ENNIS, INC.
Form 10-Q
September 30, 2011

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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended August 31, 2011

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from __________ to__________

Commission File Number 1-5807

ENNIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-0256410**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2441 Presidential Pkwy., Midlothian, Texas	**76065**
(Address of Principal Executive Offices)	(Zip code)

(972) 775-9801

(Registrant s Telephone Number, Including Area Code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Date 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 þ No o

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).

Large accelerated Filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of September 16, 2011, there were 26,056,450 shares of the Registrant s common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE PERIOD ENDED AUGUST 31, 2011

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENNIS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	August 31, 2011 *(unaudited)*	February 28, 2011
Assets		
Current assets		
Cash	$ 14,307	$ 12,305
Accounts receivable, net of allowance for doubtful receivables of $4,833 at August 31, 2011 and $4,814 at February 28, 2011	52,513	58,359
Prepaid expenses	5,807	5,335
Inventories	120,789	100,363
Deferred income taxes	6,036	6,036
Total current assets	199,452	182,398
Property, plant and equipment, at cost		
Plant, machinery and equipment	157,648	156,356
Land and buildings	73,812	73,482
Other	22,719	22,646
Total property, plant and equipment	254,179	252,484
Less accumulated depreciation	161,894	158,823
Net property, plant and equipment	92,285	93,661
Goodwill	117,341	117,341
Trademarks and tradenames, net	58,699	58,765
Customer lists, net	16,418	17,547
Deferred finance charges, net	432	648
Other assets	3,465	3,368
Total assets	$ 488,092	$ 473,728

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except for share amounts)

	August 31, 2011 (unaudited)	February 28, 2011
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 23,877	$ 18,868
Accrued expenses		
Employee compensation and benefits	14,347	16,503
Taxes other than income	890	585
Federal and state income taxes payable	651	2,935
Other	6,791	7,621
Current installments of long-term debt	50,000	586
Total current liabilities	96,556	47,098
Long-term debt		50,000
Liability for pension benefits	2,868	2,048
Deferred income taxes	25,788	25,379
Other liabilities	919	1,520
Total liabilities	126,131	126,045
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 28, 2011	75,134	75,134
Additional paid in capital	120,860	121,306
Retained earnings	247,714	234,636
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	1,858	1,727
Unrealized loss on derivative instruments, net of taxes		(372)
Minimum pension liability, net of taxes	(9,803)	(9,803)
Total accumulated other comprehensive income (loss)	(7,945)	(8,448)
Treasury stock		
Cost of 4,133,518 shares at August 31, 2011 and 4,197,567 shares at February 28, 2011	(73,802)	(74,945)
Total shareholders equity	361,961	347,683

Total liabilities and shareholders equity	$ 488,092	$ 473,728

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in thousands except share and per share amounts)
(Unaudited)

	Three months ended August 31,		Six months ended August 31,	
	2011	**2010**	**2011**	**2010**
Net sales	$ 130,384	$ 143,034	$ 273,642	$ 283,775
Cost of goods sold	96,290	103,326	199,847	201,887
Gross profit margin	34,094	39,708	73,795	81,888
Selling, general and administrative	18,447	20,276	39,304	41,523
Gain from disposal of assets	(125)		(125)	
Income from operations	15,772	19,432	34,616	40,365
Other income (expense)				
Interest expense	(664)	(321)	(1,482)	(758)
Other, net	171	(11)	(5)	29
	(493)	(332)	(1,487)	(729)
Earnings before income taxes	15,279	19,100	33,129	39,636
Provision for income taxes	5,567	6,971	11,993	14,467
Net earnings	$ 9,712	$ 12,129	$ 21,136	$ 25,169
Weighted average common shares outstanding				
Basic	25,933,902	25,840,376	25,914,986	25,820,626
Diluted	25,961,171	25,883,449	25,943,361	25,866,869
Per share amounts				
Net earnings basic	$ 0.37	$ 0.47	$ 0.82	$ 0.97
Net earnings diluted	$ 0.37	$ 0.47	$ 0.81	$ 0.97
Cash dividends per share	$ 0.155	$ 0.155	$ 0.310	$ 0.310

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended August 31, 2011	2010
Cash flows from operating activities:		
Net earnings	$ 21,136	$ 25,169
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	4,846	4,152
Amortization of deferred finance charges	216	216
Amortization of tradenames and customer lists	1,198	1,201
Gain from disposal of assets	(125)	
Bad debt expense	542	1,304
Stock based compensation	499	607
Deferred income taxes	(12)	
Changes in operating assets and liabilities:		
Accounts receivable	5,290	112
Prepaid expenses	(554)	2,424
Inventories	(20,546)	(8,840)
Other assets	(100)	103
Accounts payable and accrued expenses	135	671
Other liabilities	(601)	(597)
Prepaid pension asset	820	985
Net cash provided by operating activities	12,744	27,507
Cash flows from investing activities:		
Capital expenditures	(4,169)	(23,242)
Proceeds from disposal of plant and property	204	4
Net cash used in investing activities	(3,965)	(23,238)
Cash flows from financing activities:		
Dividends	(8,058)	(8,023)
Purchase of treasury stock	(2)	(1)
Proceeds from exercise of stock options	200	
Net cash used in financing activities	(7,860)	(8,024)
Effect of exchange rate changes on cash	1,083	(315)
Net change in cash	2,002	(4,070)

Cash at beginning of period	12,305	21,063
Cash at end of period	$ 14,307	$ 16,993

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED AUGUST 31, 2011

1. Significant Accounting Policies and General Matters

Basis of Presentation

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis) for the quarter ended August 31, 2011 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 28, 2011, from which the accompanying consolidated balance sheet at February 28, 2011 was derived. All significant 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.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued further additional authoritative guidance related to fair value measurements and disclosures. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between accounting principles generally accepted in the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS). The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. The Company is currently assessing the impact of the guidance.

In June 2011, the FASB issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. The Company will be required to incorporate the provisions of this new standard effective with its first quarter filing for fiscal year 2013.

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.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED AUGUST 31, 2011

2. Accounts Receivable and Allowance for Doubtful Receivables-continued

The following table represents the activity in the Company s allowance for doubtful receivables for the three and six months ended (in thousands):

	Three months ended August 31,		Six months ended August 31,	
	2011	2010	2011	2010
Balance at beginning of period	$ 4,882	$ 4,993	$ 4,814	$ 4,446
Bad debt expense	21	315	542	1,304
Recoveries	6	23	172	35
Accounts written off	(76)	(431)	(695)	(885)
Balance at end of period	$ 4,833	$ 4,900	$ 4,833	$ 4,900

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 and apparel 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.

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

	August 31, 2011	February 28, 2011
Raw material	$ 13,197	$ 11,237
Work-in-process	10,701	13,453
Finished goods	96,891	75,673
	$ 120,789	$ 100,363

4. 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, 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. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. 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 impairment charges for 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 10 years). Trademarks with indefinite lives and a net book value of $58.5 million at August 31, 2011 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.

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FOR THE PERIOD ENDED AUGUST 31, 2011

4. Goodwill and Other Intangible Assets-continued

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

As of August 31, 2011	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 1,073	$ 161
Customer lists	29,957	13,539	16,418
Noncompete	500	498	2
	$ 31,691	$ 15,110	$ 16,581

As of February 28, 2011			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 1,007	$ 227
Customer lists	29,957	12,410	17,547
Noncompete	500	495	5
	$ 31,691	$ 13,912	$ 17,779

	August 31, 2011	February 28, 2011
Non-amortizing intangible assets (in thousands)		
Trademarks	$ 58,538	$ 58,538

Aggregate amortization expense for the six months ended August 31, 2011 and August 31, 2010 was $1.2 million.

The Company s estimated amortization expense for the current and next five fiscal years is as follows (in thousands):

2012	$ 2,396
2013	2,352
2014	2,259
2015	2,141
2016	2,083
2017	2,083

There have been no changes to the amount of the Company s goodwill during the reporting periods covered. The balance of goodwill was $117,341 ($42,792 Print Segment and $74,549 Apparel Segment) as of August 31, 2011 and February 28, 2011.

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ENNIS, INC. AND SUBSIDIARIES
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5. Other Accrued Expenses

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

	August 31, 2011	February 28, 2011
Accrued taxes	$ 251	$ 229
Accrued legal and professional fees	616	499
Accrued interest	142	158
Accrued utilities	243	1,038
Accrued repairs and maintenance	752	684
Accrued construction retainage	1,811	2,020
Accrued phantom stock obligation	451	452
Accrued acquisition related obligations	234	243
Other accrued expenses	2,291	2,298
	$ 6,791	$ 7,621

6. Derivative Instruments and Hedging Activities

The Company used derivative financial instruments to manage its exposure to interest rate fluctuations on its floating rate $150.0 million revolving credit facility maturing August 18, 2012. On July 7, 2008, the Company entered into a three-year Interest Rate Swap Agreement (Swap) for a notional amount of $40.0 million which expired on July 22, 2011. The Swap effectively fixed the LIBOR rate at 3.79%.

The Swap was designated as a cash flow hedge, and the fair value at August 31, 2011 and February 28, 2011 was $0 and $(586,000), $0 and $(372,000), net of deferred taxes, respectively. The Swap was reported on the Consolidated Balance Sheet as of February 28, 2011 as current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During the three and six months ended August 31, 2011, the Company incurred an additional $208,000 and $571,000, respectively, in interest expense related to the Swap.

7. Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and long-term debt approximate fair value because of the short maturity and/or variable rates associated with these instruments. Derivative financial instruments are recorded at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves
- Level 3 Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes valuation models with observable market data inputs to estimate the fair value of its Swap.

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7. Fair Value of Financial Instruments-continued

The following table summarizes financial liabilities measured at fair value on a recurring basis as of August 31, 2011 and February 28, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

Description	August 31, 2011	Fair Value Measurements