscal year 2016, we were required to move our folder operations from Omaha, Nebraska to Columbus, Kansas, due to the owners' desire to sell the facility. The move and inefficiencies associated with starting-up and training new employees has had a negative impact on revenues and operational margins over the past several quarters. While our current quarter's results continued to be impacted by this relocation, we expect that the negative overhang associated with this move will end soon. In addition to the foregoing, our medical claims have exceeded our historical trend line during the last fiscal year. As a result, we made an additional contribution of \$2.3 million to our medical reserve, which negatively impacted our operational margins during this quarter. Whether our medical claims will continue to exceed our historical trend line and thus require us to take additional unusual charges in the future is unknown at this point. We are currently evaluating various alternatives that we may pursue in the future in hopes of decreasing our medical claims cost. However, we do not expect that any alternative we may choose will impact our medical claims cost curve until next fiscal year.

**Business Overview**

Our management believes we are the largest provider of business forms, pressure-seal forms, labels, tags, envelopes, and presentation folders to independent distributors in the United States.

We are in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States. We operate 58 manufacturing plants throughout the United States in 22 strategically located states. Approximately 95% of the business products manufactured are custom and semi-custom products, constructed in a wide variety of sizes, colors, number of parts, and quantities on an individual job basis, depending upon the customers' specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal Business Forms®, Block Graphics®, Specialized Printed Forms®, 360° Custom Labels<sup>SM</sup>, ColorWorx®, Enfusion®, Uncompromised Check Solutions®, VersaSeal®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphics<sup>SM</sup>, Calibrated Forms®, PrintXcel<sup>SM</sup>, Printegra®, Curtis Business Forms<sup>SM</sup>, Falcon Business Forms<sup>SM</sup>, Forms Manufacturers<sup>SM</sup>, Mutual Graphics<sup>SM</sup>, TRI- C Business Forms<sup>SM</sup>, Major Business Systems<sup>SM</sup>, and Hoosier Data Forms®. We also sell the Adams McClure® brand (which provides Point of Purchase advertising for large franchise and fast food chains, as well as kitting and fulfillment); the Admore® and Folder Express® brands (which provide presentation folders and document folders); Ennis Tag & Label<sup>SM</sup> (which provides custom printed, high performance labels and custom and stock tags); Atlas Tag & Label®, Kay Toledo Tag<sup>SM</sup>, and Special Service Partners<sup>SM</sup> (SSP) (which provides custom and stock tags and labels); Trade Envelopes®, Block Graphics®, Wisco®, and National Imprint Corporation® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

We sell predominantly through private printers and independent distributors, as well as to many of our competitors. Northstar also sells direct to a small number of customers, generally large banking organizations (where a distributor is not acceptable or available to the end-user). Northstar acquired several of the top 25 banks in the United States as



customers and is actively pursuing other large banks within the top 25 tier of banks in the United States. Adams McClure also sells direct to a small number of customers, where sales are generally through advertising agencies.

The printing industry generally sells its products either through sales made predominantly to end users, a market dominated by a few large manufacturers, such as R.R. Donnelley and Sons, Staples, Inc., Standard Register Co.(a subsidiary of Taylor Corporation), and Cenveo, Inc., or, like the Company, through a variety of independent distributors and distributor groups. While it is not possible, because of the lack of adequate public statistical information, to determine the Company's share of the total business products market, management believes the Company is the largest producer of business forms, pressure-seal forms, labels, tags, envelopes, and presentation folders in the United States distributing primarily through independent dealers.

There are a number of competitors that operate in this segment, ranging in size from single employee-owner operations to multi-plant organizations. We believe our strategic locations and buying power permit us to compete on a favorable basis within the distributor market on competitive factors, such as service, quality, and price.

Distribution of business forms and other business products throughout the United States is primarily done through independent dealers, including business form distributors, resellers, direct mail, commercial printers, payroll and accounts payable software companies, and advertising agencies.

Raw materials principally consist of a wide variety of weights, widths, colors, sizes, and qualities of paper for business products purchased from generally one major supplier at favorable prices based on the volume of business.

Business products usage in the printing industry is generally not seasonal. General economic conditions and contraction of the traditional business forms industry are the predominant factor in quarterly volume fluctuations.

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

**Business Challenges**

We are engaged in an industry undergoing significant changes, including consolidation of some of our traditional channels, product obsolescence, expansion of commodity materials to our competition, as well as cheaper material imports due to the strong dollar. Technology advances have made electronic distribution of documents, internet hosting, digital printing and print-on-demand valid, cost-effective alternatives to traditional custom printed documents and customer communications. Improved equipment has become more accessible to our competitors due to the continued low interest rate environment. We face highly competitive conditions throughout the supply chain in an already over-supplied, price-competitive print industry. The challenges of our business include the following:

**Transformation of our portfolio of products** While traditional business documents are essential in order to conduct business, many are being replaced through the use of cheaper paper grades or imported paper, or devalued with advances in digital technologies, causing steady declines in demand for a portion of our current product line. Transforming our product offerings in order to continue to provide innovative, valuable solutions through lower labor and fixed charges to our customers on a proactive basis will require us to make investments in new and existing technology and to develop key strategic business relationships, such as print-on-demand services and product offerings that assist customers in their transition to digital business environments. In addition, we will continue to look for new market opportunities and niches through acquisitions, such as the addition of our envelope offerings, tag offerings, folder offerings, healthcare wristbands, secure document solutions, innovative in-mold label offerings and long-run integrated products with high color web printing, which provide us with an opportunity for growth and differentiate us from our competition.

**Excess production capacity and price competition within our industry** Paper mills continue to adjust production capacity through downtime and closures to attempt to keep supply in line with demand, although a number of countries have disrupted the supply/demand curve by dumping paper into the U.S. market. Due to the number of paper mills worldwide, paper prices have been and are expected to remain fairly weak, although the strong dollar has attracted cheaper material into the United States notwithstanding the trade tariffs imposed. We will continue to focus our efforts on effectively managing and controlling our product costs to minimize these effects on our operational results, primarily through the use of forecasting, production and costing models. As always, some of these negative factors are cyclical and we will continue to focus on maintaining our margins when the inevitable currency swings go the other way.

**Continued consolidation of our customers** Our customers, who are distributors, are consolidating or are being acquired by competitors. As such, they demand better pricing and services, or they are required to move their business to their new parent company's manufacturing facilities. While we continue to maintain a majority of this business, it is possible that these consolidations and acquisitions will impact our margins and our sales in the near future.

**Cautionary Statements Regarding Forward Looking Statements**

You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. All of the statements in this Report, other than historical facts, are forward-looking statements, including, without limitation, the statements made in the Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly under the caption Overview. As a general matter, forward-looking statements are those focused upon anticipated events or trends, expectations, and beliefs relating to matters that are not historical in nature. The words could, should, feel, anticipate, aim, preliminary, believe, estimate, intend, intent, plan, will, foresee, project, forecast, or the negative thereof or various similar expressions identify forward-looking statements.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for these forward-looking statements. In order to comply with the terms of the safe harbor, Ennis, Inc. notes that forward-looking statements are subject to known and unknown risks, uncertainties and other factors relating to its operations and business environment, all of which are difficult to predict and many of which are beyond the control of Ennis, Inc. These known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those matters expressed in, anticipated by or implied by such forward-looking statements.

These statements reflect the current views and assumptions of management with respect to future events. Ennis, Inc. does not undertake, and hereby disclaims, any duty to update these forward-looking statements, even though its situation and circumstances may change in the future. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. The inclusion of any statement in this report does not constitute an admission by Ennis, Inc. or any other person that the events or circumstances described in such statement are material.

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

We believe these forward- looking statements are based upon reasonable assumptions. All such statements involve risks and uncertainties, and as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including but not limited to, general economic, business and labor conditions and the potential impact on our operations; our ability to implement our strategic initiatives and control our operational costs; dependence on a limited number of key suppliers; our ability to recover the rising cost of raw materials and other costs (i.e., energy, freight, labor, benefit costs, etc.) in markets that are highly price competitive and volatile; our ability to timely or adequately respond to technological changes in the industry; the impact of the Internet and other electronic media on the demand for forms and printed materials; the impact of foreign competition; changes in economic conditions; customer credit risk; competitors pricing strategies; a decline in business volume and profitability could result in an impairment in our reported goodwill negatively impacting our operational results; our ability to retain key management personnel; our ability to identify, manage or integrate acquisitions; and changes in government regulations. In addition to the factors indicated above, you should carefully consider the risks described in and incorporated by reference herein and in the risk factors in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016 before making an investment in our common stock.

**Critical Accounting Policies and Estimates**

In preparing our consolidated financial statements, we are required to make estimates and assumptions that affect the disclosures and reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis, including those related to allowance for doubtful receivables, inventory valuations, property, plant and equipment, intangible assets, pension plan obligations, accrued liabilities and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We believe our accounting policies related to the aforementioned items, are the most critical due to their effect on our more significant estimates and judgments used in preparation of our consolidated financial statements. For additional information, reference is made to the Critical Accounting Policies and Estimates section of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

**Results of Operations**

The discussion that follows provides information which we believe is relevant to an understanding of our results of operations and financial condition. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto, which are incorporated herein by reference. This analysis is presented in the following sections:

*Consolidated Summary* this section provides an overview of our consolidated results of operations for the three and six months ended August 31, 2016 and August 31, 2015.

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

*Consolidated Summary*

Unaudited Consolidated Statements of Operations - Data (Dollars in thousands)	Three Months Ended August 31,				Six Months Ended August 31,			
	2016		2015		2016		2015	
Net sales	\$ 91,246	100.0%	\$ 100,455	100.0%	\$ 181,656	100.0%	\$ 197,224	100.0%
Cost of goods sold	64,208	70.4	69,092	68.8	127,924	70.4	135,897	68.9
Gross profit margin	27,038	29.6	31,363	31.2	53,732	29.6	61,327	31.1
Selling, general and administrative	16,057	17.6	16,116	16.0	32,128	17.7	32,169	16.3
(Gain) loss from disposal of assets	(4)		(8)		2		(10)	
Income from operations	10,985	12.0	15,255	15.2	21,602	11.9	29,168	14.8
Other expense, net	(220)	(0.2)			(229)	(0.1)	(3)	
Earnings from continuing operations before income taxes	10,765	11.8	15,255	15.2	21,373	11.8	29,165	14.8
Provision for income taxes	3,981	4.4	5,644	5.6	7,906	4.4	10,791	5.5
Earnings from continuing operations	6,784	7.4%	9,611	9.6%	13,467	7.4%	18,374	9.3%
Income from discontinued operations, net of tax			1,435	1.4	2,481	1.3	1,843	1.0
Loss on sale of discontinued operations, net of tax					(26,042)	(14.3)		
Earnings (loss) from discontinued operations, net of tax			1,435	1.4	(23,561)	(13.0)	1,843	1.0
Net earnings (loss)	\$ 6,784	7.4%	\$ 11,046	11.0%	\$ (10,094)	-5.6%	\$ 20,217	10.3%

The following table reconciles, on a non-GAAP basis, the reported numbers to the adjusted numbers for the three months ended August 31, 2016 and the six months ended August 31, 2016, after eliminating the negative impact associated with the higher than normal medical expenses during the quarter and the negative impact of the Folder Express relocation.

Three months ended  
August 31,

Six months ended  
August 31,

Edgar Filing: ENNIS, INC. - Form 10-Q

	2016	2016
	(in thousands, except per share amounts)	
Net income from continuing operations	\$ 6,784	\$ 13,467
Impact of additional medical charge	2,250	2,250
Impact of Folder Express relocation	1,220	2,737
Total of noted adjustments	3,470	4,987
Income taxes on adjustments	1,284	1,845
Adjustments, net of taxes	2,186	3,142
Adjusted net earnings from continuing operations (non- GAAP)	\$ 8,970	\$ 16,609
Adjusted diluted earnings per share (non-GAAP)	\$ 0.35	\$ 0.64

**Three months ended August 31, 2016 compared to three months ended August 31, 2015**

*Net Sales.* Our net sales were \$91.2 million for the quarter ended August 31, 2016, compared to \$100.5 million for same quarter last year and \$90.4 million for the sequential quarter, or a decrease of 9.3% over the comparable quarter and an increase of 0.9% over the sequential quarter. Our print sales for the current quarter, compared to same period last year, decreased. This was likely due primarily to our lack of new acquisitions. Though over the years, acquisitions have been an integral part of our strategy to offset industry revenue declines that result from normal print attrition and general economic conditions, we were focused on completing the sale of our Apparel Segment this year. Thus, we have not completed any meaningful print acquisitions. Also, the move of our Company's folder operations from Omaha, Nebraska to Columbus, Kansas decreased our sales by approximately \$2.4 million during the quarter.

*Cost of Goods Sold.* Our cost of goods sold decreased by \$4.9 million from \$69.1 million for the three months ended August 31, 2015 to \$64.2 million for the three months ended August 31, 2016, or 7.1%. Our gross profit margin (margin) was \$27.0 million for the quarter, or 29.6%. This compares to 31.2% for the same quarter last year, but has improved slightly from 29.5% for the sequential quarter. Our margin continues to be negatively impacted in the current quarter by the costs associated with the move of our folder operations. Also, the start-up training process for the labor force has decreased efficiencies, decreasing our sales and negatively impacting our margin this quarter by an estimated \$1.3 million. While the overall relocation process has taken longer than initially expected, we expect that the negative overhang associated with this move will end soon. In addition, because our medical claims exceeded our historical trends this quarter, we were required to take an additional charge of \$2.3 million to our medical reserve;

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

doing so impacted our gross profit margin during the quarter by approximately \$1.6 million. We are currently evaluating various alternatives in hopes of decreasing the medical claims cost. However, we do not expect that any alternative we may choose will impact our medical claims cost curve until next fiscal year. Without the aforementioned items' negative effects on our gross profit margin, our gross profit margin, on a non-GAAP basis, would have been approximately \$29.9 million for the current quarter, or 32.8%.

*Selling, general, and administrative expense.* For the three months ended August 31, 2016, our selling, general, and administrative expenses remained level at \$16.1 million for the three months ended August 31, 2016 and August 31, 2015. As a percentage of sales, the selling, general, and administrative expenses were 17.6% and 16.0% for the three months ended August 31, 2016 and August 31, 2015, respectively, due to lower sales volume. With the completion of the sale of our Apparel Segment on May 25, 2016, we expect to have opportunities to pursue acquisitions as part of our plan to better leverage these expenses in the future. In addition, in connection with the sale of the Apparel Segment, we entered into a transition services agreement with Gildan, pursuant to which we agreed to provide specified administrative services to Gildan for a stipulated period of time. We believe that, once the Company's obligations under the transition services agreement have been completed, our selling, general, and administrative expenses will reduce. Also, due to the additional charge to our medical reserve discussed above, our selling, general, and administrative expense line was further increased during the current quarter by approximately \$0.7 million. Had we not incurred the additional charge to our medical reserve, our selling, general, and administrative expense line this quarter, on a non-GAAP basis, would have been \$15.5 million, or 16.9% of sales.

*Gain from disposal of assets.* The \$4,000 gain from disposal of assets during the current quarter related primarily to the sale of a vehicle. The gain of \$8,000 during the same quarter last year related primarily to the sale of unused manufacturing equipment.

*Income from operations.* Our income from continuing operations for the three months ended August 31, 2016 was \$11.0 million, or 12.0% of sales, as compared to \$15.3 million, or 15.2% of sales, for the three months ended August 31, 2015. Without the negative impact associated with our folder operations move and the additional charge to our medical reserve during the current quarter, our income from continuing operations, on a non-GAAP basis, would have been \$14.5 million, or 15.9% of sales.

*Other expense.* Other expense for the three months ended August 31, 2016 was \$0.2 million, as opposed to zero for the three months ended August 31, 2015. Such other expense primarily accounts for the reallocation of interest expense from the Print Segment to our former Apparel Segment as part of discontinued operations for last fiscal year.

*Provision for income taxes.* Our effective tax rate for continuing operations was 37.0% for the three months ended August 31, 2016 and August 31, 2015.

*Net earnings.* Our net earnings from continuing operations for three months ended August 31, 2016 was \$0.26, compared to \$0.37 for the same quarter last year. There were no discontinued operations during the three months ended August 31, 2016, compared to net earnings from discontinued operations during the three months ended



August 31, 2015 of \$0.06. During the three months ended August 31, 2016, as previously discussed, our operational results continued to be negatively impacted by the relocation costs of our Folder Express operation and as a result of the \$2.3 million charge for higher than normal medical expenses that we incurred. Without the negative impact of these items, on a non-GAAP basis, our adjusted net earnings from continuing operations for the three months ended August 31, 2016 would have been \$9.0 million, and our adjusted earnings per share from continuing operations for the three months ended August 31, 2016 would have been \$0.35 per diluted share.

**Six months ended August 31, 2016 compared to six months ended August 31, 2015**

*Net Sales.* Our net sales were \$181.7 million for the six-month period ended August 31, 2016, compared to \$197.2 million for same period last year, or a decrease of 7.9%. Primarily as a result of our lack of acquisitions, our print sales for the six months ended August 31, 2016 decreased, compared to print sales for the six months ended August 31, 2015. Though over the years, acquisitions have been an integral part of our strategy to offset industry revenue declines that result from normal print attrition and general economic conditions, we were focused on completing the sale of our Apparel Segment this year. Thus, we have not completed any meaningful print acquisitions. Also, the move

---

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

of our Company's folder operations from Omaha, Nebraska to Columbus, Kansas decreased our sales by approximately \$4.5 million during the six-month period ended August 31, 2016.

*Cost of Goods Sold.* Our cost of goods sold was \$135.9 million for the six months ended August 31, 2015 and \$127.9 million for the six months ended August 31, 2016, a difference of \$8.0 million, or 5.9%. Our margin was \$53.7 million for the six-month period ended August 31, 2016, or 29.6%. This compares to 31.1% for the six-month same period last year. For the current six-month period, our margin continues to be negatively impacted by the costs associated with the move of our folder operations to Kansas. The start-up training process for the labor force has decreased efficiencies, decreasing our sales and negatively impacting our margins for the six months ended August 31, 2016 by an estimated \$2.9 million for the period. While the overall relocation process has taken longer than initially expected, we expect that the negative overhang associated with this move will end soon. In addition, we were required to take an additional charge to our medical reserve due to our medical claims exceeding our historical trends; doing so impacted our gross profit margin for the six months ended August 31, 2016 by approximately \$ 1.6 million. Without the aforementioned items' negative effects on our gross profit margin, our gross profit margin, on a non-GAAP basis, for the six months ended August 31, 2016 would have been approximately \$58.2 million, or 32.0%.

*Selling, general, and administrative expense.* For the six months ended August 31, 2016, our selling, general, and administrative expenses were \$32.1 million, down slightly from \$32.1 million for the six months ended August 31, 2015. As a percentage of sales, the selling, general, and administrative expenses were 17.7% and 16.3% for the six months ended August 31, 2016 and August 31, 2015, respectively, due to lower sales volume. With the completion of the sale of our Apparel Segment on May 25, 2016, we expect to have opportunities to pursue acquisitions as part of our plan to better leverage these expenses in the future. In addition, in connection with the sale of our Apparel Segment, we entered into a transition services agreement with Gildan, pursuant to which we agreed to provide specified administrative services to Gildan for a stipulated period of time. We believe that once the Company's obligations under the transition services agreement have been completed, our selling, general, and administrative expenses will reduce. Our selling, general, and administrative expense line was further impacted by approximately \$0.7 million associated with the previously discussed additional charge to our medical reserve during the six months ended August 31, 2016. Had we not incurred the additional charge to our medical reserve, our selling, general, and administrative expense line for the six months ended August 31, 2016, on a non-GAAP basis, would have been \$31.4 million, or 17.3% of sales.

*(Gain) loss from disposal of assets.* The \$2,000 net loss from disposal of assets during the six months ended August 31, 2016, primarily as a result of the sale of unused manufacturing equipment offset by a \$4,000 gain from the sale of a vehicle during the current period. The gain of \$10,000 during the six months ended August 31, 2015 primarily resulted from the sale of unused manufacturing equipment.

*Income from operations.* Our income from continuing operations for the six months ended August 31, 2016 was \$21.6 million, or 11.9% of sales, as compared to \$29.2 million, or 14.8% of sales, for the six months ended August 31, 2015. Without the negative impact associated with our folder operations move and the additional charge to our medical reserve during the six months ended August 31, 2016, our income from continuing operations, on a non-GAAP basis,

would have been \$26.4 million, or 14.5% of sales.

*Other expense.* Other expense increased from \$3,000 for the six months ended August 31, 2015 to \$0.2 million for the six months ended August 31, 2016. This related primarily to the reallocation of interest expense from the Print Segment to our former Apparel Segment as part of discontinued operations for last fiscal year.

*Provision for income taxes.* Our effective tax rate for continuing operations was 37.0% for both the six months ended August 31, 2016 and the six months ended August 31, 2015. The effective tax rate for discontinued operations was 35.9% and 37.0% for the six months ended August 31, 2016 and August 31, 2015, respectively.

*Net earnings.* Our net earnings from continuing operations for the six months ended August 31, 2016 were \$0.52, compared to \$0.72 for the six months ended August 31, 2015. Net earnings from discontinued operations during the six months ended August 31, 2016 were \$0.10, compared to \$0.07 for the six months ended August 31, 2015. Overall, before the loss on the sale of the Apparel Segment, operational results (continued and discontinued) for the period were \$0.62 per diluted share for the six months ended August 31, 2016 and \$0.79 per diluted share for the six months

Table of Contents**ENNIS, INC. AND SUBSIDIARIES****FORM 10-Q****FOR THE PERIOD ENDED AUGUST 31, 2016**

ended August 31, 2015. The net loss from the sale of the Company's discontinued operations during the period, net of tax, was \$26.0 million, or (\$1.01) per share, which included the write-off of the balance of foreign currency translation adjustments of \$16.1 million, or \$10.3 million, net of taxes. As a result, the Company realized a net loss of (\$10.1) million, or (\$0.39) per diluted share, for the six months ended August 31, 2016, compared to net earnings of \$20.2 million, or \$0.79 per diluted share for the six months ended August 31, 2015. Excluding the negative impact of the Folder Express relocation and the additional medical reserve charge, our adjusted income from continuing operations, on a non-GAAP basis, would have been \$16.0 million for the six months ended August 31, 2016, and our adjusted earnings per share from continuing operations, on a non-GAAP basis, would have been \$0.64 per diluted share for the six months ended August 31, 2016.

**Liquidity and Capital Resources**

We rely on our cash flows generated from operations and the borrowing capacity under our Credit Facility to meet cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, debt repayments and related interest payments, contributions to our pension plan and the payment of dividends to our shareholders. We expect to generate sufficient cash flows from operations supplemented by our Credit Facility as required to cover our operating and capital requirements for the foreseeable future.

<i>(Dollars in thousands)</i>	<b>August 31, 2016</b>	<b>February 29, 2016</b>
Working Capital	\$ 133,927	\$ 138,575
Cash and cash equivalents	\$ 85,225	\$ 7,957

**Working Capital.** Our working capital decreased \$4.6 million or 3.4%, from \$138.6 million at February 29, 2016 to \$133.9 million at August 31, 2016. Our current ratio, calculated by dividing our current assets by our current liabilities, increased from 4.4 to 1.0 at February 29, 2016 to 6.0 to 1.0 at August 31, 2016. Our current ratio increased primarily as a result of the impact associated with the cash sale of the Apparel Segment. Our working capital decreased primarily due to the special one-time dividend of \$1.50 per share paid in connection with the sale of the Apparel Segment.

<i>(Dollars in thousands)</i>	<b>Six months ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
Net cash provided by operating activities	\$ 29,078	\$ 60,187
Net cash provided by (used in) investing activities	\$ 105,253	\$ (2,824)
Net cash used in financing activities	\$ (57,063)	\$ (52,512)

**Cash flows from operating activities.** Cash provided by operating activities decreased by \$31.1 million from \$60.2 million for the six months ended August 31, 2015 to \$29.1 million for the six months ended August 31, 2016. Our decreased operational cash flows in comparison to the comparable period last year was primarily the result of three factors: i) decreased operational earnings, ii) a decrease of \$2.1 million associated with the collection of accounts receivable, iii) an increase in our prepaid expenses of \$6.0 million, principally prepaid income taxes, and iv) a decrease in operating cash flows from the Apparel Segment that was sold May 25, 2016.

**Cash flows from investing activities.** Cash provided by investing activities increased \$108.1 million from \$2.8 million used to \$105.3 million provided by for the six months ended August 31, 2015 and August 31, 2016, respectively. This was primarily due to the net proceeds of \$107.4 million provided from the sale of the Apparel Segment which took place on May 25, 2016 as well as a decrease of \$1.4 million used for capital expenditures.

**Cash flows from financing activities.** We used \$4.6 million more in cash from financing activities this period than during the same period last year. We used \$10.0 million in cash this year to pay down our debt, compared to \$36.0 million used last year. We used \$48.2 million this year to pay dividends which included a special one-time dividend of \$1.50 per share that was paid as result of the sale of the Apparel Segment, whereas we used \$9.0 million to pay dividends last year. This year we used \$1.8 million to repurchase our common stock under our stock repurchase

---

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

program, whereas we did not repurchase shares of our common stock last year. In addition, this year we received \$2.9 million from the exercise of stock options, whereas for the same period last year no stock options were exercised.

**Credit Facility.** On August 11, 2016, the Company entered into the Sixth Amendment to its Second Amended and Restated Credit Agreement (as amended, the Credit Facility ). The Sixth Amendment extends the maturity date of the Credit Facility to August 11, 2020 and provides the Company and its subsidiaries with up to \$100.0 million in revolving credit, as well as a \$20.0 million sublimit for the issuance of letters of credit and a \$15.0 million sublimit for swing-line loans. Under the Credit Facility, the Company or any or its subsidiaries also can request up to three increases in the aggregate commitments in an aggregate amount not to exceed \$50.0 million. Under the Credit Facility: (i) the Company's net leverage ratio may not exceed 3.00:1.00, (ii) the Company's fixed charge coverage ratio may not be less than 1.25:1.00, and (iii) the Company may make dividends or distributions to shareholders so long as (x) no event of default has occurred and is continuing and (y) the Company's net leverage ratio both before and after giving effect to any such dividend or distribution is equal to or less than 2.50:1.00.

The Credit Facility bears interest at the LIBOR rate plus a spread ranging from 1.0% to 2.0%, which rate was 1.80% (3 month LIBOR + 1.0%) at August 31, 2016 and 1.76% (30 day LIBOR + 1.25%) at February 29, 2016. The rate is determined by our fixed charge coverage ratio of total funded debt to EBITDA. As of August 31, 2016, we had \$30.0 million of borrowings under the revolving credit line and \$2.1 million outstanding under standby letters of credit arrangements, leaving approximately \$67.9 million available. The Credit Facility is secured by substantially all of our assets (other than real property), as well as all capital securities of each of our subsidiaries.

It is anticipated that the available line of credit is sufficient to cover the Company's working capital requirements for the foreseeable future, should it be required.

**Pension Plan** We are required to make contributions to our Pension Plan. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA ). Due to the enactment of the Highway and Transportation Funding Act (HATFA) in August 2014, which effectively raises the discount rates mandated for determining the value of a plan's benefit liability and annual cost of accruals, our minimum required contribution to the Pension Plan is zero for the Pension Plan year ending February 29, 2016. However, we expect to make a cash contribution to the Pension Plan of between \$2.0 million and \$3.0 million during fiscal year 2017. We made contributions of \$3.0 million to our Pension Plan during fiscal 2016. As our Pension Plan assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status, associated liabilities recorded and future required minimum contributions. At August 31, 2016, we had an unfunded pension liability recorded on our balance sheet of \$10.0 million.

**Inventories** We believe our inventory levels are sufficient to satisfy our customer demands and we anticipate having adequate sources of raw materials to meet future business requirements. We have long-term contracts in effect with paper and yarn suppliers that govern prices, but do not require minimum purchase commitments. Certain of our rebate programs do, however, require minimum purchase volumes. Management anticipates meeting the required volumes.

**Capital Expenditures** We expect our capital requirements for our current fiscal year, exclusive of capital required for possible acquisitions, will be within our historical levels of between \$2.0 million and \$4.0 million. To date we have spent approximately \$0.9 million on capital expenditures. We expect to fund these expenditures through existing cash flows.

**Contractual Obligations & Off-Balance Sheet Arrangements** There have been no significant changes in our contractual obligations since February 29, 2016 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of August 31, 2016.

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

*Interest Rates*

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. Our variable rate financial instruments, consisting of the outstanding loans under the Credit Facility, totaled \$30.0 million at August 31, 2016. The annual impact on our results of operations of a one-point interest rate change on the outstanding balance of the variable rate financial instruments as of August 31, 2016 would be approximately \$0.3 million.

*Foreign Exchange*

Although our previous transactions in foreign currencies were associated primarily with our former Apparel Segment operations, we expect to continue to make investments and enter into transactions in various foreign currencies from time to time. Any income and expenses (translated using average rates prevailing during the period), are affected by the translation into our reporting currency (the U.S. Dollar). Such translation adjustments are reported as a separate component of consolidated statements of comprehensive income. In future periods, foreign exchange rate fluctuations could have an impact on our reported results of operations.

This market risk discussion contains forward-looking statements. Actual results may differ materially from this discussion based upon general market conditions and changes in domestic and global financial markets.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.** A review and evaluation were carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this Quarterly Report on Form 10-Q, pursuant to Exchange Act Rule 13a-15. Based upon that review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of August 31, 2016 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can



be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that occurred during our fiscal quarter ended August 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

There are no material pending proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

**Item 1A. Risk Factors**

There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 29, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Board has authorized the repurchase of up to an aggregate of \$20.0 million of the Company's outstanding common stock through a stock repurchase program. Under the repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

During the six months ended August 31, 2016, the Company repurchased 103,705 shares of its common stock. Since the program's inception in October 2008, the Company has repurchased 822,216 common shares at an average price of \$14.18 per share. There is currently \$8.3 million available to repurchase shares of the Company's common stock under the program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Amount that May Yet Be Used to Purchase Shares Under the Program
June 1, 2016 - June 30, 2016		\$		\$ 10,128,466
July 1, 2016 - July 31, 2016	58,409	\$ 17.75	58,409	\$ 9,091,599
<u>August 1, 2016 - August 31, 2016</u>	45,296	\$ 16.54	45,296	\$ 8,342,407
<b>Total</b>	103,705	\$ 17.22	103,705	\$ 8,342,407

**Items 3, 4 and 5 are not applicable and have been omitted**

**Item 6. Exhibits**

The following exhibits are filed as part of this report.

Exhibit Number	Description
Exhibit 3.1(a)	Restated Articles of incorporation, as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988, incorporated herein by reference to Exhibit 5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1993 (File No. 001-05807).
Exhibit 3.1(b)	Amendment to Articles of Incorporation, dated June 17, 2004, incorporated herein by reference to Exhibit 3.1(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2007 filed on May 9, 2007 (File No. 001-05807).

**Table of Contents**

**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2016**

Exhibit Number	Description
Exhibit 3.2	Third Amended and Restated Bylaws of Ennis, Inc., dated April 17, 2014, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 21, 2014 (File No. 001-05807).
Exhibit 10.1	Unit Purchase Agreement, dated May 4, 2016, by and between Ennis, Inc. and Gildan Activewear Inc., incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2016 (File No. 001-05807).
Exhibit 10.2	Fourth Amendment and Consent to Second Amended and Restated Credit Agreement, effective as of May 25, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).
Exhibit 10.3	Fifth Amendment to Second Amended and Restated Credit Agreement, dated June 20, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).
Exhibit 10.4	Sixth Amendment to Second Amended and Restated Credit Agreement, dated August 11, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 17, 2016 (File No. 001-05807).
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a) of Chief Executive Officer.*
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a) of Chief Financial Officer.*
Exhibit 32.1	Section 1350 Certification of Chief Executive Officer.**
Exhibit 32.2	Section 1350 Certification of Chief Financial Officer.**
Exhibit 101	The following information from Ennis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 31, 2016, filed on October 5, 2016, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

\* Filed herewith

\*\* Furnished herewith



Table of Contents

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 31, 2016**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ENNIS, INC.
Date: October 5, 2016	/s/ Keith S. Walters Keith S. Walters Chairman, Chief Executive Officer and President
Date: October 5, 2016	/s/ Richard L. Travis, Jr. Richard L. Travis, Jr. Senior V.P. Finance and CFO, Treasurer and Principal Financial and Accounting Officer

**Table of Contents****INDEX TO EXHIBITS**

Exhibit Number	Description
Exhibit 3.1(a)	Restated Articles of incorporation, as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988, incorporated herein by reference to Exhibit 5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1993 (File No. 001-05807).
Exhibit 3.1(b)	Amendment to Articles of Incorporation, dated June 17, 2004, incorporated herein by reference to Exhibit 3.1(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2007 filed on May 9, 2007 (File No. 001-05807).
Exhibit 3.2	Third Amended and Restated Bylaws of Ennis, Inc., dated April 17, 2014, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 21, 2014 (File No. 001-05807).
Exhibit 10.1	Unit Purchase Agreement, dated May 4, 2016, by and between Ennis, Inc. and Gildan Activewear Inc., incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2016 (File No. 001-05807).
Exhibit 10.2	Fourth Amendment and Consent to Second Amended and Restated Credit Agreement, effective as of May 25, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).
Exhibit 10.3	Fifth Amendment to Second Amended and Restated Credit Agreement, dated June 20, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).
Exhibit 10.4	Sixth Amendment to Second Amended and Restated Credit Agreement, dated August 11, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 17, 2016 (File No. 001-05807).
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a) of Chief Executive Officer.*

- Exhibit 31.2 Certification Pursuant to Rule 13a-14(a) of Chief Financial Officer.\*
- Exhibit 32.1 Section 1350 Certification of Chief Executive Officer.\*\*
- Exhibit 32.2 Section 1350 Certification of Chief Financial Officer.\*\*
- Exhibit 101 The following information from Ennis, Inc. s Quarterly Report on Form 10-Q for the quarter ended August 31, 2016, filed on October 5, 2016, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

\* Filed herewith

\*\* Furnished herewith