ENNIS, INC.
Form 10-Q
June 28, 2010

Table of Contents

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 May 31, 2010

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 o 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	Smaller reporting company o
		(Do not check if a 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 o No þ

As of June 18, 2010, there were 25,896,934 shares of the Registrant s common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE PERIOD ENDED MAY 31, 2010
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	May 31, 2010 *(unaudited)*	February 28, 2010
Assets		
Current assets		
Cash	$ 13,498	$ 21,063
Accounts receivable, net of allowance for doubtful receivables of $4,993 at May 31, 2010 and $4,446 at February 28, 2010	59,917	57,249
Prepaid expenses	5,942	6,867
Inventories	77,942	75,137
Deferred income taxes	5,319	5,319
Assets held for sale	804	804
Total current assets	163,422	166,439
Property, plant and equipment, at cost		
Plant, machinery and equipment	144,740	138,419
Land and buildings	61,801	55,430
Other	22,454	22,402
Total property, plant and equipment	228,995	216,251
Less accumulated depreciation	152,402	150,531
Net property, plant and equipment	76,593	65,720
Goodwill	117,341	117,341
Trademarks and tradenames, net	58,864	58,897
Customer lists, net	19,190	19,753
Deferred finance charges, net	971	1,079
Other assets	3,463	3,470
Total assets	$ 439,844	$ 432,699

See accompanying notes to consolidated financial statements.

Table of Contents

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

	May 31, 2010 (unaudited)	February 28, 2010
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 19,268	$ 27,463
Accrued expenses		
Employee compensation and benefits	13,638	14,374
Taxes other than income	1,216	1,539
Federal and state income taxes payable	6,839	705
Other	6,595	5,720
Total current liabilities	47,556	49,801
Long-term debt, less current installments	41,432	41,817
Liability for pension benefits	7,624	7,132
Deferred income taxes	19,872	19,821
Other liabilities	567	868
Total liabilities	117,051	119,439
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 May 31 and February 28, 2010	75,134	75,134
Additional paid in capital	121,372	121,978
Retained earnings	215,096	206,062
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	107	267
Unrealized loss on derivative instruments, net of taxes	(909)	(1,154)
Minimum pension liability, net of taxes	(12,376)	(12,376)
	(13,178)	(13,263)
	398,424	389,911
Treasury stock		
Cost of 4,234,944 shares at May 31, 2010 and 4,292,080 shares at February 28, 2010	(75,631)	(76,651)

Total shareholders equity	322,793	313,260
Total liabilities and shareholders equity	$ 439,844	$ 432,699

See accompanying notes to consolidated financial statements.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(*Dollars in thousands except share and per share amounts*)
(Unaudited)

	Three months ended May 31, 2010	Three months ended May 31, 2009
Net sales	$ 140,741	$ 130,830
Cost of goods sold	98,561	99,846
Gross profit margin	42,180	30,984
Selling, general and administrative	21,247	19,459
Gain from disposal of assets		(2)
Income from operations	20,933	11,527
Other income (expense)		
Interest expense	(437)	(695)
Other, net	40	(300)
	(397)	(995)
Earnings before income taxes	20,536	10,532
Provision for income taxes	7,496	3,897
Net earnings	$ 13,040	$ 6,635
Weighted average common shares outstanding		
Basic	25,800,647	25,821,139
Diluted	25,849,937	25,836,817
Per share amounts		
Net earnings basic	$ 0.51	$ 0.26
Net earnings diluted	$ 0.50	$ 0.26
Cash dividends per share	$ 0.155	$ 0.155

See accompanying notes to consolidated financial statements.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three months ended May 31, 2010	Three months ended May 31, 2009
Cash flows from operating activities:		
Net earnings	$ 13,040	$ 6,635
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,067	2,356
Amortization of deferred finance charges	108	112
Amortization of tradenames and customer lists	601	602
Gain from disposal of assets		(2)
Bad debt expense	989	539
Stock based compensation	416	246
Changes in operating assets and liabilities:		
Accounts receivable	(3,651)	(3,394)
Prepaid expenses	902	3,799
Inventories	(2,761)	13,587
Other assets	2	(8)
Accounts payable and accrued expenses	(2,253)	338
Other liabilities	(301)	(392)
Prepaid pension asset/liability for pension benefits	492	752
Net cash provided by operating activities	9,651	25,170
Cash flows from investing activities:		
Capital expenditures	(13,158)	(629)
Proceeds from disposal of plant and property		5
Net cash used in investing activities	(13,158)	(624)
Cash flows from financing activities:		
Repayment of debt		(56)
Dividends	(4,006)	(4,002)
Purchase of treasury stock	(2)	(404)
Net cash used in financing activities	(4,008)	(4,462)
Effect of exchange rate changes on cash	(50)	433
Net change in cash	(7,565)	20,517
Cash at beginning of period	21,063	9,286

Cash at end of period	$ 13,498	$ 29,803

See accompanying notes to consolidated financial statements.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 31, 2010

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 May 31, 2010 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, 2010, from which the accompanying consolidated balance sheet at February 28, 2010 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 January 2010, the Financial Accounting Standards Board (FASB) amended authoritative guidance for improving disclosures about fair-value measurements. The updated guidance requires new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The guidance also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The Company adopted this guidance on March 1, 2010 except for the disclosures requirements regarding purchases, sales, issuances and settlements on the roll-forward of activity in Level 3 fair-value measurements. Those disclosures will be effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material impact on the consolidated financial statements.

2. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 95% 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.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 31, 2010

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 months ended (in thousands):

	Three months ended May 31,	
	2010	2009
Balance at beginning of period	$ 4,446	$ 3,561
Bad debt expense	989	539
Recoveries	12	12
Accounts written off	(454)	(547)
Foreign currency translation		28
Balance at end of period	$ 4,993	$ 3,593

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):

	May 31, 2010	February 28, 2010
Raw material	$ 10,946	$ 11,089
Work-in-process	18,132	14,280
Finished goods	48,864	49,768
	$ 77,942	$ 75,137

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. Based on this evaluation, no impairment was recorded. 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 May 31, 2010 are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. After conducting its fiscal year 2010 test, the Company determined there was no impairment. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 31, 2010

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):

	Gross Carrying Amount	Accumulated Amortization	Net
As of May 31, 2010			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 908	$ 326
Customer lists	29,908	10,718	19,190
Noncompete	500	488	12
	$ 31,642	$ 12,114	$ 19,528
As of February 28, 2010			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 875	$ 359
Customer lists	29,908	10,155	19,753
Noncompete	500	483	17
	$ 31,642	$ 11,513	$ 20,129

	May 31, 2010	February 28, 2010
Non-amortizing intangible assets (in thousands)		
Trademarks	$ 58,538	$ 58,538

Aggregate amortization expense for the three months ended May 31, 2010 and May 31, 2009 was $601,000 and $602,000, respectively.

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

2011	$ 2,397,000
2012	2,391,000
2013	2,347,000
2014	2,254,000
2015	2,136,000
2016	2,078,000

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

	Print Segment Total	Apparel Segment Total	Total
Balance as of March 1, 2009	$ 42,792	$ 74,549	$ 117,341

Goodwill acquired			
Goodwill impairment			
Balance as of March 1, 2010	42,792	74,549	117,341
Goodwill acquired			
Goodwill impairment			
Balance as of May 31, 2010	$ 42,792	$ 74,549	$ 117,341

During the three months ended May 31, 2010 and fiscal year ended 2009, there were no adjustments to goodwill.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 31, 2010

5. Other Accrued Expenses

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

	May 31, 2010	February 28, 2010
Accrued taxes	$ 286	$ 265
Accrued legal and professional fees	239	392
Accrued interest	135	114
Accrued utilities	1,354	1,322
Accrued repairs and maintenance	581	547
Accrued construction retainer	954	582
Accrued phantom stock obligation	470	422
Accrual-earn out agreements	511	594
Other accrued expenses	2,065	1,482
	$ 6,595	$ 5,720

6. Derivative Instruments and Hedging Activities

The Company uses 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. The Swap effectively fixes the LIBOR rate at 3.79%.

The Swap was designated as a cash flow hedge, and the fair value at May 31, 2010 and February 28, 2010 was $(1.4) million ($(0.9) million net of deferred taxes) and $(1.8) million ($(1.2) million net of deferred taxes), respectively. The Swap has been reported on the Consolidated Balance Sheet as long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During the three months ended May 31, 2010, there was a loss of approximately $362,000 reclassified from accumulated other comprehensive income to interest expense related to the Swap.

7. Fair Value 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.

10

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 31, 2010

7. Fair Value Financial Instruments-continued

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of May 31, 2010 and February 28, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

Description	May 31, 2010	Fair Value Measurements (Level 1)	(Level 2)	(Level 3)
Derivative liability (Swap)	$			