

ENNIS, INC.
Form 10-Q
September 24, 2010

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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, 2010**

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)

Texas

75-0256410

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

2441 Presidential Pkwy., Midlothian, Texas

76065

(Address of Principal Executive Offices)

(Zip code)

(972) 775-9801

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 17, 2010, there were 25,915,589 shares of the Registrant's common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE PERIOD ENDED AUGUST 31, 2010
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

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

	August 31, 2010 <i>(unaudited)</i>	February 28, 2010
Assets		
Current assets		
Cash	\$ 16,993	\$ 21,063
Accounts receivable, net of allowance for doubtful receivables of \$4,900 at August 31, 2010 and \$4,446 at February 28, 2010	55,793	57,249
Prepaid expenses	4,431	6,867
Inventories	83,936	75,137
Deferred income taxes	5,319	5,319
Assets held for sale		804
 Total current assets	 166,472	 166,439
Property, plant and equipment, at cost		
Plant, machinery and equipment	151,938	138,419
Land and buildings	65,591	55,430
Other	22,529	22,402
 Total property, plant and equipment	 240,058	 216,251
Less accumulated depreciation	154,900	150,531
 Net property, plant and equipment	 85,158	 65,720
 Goodwill	 117,341	 117,341
Trademarks and tradenames, net	58,831	58,897
Customer lists, net	18,626	19,753
Deferred finance charges, net	863	1,079
Other assets	3,359	3,470
 Total assets	 \$ 450,650	 \$ 432,699

See accompanying notes to consolidated financial statements.

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

	August 31, 2010	February 28, 2010
	<i>(unaudited)</i>	
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	\$ 24,173	\$ 27,463
Accrued expenses		
Employee compensation and benefits	14,560	14,374
Taxes other than income	1,302	1,539
Federal and state income taxes payable	3,230	705
Other	7,155	5,720
Total current liabilities	50,420	49,801
Long-term debt, less current installments	41,272	41,817
Liability for pension benefits	8,117	7,132
Deferred income taxes	19,726	19,821
Other liabilities	271	868
Total liabilities	119,806	119,439
Commitments and contingencies		
Shareholders equity		
Preferred stock \$10 par value, authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at August 31 and February 28, 2010	75,134	75,134
Additional paid in capital	121,370	121,978
Retained earnings	223,208	206,062
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	(247)	267
Unrealized loss on derivative instruments, net of taxes	(808)	(1,154)
Minimum pension liability, net of taxes	(12,376)	(12,376)
	(13,431)	(13,263)
	406,281	389,911
Treasury stock		
Cost of 4,224,137 shares at August 31, 2010 and 4,292,080 shares at February 28, 2010	(75,437)	(76,651)
Total shareholders equity	330,844	313,260

Total liabilities and shareholders' equity	\$ 450,650	\$ 432,699
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See accompanying notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Net sales	\$ 143,034	\$ 137,767	\$ 283,775	\$ 268,597
Cost of goods sold	103,326	101,945	201,887	201,791
Gross profit margin	39,708	35,822	81,888	66,806
Selling, general and administrative	20,276	19,952	41,523	39,411
Gain from disposal of assets		(1)		(3)
Income from operations	19,432	15,871	40,365	27,398
Other income (expense)				
Interest expense	(321)	(725)	(758)	(1,420)
Other, net	(11)	6	29	(294)
	(332)	(719)	(729)	(1,714)
Earnings before income taxes	19,100	15,152	39,636	25,684
Provision for income taxes	6,971	5,606	14,467	9,503
Net earnings	\$ 12,129	\$ 9,546	\$ 25,169	\$ 16,181
Weighted average common shares outstanding				
Basic	25,840,376	25,735,950	25,820,626	25,727,577
Diluted	25,883,449	25,781,298	25,866,869	25,757,226
Per share amounts				
Net earnings basic	\$ 0.47	\$ 0.37	\$ 0.97	\$ 0.63
Net earnings diluted	\$ 0.47	\$ 0.37	\$ 0.97	\$ 0.63
Cash dividends per share	\$ 0.155	\$ 0.155	\$ 0.310	\$ 0.310

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

	Six months ended	
	August 31,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 25,169	\$ 16,181
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	4,152	4,609
Amortization of deferred finance charges	216	224
Amortization of tradenames and customer lists	1,201	1,202
Gain from disposal of assets		(3)
Bad debt expense	1,304	1,528
Stock based compensation	607	528
Changes in operating assets and liabilities:		
Accounts receivable	112	(7,883)
Prepaid expenses	2,424	5,094
Inventories	(8,840)	23,406
Other assets	103	(937)
Accounts payable and accrued expenses	671	5,186
Other liabilities	(597)	(666)
Prepaid pension asset/liability for pension benefits	985	1,505
Net cash provided by operating activities	27,507	49,974
Cash flows from investing activities:		
Capital expenditures	(23,242)	(5,800)
Proceeds from disposal of plant and property	4	8
Net cash used in investing activities	(23,238)	(5,792)
Cash flows from financing activities:		
Repayment of debt		(24,133)
Dividends	(8,023)	(7,996)
Purchase of treasury stock	(1)	(405)
Net cash used in financing activities	(8,024)	(32,534)
Effect of exchange rate changes on cash	(315)	210
Net change in cash	(4,070)	11,858
Cash at beginning of period	21,063	9,286

Cash at end of period	\$ 16,993	\$ 21,144
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See accompanying notes to consolidated financial statements.

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

1. Significant Accounting Policies and General Matters**Basis of Presentation**

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis) for the quarter and six months ended August 31, 2010 have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2010, from which the accompanying consolidated balance sheet at February 28, 2010 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included and are of a normal recurring nature. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

Recent Accounting Pronouncements

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

2. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 95% of the Company's receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers' receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance in the period the payment is received. Credit losses from continuing operations have consistently been within management's expectations.

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

2. Accounts Receivable and Allowance for Doubtful Receivables-continued

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

	Three months ended		Six months ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 4,993	\$ 3,593	\$ 4,446	\$ 3,561
Bad debt expense	315	989	1,304	1,528
Recoveries	23	6	35	18
Accounts written off	(431)	(520)	(885)	(1,067)
Foreign currency translation				28
Balance at end of period	\$ 4,900	\$ 4,068	\$ 4,900	\$ 4,068

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,	February
	2010	28,
		2010
Raw material	\$ 12,343	\$ 11,089
Work-in-process	18,353	14,280
Finished goods	53,240	49,768
	\$ 83,936	\$ 75,137

4. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future.

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with

indefinite lives and a net book value of \$58.5 million at August 31, 2010 are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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ENNIS, INC. AND SUBSIDIARIES
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FOR THE PERIOD ENDED AUGUST 31, 2010

4. Goodwill and Other Intangible Assets-continued

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

	Gross Carrying Amount	Accumulated Amortization	Net
As of August 31, 2010			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 941	\$ 293
Customer lists	29,908	11,282	18,626
Noncompete	500	491	9
	\$ 31,642	\$ 12,714	\$ 18,928

As of February 28, 2010

Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 875	\$ 359
Customer lists	29,908	10,155	19,753
Noncompete	500	483	17
	\$ 31,642	\$ 11,513	\$ 20,129

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

Aggregate amortization expense for the six months periods ended August 31, 2010 and August 31, 2009 was \$1.2 million.

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

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

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

Print Segment Total	Apparel Segment Total	Total
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Balance as of March 1, 2009	\$ 42,792	\$ 74,549	\$ 117,341
Goodwill acquired			
Goodwill impairment			
Balance as of March 1, 2010	42,792	74,549	117,341
Goodwill acquired			
Goodwill impairment			
Balance as of August 31, 2010	\$ 42,792	\$ 74,549	\$ 117,341

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ENNIS, INC. AND SUBSIDIARIES
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FOR THE PERIOD ENDED AUGUST 31, 2010

4. Goodwill and Other Intangible Assets-continued

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

5. Other Accrued Expenses

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

	August 31, 2010	February 28, 2010
Accrued taxes	\$ 307	\$ 265
Accrued legal and professional fees	406	392
Accrued interest	126	114
Accrued utilities	1,436	1,322
Accrued repairs and maintenance	616	547
Accrued construction retainer	1,235	582
Accrued phantom stock obligation	429	422
Accrued acquisition related obligations	507	594
Other accrued expenses	2,093	1,482
	\$ 7,155	\$ 5,720