

ENNIS, INC.  
Form 10-Q  
October 04, 2013  
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**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, 2013

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)

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**Texas**  
(State or Other Jurisdiction of

**75-0256410**  
(I.R.S. Employer Identification No.)

Incorporation or Organization)

**2441 Presidential Pkwy., Midlothian, Texas**  
(Address of Principal Executive Offices)

**76065**  
(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  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).

Large accelerated filer  Accelerated filer

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

As of September 27, 2013, there were 26,221,476 shares of the Registrant's common stock outstanding.

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**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2013**

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	August 31, 2013	February 28, 2013
	<i>(unaudited)</i>	
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 17,681	\$ 6,232
Accounts receivable, net of allowance for doubtful receivables of \$3,748 at August 31, 2013 and \$3,952 at February 28, 2013	59,080	60,071
Prepaid expenses	6,743	7,425
Prepaid income taxes	1,382	4,170
Inventories	100,576	109,698
Deferred income taxes	5,820	5,820
<b>Total current assets</b>	<b>191,282</b>	<b>193,416</b>
<b>Property, plant and equipment, at cost</b>		
Plant, machinery and equipment	155,910	155,093
Land and buildings	78,502	80,438
Other	23,285	23,252
<b>Total property, plant and equipment</b>	<b>257,697</b>	<b>258,783</b>
Less accumulated depreciation	169,913	166,870
<b>Net property, plant and equipment</b>	<b>87,784</b>	<b>91,913</b>
Goodwill	121,809	121,809
Trademarks, net	63,378	63,378
Other intangible assets, net	19,183	20,773
Deferred finance charges, net	447	522
Other assets	3,396	3,481
<b>Total assets</b>	<b>\$ 487,279</b>	<b>\$ 495,292</b>

*See accompanying notes to consolidated financial statements.*

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

	August 31, 2013	February 28, 2013
	<i>(unaudited)</i>	
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 22,495	\$ 22,256
Accrued expenses		
Employee compensation and benefits	15,609	17,003
Taxes other than income	1,203	582
Income taxes payable	1,269	621
Other	2,881	2,577
<b>Total current liabilities</b>	<b>43,457</b>	<b>43,039</b>
<b>Long-term debt</b>		
Liability for pension benefits	10,381	9,341
Deferred income taxes	22,609	23,184
Other liabilities	995	1,012
<b>Total liabilities</b>	<b>112,442</b>	<b>134,076</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
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, 2013	75,134	75,134
Additional paid-in capital	121,825	122,186
Retained earnings	265,433	251,713
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	(358)	571
Minimum pension liability, net of taxes	(15,474)	(15,474)
<b>Total accumulated other comprehensive income (loss)</b>	<b>(15,832)</b>	<b>(14,903)</b>
Treasury stock	(71,723)	(72,914)
<b>Total shareholders' equity</b>	<b>374,837</b>	<b>361,216</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 487,279</b>	<b>\$ 495,292</b>

*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 August 31,		Six months ended August 31,	
	2013	2012	2013	2012
Net sales	\$ 135,288	\$ 138,344	\$ 273,754	\$ 280,872
Cost of goods sold	98,629	104,395	201,300	218,674
Gross profit margin	36,659	33,949	72,454	62,198
Selling, general and administrative	21,083	21,331	43,288	43,357
Gain from disposal of assets	(248)	(5)	(255)	(9)
Income from operations	15,824	12,623	29,421	18,850
Other income (expense)				
Interest expense	(216)	(402)	(467)	(871)
Other, net	(53)	(265)	104	85
	(269)	(667)	(363)	(786)
Earnings before income taxes	15,555	11,956	29,058	18,064
Provision for income taxes	5,754	4,364	10,751	6,593
Net earnings	\$ 9,801	\$ 7,592	\$ 18,307	\$ 11,471
Weighted average common shares outstanding				
Basic	26,102,129	25,992,505	26,078,188	25,984,188
Diluted	26,128,655	26,011,143	26,098,420	26,003,583
Per share amounts				
Net earnings basic	\$ 0.38	\$ 0.29	\$ 0.70	\$ 0.44
Net earnings diluted	\$ 0.38	\$ 0.29	\$ 0.70	\$ 0.44
Cash dividends per share	\$ 0.175	\$ 0.175	\$ 0.175	\$ 0.350

*See accompanying notes to consolidated financial statements.*

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net earnings	9,801	\$ 7,592	\$ 18,307	\$ 11,471
Foreign currency translation adjustment, net of deferred taxes	(1,079)	1,257	(929)	(850)
Comprehensive income	\$ 8,722	\$ 8,849	\$ 17,378	\$ 10,621

*See accompanying notes to consolidated financial statements.*

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**ENNIS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Dollars in thousands)*

**(Unaudited)**

	<b>Six months ended</b>	
	<b>August 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 18,307	\$ 11,471
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>		
Depreciation	4,752	5,048
Amortization of deferred finance charges	75	75
Amortization of trade names, customer lists, and patent	1,590	1,660
Gain from disposal of assets	(255)	(9)
Bad debt expense	2,198	287
Stock based compensation	786	697
Deferred income taxes		2
<b>Changes in operating assets and liabilities, net of the effects of acquisitions:</b>		
Accounts receivable	(1,318)	(4,378)
Prepaid expenses	3,327	2,584
Inventories	8,978	20,053
Other assets	85	(30)
Accounts payable and accrued expenses	556	(8,549)
Other liabilities	(17)	(629)
Liability for pension benefits	1,040	1,078
<b>Net cash provided by operating activities</b>	<b>40,104</b>	<b>29,360</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(2,173)	(862)
Adjustment to purchase price of businesses acquired		3,737
Proceeds from disposal of plant and property	969	14
<b>Net cash provided by (used in) investing activities</b>	<b>(1,204)</b>	<b>2,889</b>
<b>Cash flows from financing activities:</b>		
Repayment of debt	(22,500)	(20,000)
Dividends	(4,587)	(9,135)
Purchase of treasury stock	(1)	(2)
Proceeds from exercise of stock options	45	26
<b>Net cash used in financing activities</b>	<b>(27,043)</b>	<b>(29,111)</b>
Effect of exchange rate changes on cash	(408)	(343)
Net change in cash	11,449	2,795
Cash at beginning of period	6,232	10,410
<b>Cash at end of period</b>	<b>\$ 17,681</b>	<b>\$ 13,205</b>

*See accompanying notes to consolidated financial statements.*





**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED AUGUST 31, 2013****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, 2013 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, 2013, from which the accompanying consolidated balance sheet at February 28, 2013 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.

**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 for the three and six months ended August 31, 2013 and August 31, 2012 (in thousands):

	Three months ended		Six months ended	
	August 31,		August 31,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 2,707	\$ 4,479	\$ 3,952	\$ 4,403
Bad debt expense	1,099		2,198	287
Recoveries	14	13	19	19
Accounts written off	(72)	(82)	(2,421)	(299)
Balance at end of period	\$ 3,748	\$ 4,410	\$ 3,748	\$ 4,410



**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED MAY 31, 2013****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, 2013	February 28, 2013
Raw material	\$ 14,567	\$ 14,470
Work-in-process	8,230	11,238
Finished goods	77,779	83,990
	\$ 100,576	\$ 109,698

**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 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):

As of August 31, 2013	Weighted Average Remaining Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets				
Trade names		\$ 1,234	\$ 1,234	\$

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Customer lists	5.9	37,887	19,279	18,608
Noncompete		500	500	
Patent	4.5	773	198	575
Total	5.8	\$ 40,394	\$ 21,211	\$ 19,183

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2013**

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

As of February 28, 2013	Weighted Average Remaining Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets				
Trade names		\$ 1,234	\$ 1,234	\$
Customer lists	6.4	37,887	17,753	20,134
Noncompete		500	500	
Patent	5.0	773	134	639
<b>Total</b>	<b>6.2</b>	<b>\$ 40,394</b>	<b>\$ 19,621</b>	<b>\$ 20,773</b>
Non-amortizing intangible assets				
Trademarks			\$ 63,378	\$ 63,378

Aggregate amortization expense for the six months ended August 31, 2013 and August 31, 2012 was \$1.6 million and \$1.7 million, respectively.

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

2014	\$ 3,180
2015	3,063
2016	3,004
2017	3,004
2018	2,765
2019	2,302

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

	Print Segment Total	Apparel Segment Total	Total
Balance as of February 29, 2012	\$ 47,085	\$ 74,549	\$ 121,634
Goodwill acquired adjustment	175		175
Goodwill impairment			
Balance as of February 28, 2013	47,260	74,549	121,809

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Goodwill acquired  
Goodwill impairment

Balance as of August 31, 2013	\$ 47,260	\$ 74,549	\$ 121,809
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During the fiscal year ended February 28, 2013, an adjustment of \$0.2 million reflects a revised estimate in accounts receivable, inventories, accrued expenses, and property, plant and equipment, net of adjustment to the purchase price, related to the acquisition of PrintXcel and Printegra assets from Cenvo Corporation ( Cenvo ) and its subsidiaries.

**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED MAY 31, 2013****5. Other Accrued Expenses**

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

	August 31, 2013	February 28, 2013
Accrued taxes	\$ 311	\$ 361
Accrued legal and professional fees	1,044	777
Accrued interest	122	120
Accrued utilities	31	96
Accrued phantom stock obligation	517	467
Accrued acquisition related obligations	164	163
Other accrued expenses	692	593
	\$ 2,881	\$ 2,577

**6. Long-Term Debt**

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

	August 31, 2013	February 28, 2013
Revolving credit facility	\$ 35,000	\$ 57,500

On September 19, 2013, the Company entered into the Third Amendment and Consent to Second Amended and Restated Credit Agreement (the Amendment) with a syndicate of lenders led by Bank of America, N.A. (the Facility). The Amendment amends and restates the financial covenant relating to Minimum Tangible Net Worth. The amended covenant requires a Minimum Tangible Net Worth of \$100 million, with step-ups equal to 25% of consolidated net income, commencing with the first quarter ending November 30, 2013. The Facility provides the Company access to \$150.0 million in revolving credit, which the Company may increase to \$200.0 million in certain circumstances, and matures on August 16, 2016. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.0% to 2.25% (LIBOR + 1.25% or 1.43% at August 31, 2013 and 1.98% at August 31, 2012), depending on the Company's ratio of total funded debt to the sum of net earnings plus interest, tax, depreciation and amortization (EBITDA). As of August 31, 2013, the Company had \$35.0 million of borrowings under the revolving credit line and \$3.0 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately \$112.0 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as a minimum tangible equity level and the total funded debt to EBITDA ratio. The Company was in compliance with these covenants as of August 31, 2013. The Facility is secured by substantially all of the Company's domestic assets as well as all capital securities of each of the Company's U.S. subsidiaries and 65% of all capital securities of each of the Company's direct foreign subsidiaries.



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2013**

**7. Shareholders' Equity**

Changes in shareholders' equity accounts for the six months ended August 31, 2013 are as follows (in thousands, except share amounts):

	Common Stock		Additional	Retained	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Earnings		Shares	Amount	
<b>Balance February 28, 2013</b>	30,053,443	\$ 75,134	\$ 122,186	\$ 251,713	\$ (14,903)	(4,084,765)	\$ (72,914)	\$ 361,216
Net earnings				18,307				18,307
Foreign currency translation, net of deferred tax of \$575					(929)			(929)
Dividends declared (\$.175 per share)				(4,587)				(4,587)
Stock based compensation			786					786
Exercise of stock options and restricted stock grants			(1,147)			66,753	1,192	45
Stock repurchases						(49)	(1)	(1)
<b>Balance August 31, 2013</b>	30,053,443	\$ 75,134	\$ 121,825	\$ 265,433	\$ (15,832)	(4,018,061)	\$ (71,723)	\$ 374,837

On October 20, 2008, the Board of Directors authorized the repurchase of up to \$5.0 million of the common stock through a stock repurchase program. Under the board-approved 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, and 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. While no shares have been repurchased during the last three fiscal years or during the current fiscal year under the program, there have been a total of 96,000 shares of common stock that have been purchased under the repurchase program since its inception at an average price per share of \$10.45. On April 20, 2012, the Board increased the authorized amount available to repurchase our shares by an additional \$5.0 million, bringing the total available to repurchase the Company's common stock to approximately \$9.0 million. Unrelated to the stock repurchase program, the Company purchased 49 shares of common stock during the six months ended August 31, 2013.

**8. 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, 2013, 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 862,742 shares of unissued common stock reserved under the Plan for issuance. 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, 2013 and August 31, 2012, the Company included in selling, general and administrative expenses, 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

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of tax), respectively. For the six months ended August 31, 2013 and August 31, 2012, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$0.8 million (\$0.5 million net of tax), and \$0.7 million (\$0.4 million net of tax), respectively.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2013**

**8. Stock Option Plan and Stock Based Compensation***Stock Options*

The Company had the following stock option activity for the six months ended August 31, 2013:

	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 February 28, 2013	363,000	\$ 15.79	6.4	\$ 421
Granted	36,155	14.05		
Terminated	(7,750)	13.30		
Exercised	(5,000)	8.94		
Outstanding at August 31, 2013	386,405	\$ 15.77	6.3	\$ 881
Exercisable at August 31, 2013	274,194	\$ 15.86	5.4	\$ 626

(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.

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, 2013 and August 31, 2012:

	August 31,	
	2013	2012
Expected volatility	30.41%	37.02%
Expected term (years)	3	3
Risk free interest rate	0.35%	0.43%
Dividend yield	4.63%	4.42%
Weighted average grant-date fair value	\$ 1.96	\$ 2.83

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

Three months ended August 31,		Six months ended August 31,	
2013	2012	2013	2012

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Total cash received	\$ 45	\$ 26	\$ 45	\$ 26
Income tax benefits				
Total grant-date fair value	8	5	8	5
Intrinsic value	46	17	46	17

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2013**

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

A summary of the status of the Company's unvested stock options at February 28, 2013, and changes during the six months ended August 31, 2013 is presented below:

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at February 28, 2013	169,954	\$ 3.20
New grants	36,155	1.96
Vested	(93,898)	3.08
Forfeited		
Unvested at August 31, 2013	112,211	\$ 2.89

As of August 31, 2013, there was \$0.2 million 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 1.7 years. The total fair value of shares underlying the options vested during the six months ended August 31, 2013 was \$1.7 million.

**Restricted Stock**

The Company had the following restricted stock grant activity for the six months ended August 31, 2013:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at February 28, 2013	187,048	\$ 16.49
Granted	55,607	14.05
Terminated		
Vested	(61,753)	16.40
Outstanding at August 31, 2013	180,902	\$ 15.77

As of August 31, 2013, the total remaining unrecognized compensation cost related to unvested restricted stock granted under the Plan was approximately \$1.8 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 1.6 years. As of August 31, 2013, the Company's outstanding restricted stock had an underlying fair value at date of grant of \$2.9 million.

**9. Pension Plan**

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The Company and certain subsidiaries have a noncontributory defined benefit retirement plan (the Pension Plan ), covering approximately 9% 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. The Company's funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974 ( ERISA ).

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**9. 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,	
	2013	2012	2013	2012
Components of net periodic benefit cost				
Service cost	\$ 316	\$ 320	\$ 631	\$ 641
Interest cost	600	601	1,201	1,201
Expected return on plan assets	(873)	(802)	(1,745)	(1,604)
Amortization of:				
Prior service cost	(36)	(36)	(72)	(72)
Unrecognized net loss	513	456	1,025	912
Net periodic benefit cost	\$ 520	\$ 539	\$ 1,040	\$ 1,078

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 recent enactment of the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) in July 2012, 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. Prior to MAP-21, the discount rate used in measuring the pension liability was based on the 24-month average of interest rates. As a result of the enactment, which effectively raises the discount rates mandated for determining the value of a pension plan's benefit liability and annual cost of accruals, the Company's minimum required contribution to the Pension Plan is zero for the Pension Plan year ending February 28, 2014. 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 2014. The Company contributed \$3.0 million to the Pension Plan during fiscal year 2013.

**10. Earnings Per Share**

Basic earnings per share have been computed by dividing net earnings by the weighted average number of common shares outstanding during the applicable period. Diluted earnings 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 and six months ended August 31, 2013, 245,520 and 245,520 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. For the three and six months ended August 31, 2012, 305,150 and 301,150 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 per share for the periods indicated:

Three months ended August 31,	Six months ended August 31,
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	2013	2012	2013	2012
Basic weighted average common shares outstanding	26,102,129	25,992,505	26,078,188	25,984,188
Effect of dilutive options	26,526	18,638	20,232	19,395
Diluted weighted average common shares outstanding	26,128,655	26,011,143	26,098,420	26,003,583
Per share amounts:				
Net earnings basic	\$ 0.38	\$ 0.29	\$ 0.70	\$ 0.44
Net earnings diluted	\$ 0.38	\$ 0.29	\$ 0.70	\$ 0.44
Cash dividends	\$ 0.175	\$ 0.175	\$ 0.175	\$ 0.350



**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED AUGUST 31, 2013****11. Segment Information and Geographic Information**

The Company operates in two segments the Print Segment and the Apparel Segment.

The Print Segment, which represented 58% and 59% of the Company's consolidated net sales for the three and six months ended August 31, 2013, respectively, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 47 manufacturing locations throughout the United States in 19 strategically located states. Approximately 97% of the business products manufactured by the Print Segment 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 and Printegra. The Print Segment also sells 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® brand (which provides presentation folders and document folders); Ennis Tag & Label<sup>SM</sup> (which provides tags and labels, promotional products and advertising concept products); Atlas Tag & Label® (which provides tags and labels); Trade Envelopes® and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

The Print Segment sells predominantly through private printers and independent distributors. Northstar also sells direct to a small number of customers. Northstar has continued its focus with large banking organizations on a direct basis (where a distributor is not acceptable or available to the end-user) and has acquired several of the top 25 banks in the United States as customers and is actively working on other large banks within the top 25 tier of banks in the United States. Adams-McClure sales are generally provided through advertising agencies.

The Apparel Segment, which accounted for 42% and 41% of the Company's consolidated net sales for the three and six months ended August 31, 2013, respectively, consists of Alstyle Apparel. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

Corporate information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses related to the Company's corporate headquarters and other administrative costs.

Segment data for the three and six months ended August 31, 2013 and August 31, 2012 were as follows (in thousands):

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended August 31, 2013:</b>				
Net sales	\$ 78,953	\$ 56,335	\$	\$ 135,288
Depreciation	1,361	962	42	2,365
Amortization of identifiable intangibles	429	366		795
Segment earnings (loss) before income tax	13,607	5,901	(3,953)	15,555
Segment assets	159,637	303,450	24,192	487,279
Capital expenditures	874	33	597	1,504



**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED AUGUST 31, 2013****11. Segment Information and Geographic Information-continued**

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
<b>Three months ended August 31, 2012:</b>				
Net sales	\$ 86,069	\$ 52,275	\$	\$ 138,344
Depreciation	1,464	946	66	2,476
Amortization of identifiable intangibles	462	366		828
Segment earnings (loss) before income tax	14,815	1,047	(3,906)	11,956
Segment assets	173,880	311,718	19,939	505,537
Capital expenditures	710		19	729
<b>Six months ended August 31, 2013:</b>				
Net sales	\$ 160,392	\$ 113,362	\$	\$ 273,754
Depreciation	2,738	1,932	82	4,752
Amortization of identifiable intangibles	857	733		1,590
Segment earnings (loss) before income tax	27,054	10,269	(8,265)	29,058
Segment assets	159,637	303,450	24,192	487,279
Capital expenditures	1,353	183	637	2,173
<b>Six months ended August 31, 2012:</b>				
Net sales	\$ 173,368	\$ 107,504	\$	\$ 280,872
Depreciation	3,008	1,901	139	5,048
Amortization of identifiable intangibles	927	733		1,660
Segment earnings (loss) before income tax	27,429	(1,774)	(7,591)	18,064
Segment assets	173,880	311,718	19,939	505,537
Capital expenditures	828		34	862

Identifiable long-lived assets by country include property, plant, and equipment, net of accumulated depreciation. The Company attributes revenues from external customers to individual geographic areas based on the country where the sale originated. Information about the Company's operations in different geographic areas as of and for the three and six months ended is as follows (in thousands):

	United States	Canada	Mexico	Total
<b>Three months ended August 31, 2013:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 78,953	\$	\$	\$ 78,953
Apparel Segment	50,717	5,510	108	56,335
	\$ 129,670	\$ 5,510	\$ 108	\$ 135,288
Identifiable long-lived assets				
Print Segment	\$ 39,007	\$	\$	\$ 39,007
Apparel Segment	191	46	44,681	44,918
Corporate	3,859			3,859
	\$ 43,057	\$ 46	\$ 44,681	\$ 87,784



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**11. Segment Information and Geographic Information-continued**

	United States	Canada	Mexico	Total
<b>Three months ended August 31, 2012:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 86,069	\$	\$	\$ 86,069
Apparel Segment	46,837	5,246	192	52,275
	\$ 132,906	\$ 5,246	\$ 192	\$ 138,344
Identifiable long-lived assets				
Print Segment	\$ 42,505	\$	\$	\$ 42,505
Apparel Segment	146	28	48,152	48,326
Corporate	3,410			3,410
	\$ 46,061	\$ 28	\$ 48,152	\$ 94,241
<b>Six months ended August 31, 2013:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 160,392	\$	\$	\$ 160,392
Apparel Segment	102,419	10,772	171	113,362
	\$ 262,811	\$ 10,772	\$ 171	\$ 273,754
<b>Six months ended August 31, 2012:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 173,368	\$	\$	\$ 173,368
Apparel Segment	96,118	10,920	466	107,504
	\$ 269,486	\$ 10,920	\$ 466	\$ 280,872

**12. Supplemental Cash Flow Information**

Net cash flows from operating activities reflect cash payments for interest and income taxes as follows (in thousands):

	Six months ended August 31,	
	2013	2012
Interest paid	\$ 465	\$ 818
Income taxes paid	\$ 7,229	\$ 5,842

**13. Concentrations of Risk**

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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, 2013, cash balances included \$14.2 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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**13. Concentrations of Risk-continued**

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. At August 31, 2013, the Company had \$1.0 million in Canadian and \$0.9 million in Mexican bank accounts.

**14. Subsequent Events**

On September 27, 2013, the Company acquired certain assets of the Custom Envelope Division ( CED ), part of the Custom Resale Group of Cenveo, Inc., for \$47.25 million in cash plus the assumption of certain trade liabilities. The CED assets are comprised of the WISCO envelope brand, which is produced at a now owned facility in Tullahoma, TN., and the National Imprint Corporation ( NIC ) brand, which is produced in a leased facility in Claysburg, PA. WISCO produces and folds various types of envelopes, and NIC is an imprinter of envelopes. Both of these products are sold through print distributors. CED had sales in excess of \$40 million for the twelve month period ended December 31, 2013.

On September 30, 2013, the Company acquired the assets of the businesses operating under the trade name of Folder Express for \$15 million plus the assumption of certain trade payables. The businesses had combined sales of approximately \$20 million during the twelve month period ended December 31, 2012 and will continue to operate under the Folder Express brand name.

On September 19, 2013, the Company entered into the Third Amendment and Consent to Second Amended and Restated Credit Agreement (the Amendment ) with a syndicate of lenders lead by Bank of America, N.A. (the Facility ). The Amendment amends and restates the financial covenant relating to Minimum Tangible Net Worth. The amended covenant requires a Minimum Tangible Net Worth of \$100 million, with step-ups equal to 25% of consolidated net income, commencing with the first quarter ending November 30, 2013. The Amendment also provides for the consent by the syndicate of lenders, subject to the satisfaction of conditions specified therein, for the acquisition of the CED assets.

**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 (the Print Segment ) and also manufacture a line of activewear (the Apparel Segment ) for distribution throughout North America. The Print Segment distributes business products and forms throughout the United States primarily through independent dealers. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, and advertising agencies, among others. The Apparel Segment produces and sells activewear, including t-shirts, fleece goods and other wearables. Distribution of our activewear throughout the United States, Canada and Mexico is primarily through sales representatives. The distributor channel encompasses activewear wholesalers and screen printers. We offer a great selection of high-quality activewear apparel and hats with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The apparel line features a wide variety of tees, fleece and shorts.

**Business Segment Overview**

We are one of the largest providers of business forms to independent distributors in the United States and are also one of the largest providers of blank t-shirts in North America to the activewear market. We operate in two reportable segments: Print and Apparel. For additional financial information concerning segment reporting, please see Note 11 of the Notes to the Consolidated Financial Statements beginning on page 16.





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**Print Segment**

The Print Segment, which represented 58% and 59% of our consolidated net sales for the three and six months ended August 31, 2013, respectively, is in the business of manufacturing, designing and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 47 manufacturing locations throughout the United States in 19 strategically located states. Approximately 97% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, 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<sup>®</sup>, Royal Business Forms<sup>®</sup>, Block Graphics<sup>®</sup>, Specialized Printed Forms<sup>®</sup>, 360° Custom Labels<sup>SM</sup>, ColorWorx<sup>®</sup>, Enfusion<sup>®</sup>, Uncompromised Check Solutions<sup>®</sup>, VersaSeal<sup>®</sup>, Witt Printing<sup>®</sup>, B&D Litho<sup>®</sup>, Genforms<sup>®</sup>, PrintGraphics<sup>SM</sup>, Calibrated Forms<sup>®</sup>, PrintXcel<sup>®</sup> and Printegra<sup>®</sup>. The Print Segment also sells the Adams-McClure<sup>®</sup> brand (which provides Point of Purchase advertising for large franchise and fast food chains as well as kitting and fulfillment); the Admore<sup>®</sup> brand (which provides presentation folders and document folders); Ennis Tag & Label<sup>SM</sup> (which provides tags and labels, promotional products and advertising concept products); Atlas Tag & Label<sup>®</sup> (which provides tags and labels); Trade Envelopes<sup>®</sup> and Block Graphics<sup>®</sup> (which provide custom and imprinted envelopes) and Northstar<sup>®</sup> and General Financial Supply<sup>®</sup> (which provide financial and security documents).

The Print Segment sells predominantly through private printers and independent distributors. 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), as does Adams-McClure, 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, Standard Register, and Cenvéo, 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 one of the largest producers of business forms in the United States distributing primarily through independent dealers and that its business forms offering is more diversified than that of most companies in the business forms industry.

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 forms distributors, stationers, printers, computer software developers, and advertising agencies.

Raw materials of the Print Segment principally consist of a wide variety of weights, widths, colors, sizes, and qualities of paper for business products purchased from a number of major suppliers at prevailing market prices.

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.

***Our Print Business Challenges*** - In our Print Segment, we are engaged in an industry undergoing significant changes. 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. We face highly competitive conditions in an already over-supplied, price-competitive industry. Our challenges in the Print Segment of our business include the following:



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**FOR THE PERIOD ENDED AUGUST 31, 2013**

**Transformation of our portfolio of products** While traditional business documents are essential in order to conduct business, many are being replaced 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 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, such as the addition of our envelope offerings, healthcare wristbands, secure document solutions, innovative in-mold label offerings and long-run integrated products with high color web printing that 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. Due to the limited number of paper mills, paper prices have been and are expected to remain fairly volatile. We have generally been able to pass through increased paper costs, although this can often take several quarters due to the custom nature of our products and/or contractual relationships with some of our customers. 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 models and production and costing models.

**Continued economic uncertainties** Decreased demand due to continued economic uncertainties and intensified price competition resulted in a decline in our revenue during the past several fiscal years above historical averages. We continue to focus on customer retention, expanding our growth targeted products and continuing to develop new market niches.

**Apparel Segment**

The Apparel Segment represented 42% and 41% of our consolidated net sales for the three and six months ended August 31, 2013, respectively, and operates under the name of Alstyle Apparel ( Alstyle ). Alstyle markets high quality knitted activewear (including t-shirts, tank tops and fleece) across all market segments. The main products of Alstyle are standardized shirts manufactured in a variety of sizes and colors. Approximately 98% of Alstyle's revenues are derived from t-shirt sales, which make up 91% of domestic sales. Alstyle's branded product lines are sold mainly under the AAA® and Murina® brands.

Effective July 2011, Alstyle began operations in an owned manufacturing facility located in Agua Prieta, Mexico. Previously Alstyle operated in a leased manufacturing facility located in Anaheim, CA. Alstyle has three cut and sew facilities in Mexico (Agua Prieta, Ensenada and Hermosillo). In addition to its own cut and sew facilities, Alstyle may also use outsourced manufacturers from time to time to supplement a portion of its cut and sew needs. After sewing and packaging is completed, the product is shipped to one of Alstyle's nine distribution centers located across the United States, Canada, and Mexico.

Alstyle utilizes a customer-focused internal sales team comprised of twenty-four sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are assigned performance objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend a majority of their time in the field.

Alstyle employs a staff of customer service representatives that handle call-in orders from smaller customers. Sales personnel sell directly to Alstyle's customer base, which consists primarily of screen printers, embellishers, retailers, and mass marketers.

A majority of Alstyle's sales are branded products, with the remainder being customer private label products. Generally, sales to screen printers and mass marketers are driven by price and the availability of products, which directly impacts our inventory level requirements. Sales in the private label business are characterized by slightly higher customer loyalty.



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**ENNIS, INC. AND SUBSIDIARIES**

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Alstyle's most popular styles are produced based on demand management forecasts to permit quick shipment and to level production schedules. Alstyle offers same-day shipping and uses third-party carriers to ship products to its customers.

Alstyle's sales are seasonal, with sales in the first and second fiscal quarters generally being the highest. The apparel industry is characterized by rapid shifts in fashion, consumer demand and competitive pressures, resulting in both price and demand volatility. However, the imprinted activewear market to which Alstyle sells is generally event driven. Blank t-shirts can be thought of as walking billboards promoting movies, concerts, sports teams, and image brands. Still, the demand for any particular product varies from time to time based largely upon changes in consumer preferences and general economic conditions affecting the apparel industry.

The apparel industry is comprised of numerous companies who manufacture and sell a wide range of products. Alstyle is primarily involved in the activewear market and produces t-shirts and outsources such products as fleece, hats, shorts, pants and other such activewear apparel from China, Thailand, Pakistan, and other foreign sources to sell to its customers through its sales representatives. Alstyle competes with many branded and private label manufacturers of knit apparel in the United States, Canada, and Mexico, some of which are larger in size and have greater financial resources than Alstyle. Alstyle competes on the basis of price, quality, service, and delivery. Alstyle's strategy is to provide the best value to its customers by delivering a consistent, high-quality product at a competitive price. Alstyle's competitive disadvantage is that its brand name, Alstyle Apparel, is not as well known as the brand names of its largest competitors, such as Gildan, Delta, Hanes, and Russell. While it is not possible to calculate precisely, because of the lack of adequate public statistical information, management believes that Alstyle is one of the top five providers of blank t-shirts in North America.

Raw materials of the Apparel Segment principally consist of cotton and polyester yarn purchased from a number of major suppliers at prevailing market prices, although we purchase 47% of our cotton and yarn from one supplier.

***Our Apparel Business Challenges*** In our Apparel Segment, our market niche is highly competitive, commodity driven, and is generally dominated by a limited number of companies. While the economic environment improved somewhat in 2011, which led to increased demand for our product during the latter part of fiscal year 2011 and the start of fiscal year 2012, we have seen softness in the market over approximately the last twelve months. We believe the challenges in our Apparel Segment of our business include the following:

**Cotton prices** Our business can be affected by dramatic movements in cotton prices. The cost incurred for materials, i.e., yarn, thread, etc. is capitalized into inventory and impacts the Company's operating results as inventory is sold, which could take six months or longer after the materials are purchased, depending on inventory turns. Consequently, increases or decreases in cotton costs can have a significant impact on the Company's operational results for many quarters. A reduction in the spot price of cotton added additional complexities to an already competitive marketplace during fiscal year 2013. The divergence between the current cost of cotton and the cost residing in most manufacturers' finished goods inventories was at historical levels, creating market valuation issues for some and sale side pressure for others. We have locked in the cost of yarn from our primary suppliers in an attempt to protect our business from the volatility of the market price of cotton. This divergence between the cost of cotton in our finished goods inventory and the current price of cotton is currently in line with historical measurements, and therefore we do not anticipate the price of cotton to have a significant impact on our operational results for the quarters to come, absent some economic disruption, or market abnormalities. We would expect to see continued improvement in our apparel margins as our production levels are increased to meet demand.

**Agua Prieta manufacturing facility** The manufacturing facility in Agua Prieta, Mexico ( AP ) became operational in July 2011, and all production has now been transitioned from our Anaheim, CA ( Anaheim ) facility to the AP facility. Production levels at the plant are running at required levels to satisfy demand, but below originally estimated levels due to lower revenues, resulting from market softness, economic conditions and the non-competitive cost position of our finished goods inventory during fiscal year 2013. In addition, from time-to-time we have had disruptions in our utility services which impacted our manufacturing through-put. However, given the improved cost position of our finished goods inventory and current level of utility services, absent some economic disruption, we expect to increase production during the coming year in concert with demand. This should allow us to realize savings through improved efficiency and utilization gains.



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**ENNIS, INC. AND SUBSIDIARIES**

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**FOR THE PERIOD ENDED AUGUST 31, 2013**

**Continued economic uncertainties** The economic climate in which we operate continues to be volatile and challenging both domestically and internationally. We saw a significant drop in our sales during the latter half of fiscal year 2012 due to competitive pricing pressures, which we attribute to softness in the market. The economic climate for our consumers and our economy in general over the short term and long term remains uncertain.

**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, expect, believe, estimate, intend, intent, plan, will, foresee, project, forecast, or the negative thereof or variations thereon, and similar expressions in this Report are 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.

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; 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, tariffs and import restrictions; 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 28, 2013 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 the following

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accounting policies are the most critical due to their effect on our more significant estimates and judgments used in preparation of our consolidated financial statements.



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We maintain a defined benefit retirement plan (the Pension Plan ) for employees. Included in our financial results are Pension Plan costs that are measured using actuarial valuations. The actuarial assumptions used may differ from actual results. As our Pension Plan assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status and associated liability recorded.

Amounts allocated to amortizable intangibles are determined based on valuation analysis for our acquisitions and are amortized over their expected useful lives. We evaluate these amounts periodically (at least once a year) to determine whether a triggering event has occurred during the year that would indicate potential impairment.

We exercise judgment in evaluating our long-lived assets for impairment. We assess the impairment of long-lived assets that include other intangible assets, goodwill, and property, plant, and equipment at least annually or earlier if events or changes in circumstances indicate that the carrying value may not be recoverable. In performing tests of impairment, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of our long-lived assets. If these estimates or the related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. At August 31, 2013, our goodwill and other intangible assets were approximately \$121.8 million and \$82.6 million, respectively. We believe our businesses will generate sufficient undiscounted cash flow to more than recover the investments we have made in property, plant and equipment, as well as the goodwill and other intangibles recorded as a result of our acquisitions. However, we cannot predict the occurrence of future impairments or specific triggering-events, nor the impact such events might have on our reported asset values.

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, we print and store custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately \$3.1 million and \$6.8 million of revenue were recognized under these agreements during the three and six months ended August 31, 2013, respectively, as compared to \$3.0 million and \$6.1 million during the three and six months ended August 31, 2012, respectively.

We maintain an allowance for doubtful receivables to reflect estimated losses resulting from the inability of customers to make required payments. On an on-going basis, we evaluate the collectability of accounts receivable based upon historical collection trends, current economic factors, and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts using a combination of factors, including the age of the outstanding balances, evaluation of customers' current and past financial condition and credit scores, recent payment history, current economic environment, discussions with our project managers, and discussions with the customers directly.

Our inventories are valued at the lower of cost or market. We regularly review inventory values on hand, using specific aging categories, and write down inventory deemed obsolete and/or slow-moving based on historical usage and estimated future usage to its estimated market value. As actual future demand or market conditions may vary from those projected by management, adjustments to inventory valuations may be required.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each jurisdiction in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance, we must include an expense within the tax provision in the consolidated statements of earnings. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted.



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In addition to the above, we also have to make assessments as to the adequacy of our accrued liabilities, more specifically our liabilities recorded in connection with our workers compensation and health insurance, as these plans are self funded. To help us in this evaluation process, we routinely get outside third-party assessments of our potential liabilities under each plan.

In view of such uncertainties, investors should not place undue reliance on our forward-looking statements since such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**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, 2013 and August 31, 2012.

*Segment Operating Results Consolidated Summary* this section provides an analysis of our net sales, gross profit margin and operating income by segment.

Consolidated Statements of Earnings Data (Dollars in thousands)	Three Months Ended August 31,				Six Months Ended August 31,			
	2013		2012		2013		2012	
Net sales	\$ 135,288	100.0%	\$ 138,344	100.0%	\$ 273,754	100.0%	\$ 280,872	100.0%
Cost of goods sold	98,629	72.9	104,395	75.5	201,300	73.5	218,674	77.9
Gross profit margin	36,659	27.1	33,949	24.5	72,454	26.5	62,198	22.1
Selling, general and administrative	21,083	15.6	21,331	15.4	43,288	15.8	43,357	15.4
Gain from disposal of assets	(248)	(0.2)	(5)		(255)	(0.1)	(9)	
Income from operations	15,824	11.7	12,623	9.1	29,421	10.8	18,850	6.7
Other expense, net	(269)	(0.2)	(667)	(0.5)	(363)	(0.1)	(786)	(0.3)
Earnings before income taxes	15,555	11.5	11,956	8.6	29,058	10.7	18,064	6.4
Provision for income taxes	5,754	4.3	4,364	3.1	10,751	4.0	6,593	2.3
Net earnings	\$ 9,801	7.2%	\$ 7,592	5.5%	\$ 18,307	6.7%	\$ 11,471	4.1%

**Three months ended August 31, 2013 compared to three months ended August 31, 2012**

*Net Sales.* Our consolidated net sales were \$135.3 million for the quarter ended August 31, 2013, compared to \$138.3 million for same quarter last year, or a decrease of 2.2%. Print sales declined by 8.1% on a comparable quarter basis, from \$86.0 million to \$79.0 million. Our apparel

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sales, on a comparable quarter basis, increased from \$52.3 million to \$56.3 million, or 7.6%. Our apparel volume was up 12.7% for the period, while its selling price per unit was down 4.9%. As the high priced cotton previously residing in our finished goods inventory has been used up, the current raw material costs are now comparable to current market pricing. This is allowing our apparel segment to be able to be much more competitive in the marketplace this year. Our print sales, on a comparable basis, were impacted by the normal transition loss of business associated with acquired businesses.

*Cost of Goods Sold.* Our manufacturing costs decreased by \$5.8 million from \$104.4 million for the three months ended August 31, 2012 to \$98.6 million for the three months ended August 31, 2013, or 5.6%. Our consolidated gross profit margin ( margin ) increased from 24.5% to 27.1% for the quarter ended August 31, 2012 and August 31, 2013, respectively. Our print margin decreased slightly from 30.7% to 30.0% on a comparable

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quarter, but increased 30 basis points on a sequential quarter. Our apparel margin continued to increase on both a comparable and sequential quarter basis, due to lower raw material input costs and improving production levels. Our apparel margin increased 870 basis points on a comparable quarter basis from 14.4% to 23.1% and 280 basis points on a sequential quarter basis.

*Selling, general and administrative expense.* For the three months ended August 31, 2013, our selling, general and administrative expenses were \$21.1 million, or 15.6% of sales, compared to \$21.3 million, or 15.4% of sales for the three months ended August 31, 2012. During the period we started to see the benefit of the reduction in redundant selling, general and administrative expenses at acquired plants. However, this benefit was offset by a higher provision for bad debts during both the quarter and period due to the projected losses on two apparel accounts. The impact during the quarter was approximately \$1.0 million.

*Gain from disposal of assets.* The gain from disposal of assets of \$248,000 during the quarter related primarily to the sale of our print facility located in San Antonio, Texas, which we shut down during the first quarter of this fiscal year. The gain from disposal of assets of \$5,000 for the three months ended August 31, 2012 related to the sale of a vehicle.

*Income from operations.* Our income from operations for the three months ended August 31, 2013 was \$15.8 million or 11.7% of sales, as compared to \$12.6 million, or 9.1% of sales for the three months ended August 31, 2012, an increase of \$3.2 million, or 25.4%. The increase in our operational earnings related primarily to our increased apparel margin during the quarter.

*Other income and expense.* Interest expense decreased from \$0.4 million for the three months ended August 31, 2012 to \$0.2 million for the three months ended August 31, 2013. This was as a result of our average outstanding borrowings being lower during the current quarter when compared to the same quarter last year.

*Provision for income taxes.* Our effective tax rate was 37.0% for the three months ended August 31, 2013 compared to 36.5% for the three months ended August 31, 2012. The increase in our effective tax rate related primarily to the decrease in the impact associated with our domestic production activity credit due to the transition of our apparel manufacturing from the United States to Mexico.

*Net earnings.* Due to the above factors, our net earnings for the three months ended August 31, 2013 were \$9.8 million, or 7.2% of sales, as compared to \$7.6 million, or 5.5% of sales for the three months ended August 31, 2012. Our basic earnings per share were \$0.38 per share for the three months ended August 31, 2013, as compared to \$0.29 per share for the three months ended August 31, 2012. Our diluted earnings per share were \$0.38 per share for the three months ended August 31, 2013, as compared to \$0.29 per share for the three months ended August 31, 2012.

**Six months ended August 31, 2013 compared to six months ended August 31, 2012**

*Net Sales.* For the six month period, our net consolidated sales decreased from \$280.9 million to \$273.8 million, or 2.5%. Print sales for the six month period were \$160.4 million, compared to \$173.4 million for the same period last year, a decrease of \$13.0 million, or 7.5%. Apparel sales for the six month period were \$113.4 million, compared to \$107.5 million for the same period last year, or an increase of \$5.9 million or 5.5% with volume being up 11.6% and selling price down 6.1%. While the overall apparel market continues to be challenging, both from a pricing and volume perspective, we have seen some pricing stability in the marketplace. In addition, the current pricing position of our finished goods inventory is allowing us to be more competitive in the marketplace this year in comparison to last fiscal year.

*Cost of Goods Sold.* Our manufacturing costs decreased by \$17.4 million from \$218.7 million, or 77.9% of sales for the six months ended August 31, 2012 to \$201.3 million, or 73.5% of sales for the comparable period this year. Overall our margin increased from 22.1% to 26.5% for the six months ended August 31, 2012 and 2013, respectively. Our print margin increased during the period from 29.3% to 29.9%, while our apparel margin increased from 10.6% to 21.7%, due to the lower raw material costs and improving production levels. The negative impact of higher finished goods costs due to mainly higher raw material input costs that we were dealing with most



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of last fiscal year is behind us. The current raw material pricing in our apparel finished goods is in line with current market prices. This has allowed us to be more competitive in the marketplace while still maintaining acceptable margins. We continue to expect to see improvement in our apparel margin as their production levels increase, absent some economic/market disruption.

*Selling, general and administrative expense.* For the six months ended August 31, 2013, our selling, general and administrative expenses remained level at \$43.3 million as compared to \$43.4 million for the six months ended August 31, 2012. We have completed the installation of our Enterprise Resource Planning ( ERP ) system in each of the acquired Printegra/PrintXcel plants and have started to eliminate some duplicate SG&A costs residing in these plants. However, this benefit was totally offset by the increase in our provision for bad debts which increased by approximately \$1.9 million during the period.

*Gain from disposal of assets.* The gain from disposal of assets of \$255,000 for the six months ended August 31, 2013 related primarily to the sale of our print facility located in San Antonio, Texas. The gain from disposal of assets of \$9,000 for the six months ended August 31, 2012 resulted from the sale of a vehicle and miscellaneous manufacturing equipment.

*Income from operations.* Our income from operations for the six months ended August 31, 2013 was \$29.4 million, or 10.7% of sales compared to \$18.9 million, or 6.7% of sales for the same period last year, or an increase of \$10.5 million, or 55.6%. The increase in our operational earnings related primarily to our continued increased apparel margin during the period.

*Other income and expense.* Our interest expense decreased from \$0.9 million for the six months ended August 31, 2012 to \$0.5 million for the six months ended August 31, 2013. This was again as a result of our average outstanding borrowings being lower during the period when compared to the same period last year.

*Provision for income taxes.* Our effective tax rate was 37.0% for the six months ended August 31, 2013 compared to 36.5% for the six months ended August 31, 2012. The increase in our effective tax rate related to a decrease in the impact associated with our domestic production activity credit due to the transition of our apparel manufacturing from the United States to Mexico.

*Net earnings.* Due to the above factors, our net earnings for the six months ended August 31, 2013 were \$18.3 million, or 6.7% of sales, compared to \$11.5 million, or 4.1% of sales for the six months ended August 31, 2012. Our basic earnings per share for the six months ended August 31, 2013 was \$0.70 per share compared to \$0.44 per share for the six months ended August 31, 2012. Our diluted earnings per share for the six months ended August 31, 2013 was \$0.70 per share compared to \$0.44 per share for the six months ended August 31, 2012.

**Segment Operating Results**

Net Sales by Segment (in thousands)	Three months ended August 31,		Six months ended August 31,	
	2013	2012	2013	2012
Print	\$ 78,953	\$ 86,069	\$ 160,392	\$ 173,368
Apparel	56,335	52,275	113,362	107,504
Total	\$ 135,288	\$ 138,344	\$ 273,754	\$ 280,872

*Print Segment.* Our net print sales, which represented 58% and 59% of our consolidated sales for the three and six months ended August 31, 2013, respectively, were approximately \$79.0 million and \$160.4 million, respectively, compared to \$86.0 million and \$173.4 million, for the three and six months August 31, 2012, respectively, a decrease of \$7.0 million or 8.1% for the quarter and a decrease of \$13.0 million or 7.5% for the period. The decrease in our print sales on a comparable basis related primarily to the following: (i) a continued decline in our traditional

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long-run business due to a combined transition away from continuous forms and increased competition from major competitors (i.e., R.R. Donnelley, Standard Register, etc.); (ii) fewer sales days; and (iii) normal transition of business loss associated with acquired businesses, either due to pricing (see below), concentration of business, or other factors. In connection with acquired plants, as we implement our ERP system at these plants, we often times experience some sales decline as we are better able to align pricing to market and the value offered to the end use customer. We do feel, however, most of these transitional losses are behind us at this point.



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**Apparel Segment.** Our net apparel sales, which represented 42% and 41% of our consolidated sales for the three and six months ended August 31, 2013, respectively, were approximately \$56.3 million and \$113.4 million, respectively, compared to \$52.3 million and \$107.5 million, for the three and six months August 31, 2012, respectively, an increase of \$4.0 million or 7.6% for the quarter and an increase of \$5.9 million or 5.5% for the period. The current market remains highly competitive and challenging from a pricing perspective. However, as the current price of cotton in our apparel finished goods inventory is now more in line with market, we have been able to be more competitive on the large volume programs. As a result, our volume increased 12.7% during the quarter, which was offset by a 4.9% decline in our average selling price. For the period, we saw our volume increase by 11.6%, which was offset by a 6.1% decline in average selling price.

Gross Profit by Segment (in thousands)	Three months ended August 31,		Six months ended August 31,	
	2013	2012	2013	2012
Print	\$ 23,669	\$ 26,420	\$ 47,896	\$ 50,787
Apparel	12,990	7,529	24,558	11,411
<b>Total</b>	<b>\$ 36,659</b>	<b>\$ 33,949</b>	<b>\$ 72,454</b>	<b>\$ 62,198</b>

**Print Segment.** Our print gross profit margin for the three and six months ended August 31, 2013 was \$23.7 million and \$47.9 million, respectively, as compared to \$26.4 million and \$50.8 million, for the three and six months ended August 31, 2012, respectively. For the quarter, print margin decreased from 30.7% to 30.0% compared to the same quarter last year, but increased sequentially from 29.7% last quarter. For the period, print margin increased from 29.3% to 29.9% compared to the same period last year due to the elimination of duplicate costs by the further integration of our recent acquisitions.

**Apparel Segment.** Our apparel gross profit margin for the three and six months ended August 31, 2013 was \$13.0 million and \$24.6 million, respectively, as compared to \$7.5 million and \$11.4 million, for the three and six months ended August 31, 2012. Sequentially, our apparel margin improved 270 basis points last quarter and 280 basis points this quarter. On a comparable basis, our apparel margin increased 870 basis points and 1,110 basis points for the three and six months, respectively. We expect to continue to see improvement in our apparel margin as our production volume increases, which should result in improved operational efficiencies.

Profit by Segment (in thousands)	Three months ended August 31,		Six months ended August 31,	
	2013	2012	2013	2012
Print	\$ 13,607	\$ 14,815	\$ 27,054	\$ 27,429
Apparel	5,901	1,047	10,269	(1,774)
<b>Total</b>	<b>19,508</b>	<b>15,862</b>	<b>37,323</b>	<b>25,655</b>
Less corporate expenses	3,953	3,906	8,265	7,591
<b>Earnings before income taxes</b>	<b>\$ 15,555</b>	<b>\$ 11,956</b>	<b>\$ 29,058</b>	<b>\$ 18,064</b>

**Print Segment.** Our print profit for the three and six months ended August 31, 2013 was \$13.6 million and \$27.1 million, respectively, as compared to \$14.8 million and \$27.4 million for the three and six months ended August 31, 2012, respectively. As a percent of sales, our print profits remained level at 17.2% for the comparable quarters and increased from 15.8% to 16.9% for the comparable periods.

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**Apparel Segment.** As a result of the increase in our apparel sales and margin, our apparel profit increased approximately \$4.9 million, from \$1.0 million, or 2.0% of sales for the three months ended August 31, 2012 to \$5.9 million, or 10.5% of sales for the three months ended August 31, 2013. Our apparel profit increased approximately \$12.1 million, from (\$1.8) million, or (1.7%) of sales for the six months ended August 31, 2012 to \$10.3 million, or 9.1% of sales for the six months ended August 31, 2013.

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Liquidity and Capital Resources

<i>(Dollars in thousands)</i>	August 31, 2013	February 28, 2013
Working Capital	\$ 147,825	\$ 150,377
Cash	\$ 17,681	\$ 6,232

**Working Capital.** Our working capital decreased from \$150.4 million at February 28, 2013 to \$147.8 million at August 31, 2013. Our current ratio, calculated by dividing our current assets by our current liabilities, decreased slightly from 4.5 to 1.0 at February 28, 2013 to 4.4 to 1.0 at August 31, 2013. Both the decline in our working capital and current ratio related to the use of working capital to pay-down long-term liabilities. As a result our debt-to-equity ratio (long-term debt/equity) decreased from 15.9% at February 28, 2013 to 9.3% at August 31, 2013.

<i>(Dollars in thousands)</i>	Six months ended August 31,	
	2013	2012
Net Cash provided by operating activities	\$ 40,104	\$ 29,360
Net Cash provided by (used in) investing activities	\$ (1,204)	\$ 2,889
Net Cash used in financing activities	\$ (27,043)	\$ (29,111)

**Cash flows from operating activities.** Cash provided by operating activities increased by \$10.7 million from \$29.4 million for the six months ended August 31, 2012 to \$40.1 million for the six months ended August 31, 2013. Our higher operational cash flows for the comparable six month period was primarily due to the increase in our net earnings of \$6.8 million, from \$11.5 million for the six months ended August 31, 2012 to \$18.3 million for the six months ended August 31, 2013. In addition, accounts payable and accrued expenses favorably impacted our operational cash flows by \$9.1 million, accounts receivable by \$3.1 million and prepaid expenses by \$0.7 million. These items were offset by less cash being provided by our inventory this period, due to an increase in our apparel inventory in connection with increased demand.

**Cash flows from investing activities.** Cash provided by (used in) investing activities decreased \$4.1 million, from \$2.9 million provided by investing activities to \$1.2 million used in investing activities for the six months ended August 31, 2012 and 2013, respectively. The increase in cash used related to an increase in capital expenditures of \$1.3 million less approximately \$1.0 million provided by the disposal of property. In addition, last year we had an adjustment to the purchase price of an acquisition which provided an additional \$3.7 million in cash.

**Cash flows from financing activities.** We used \$27.0 million in cash for financing activities during the current period, compared to \$29.1 million for the same six month period last year, or a decrease of \$2.1 million. We used \$2.5 million more in cash this period to repay debt and \$4.5 million less in cash to pay dividends than during the same period last year. The reduction in the payment of dividends this year was due to the action taken by the Board last year. The Board felt with federal tax rate uncertainties it was in the best interest of the shareholders of the Corporation to pay the normal January and May dividends in December of last year.

**Credit Facility.** On September 13, 2013, we entered into the Third Amendment and Consent to Second Amended and Restated Credit Agreement (the Agreement) with a syndicate of lenders led by Bank of America, N.A. (the Facility). The Amendment amends and restates the financial covenant relating to Minimum Tangible Net Worth. The amended covenant requires a Minimum Tangible Net Worth of \$100 million, with step-ups equal to 25% of consolidated net income, commencing with the first quarter ending November 30, 2013. The Facility provides us access to \$150.0 million in revolving credit, which we may increase to \$200.0 million in certain circumstances, and matures on August 16, 2016. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.0% to 2.25% (LIBOR + 1.25% or 1.43% at August 31, 2013 and 1.98% at August 31, 2012), depending on our ratio of total funded debt to the sum of net earnings plus interest, tax, depreciation and amortization (EBITDA). As of August 31, 2013, we had \$35.0 million of borrowings under the revolving credit line and \$3.0 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$112.0 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary

covenants, such as our

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minimum tangible equity level and total funded debt to EBITDA ratio. We were in compliance with all these covenants as of August 31, 2013. The Facility is secured by substantially all of our domestic assets as well as all capital securities of each of the Company's U.S. subsidiaries and 65% of all capital securities of each of the Company's direct foreign subsidiaries.

It is anticipated that the available line of credit is sufficient to cover 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 recent enactment of the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) in July 2012, 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 28, 2014. However, we expect to make a cash contribution to the Pension Plan of between \$2.0 million and \$3.0 million during fiscal year 2014. We made contributions of \$3.0 million to our Pension Plan during fiscal 2013. 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, 2013, we had an unfunded pension liability recorded on our balance sheet of \$10.4 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 \$4.0 million and \$5.0 million. To date we have spent approximately \$2.2 million on capital expenditures. We expect to fund these expenditures through existing cash flows.

We rely on our cash flows generated from operations and the borrowing capacity under our 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 Facility as required to cover our operating and capital requirements for the foreseeable future.

**Contractual Obligations & Off-Balance Sheet Arrangements** There have been no significant changes in our contractual obligations since February 28, 2013 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, 2013.

**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 credit facility, totaled \$35.0 million at August 31, 2013. 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, 2013 would be approximately \$0.4 million.



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**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED AUGUST 31, 2013**

***Foreign Exchange***

We have global operations and thus make investments and enter into transactions in various foreign currencies. The value of our consolidated assets and liabilities located outside the United States (translated at period end exchange rates) and income and expenses (translated using average rates prevailing during the period), generally denominated in Pesos and Canadian Dollars, 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 increased 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, 2013 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 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting ended August 31, 2013.

**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 28, 2013.

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

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Under the Company's stock repurchase plan which was approved by our Board of Directors on October 20, 2008, the Company was authorized to repurchase up to \$5.0 million of the Company's common stock. On April 20, 2012, the Board increased the authorized amount available to repurchase our shares by an additional \$5.0 million,



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bringing the total to \$10.0 million. As of October 4, 2013, the Company has repurchased 96,000 shares under the repurchase program since its inception at an average price per share of \$10.45. No repurchases were made under the repurchase plan during the second quarter ended August 31, 2013. There is a maximum amount of approximately \$9.0 million available to purchase shares under the program. Unrelated to the stock repurchase program, the Company purchased 49 shares of common stock during the six months ended August 31, 2013.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Amount that May Yet Be Used to Purchase Shares Under the Program</b>
June 1, 2013 - June 30, 2013		\$		\$ 8,997,084
July 1, 2013 - July 31, 2013		\$		\$ 8,997,084
August 1, 2013 - August 31, 2013		\$		\$ 8,997,084
<b>Total</b>		\$		\$ 8,997,084

**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.

<b>Exhibit Number</b>	<b>Description</b>
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 (File No. 001-05807).
Exhibit 3.2	Second Amended and Restated Bylaws of Ennis, Inc., dated September 21, 2012, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on September 27, 2012 (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, 2013, filed on October 4, 2013, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (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.***

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- \* Filed herewith
- \*\* Furnished herewith
- \*\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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**FOR THE PERIOD ENDED AUGUST 31, 2013**

**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 4, 2013

/s/ Keith S. Walters  
Keith S. Walters  
Chairman, Chief Executive Officer and President

Date: October 4, 2013

/s/ Richard L. Travis, Jr.  
Richard L. Travis, Jr.  
V.P. Finance and CFO, Treasurer and Principal Financial and  
Accounting Officer

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**INDEX TO EXHIBITS**

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