ENNIS, INC.
Form 10-Q
September 29, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended August 31, 2015

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of September 25, 2015, there were 25,811,026 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, 2015

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	August 31, 2015	February 28, 2015
Assets		
Current assets		
Cash	$ 18,851	$ 15,346
Accounts receivable, net of allowance for doubtful receivables of $3,448 at August 31, 2015 and $3,559 at February 28, 2015	62,012	62,865
Prepaid expenses	5,649	8,853
Prepaid income taxes	2,119	3,198
Inventories	97,838	119,814
Deferred income taxes	6,272	6,272
Assets held for sale	194	194
Total current assets	192,935	216,542
Property, plant and equipment, at cost		
Plant, machinery and equipment	168,263	166,890
Land and buildings	80,502	83,283
Other	23,621	23,574
Total property, plant and equipment	272,386	273,747
Less accumulated depreciation	185,357	180,872
Net property, plant and equipment	87,029	92,875
Goodwill	64,537	64,489
Trademarks and trade names	28,591	28,591
Other intangible assets, net	45,504	47,636
Deferred finance charges, net	149	224
Other assets	2,564	2,905
Total assets	$ 421,309	$ 453,262

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except for par value and share amounts)

	August 31, 2015	February 28, 2015
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 24,760	$ 21,275
Accrued expenses		
Employee compensation and benefits	14,864	15,964
Taxes other than income	1,176	656
Income taxes payable	866	
Other	2,913	2,352
Total current liabilities	44,579	40,247
Long-term debt	63,000	106,500
Liability for pension benefits	10,955	9,852
Deferred income taxes	8,242	10,248
Other liabilities	1,266	1,735
Total liabilities	128,042	168,582
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, 2015	75,134	75,134
Additional paid-in capital	120,992	121,687
Retained earnings	199,618	188,413
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	(7,902)	(4,627)
Minimum pension liability, net of taxes	(17,570)	(17,570)
Total accumulated other comprehensive income (loss)	(25,472)	(22,197)
Treasury stock	(77,005)	(78,357)
Total shareholders equity	293,267	284,680
Total liabilities and shareholders equity	$ 421,309	$ 453,262

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended August 31,		Six months ended August 31,	
	2015	**2014**	**2015**	**2014**
Net sales	$ 150,761	$ 151,841	$ 301,337	$ 293,027
Cost of goods sold	110,131	113,653	223,163	219,451
Gross profit margin	40,630	38,188	78,174	73,576
Selling, general and administrative	23,448	21,824	46,122	43,619
Gain from disposal of assets	(8)	(3)	(10)	(4)
Income from operations	17,190	16,367	32,062	29,961
Other income (expense)				
Interest expense	(382)	(525)	(860)	(1,027)
Other, net	724	57	888	(286)
	342	(468)	28	(1,313)
Earnings before income taxes	17,532	15,899	32,090	28,648
Provision for income taxes	6,486	5,883	11,873	10,600
Net earnings	$ 11,046	$ 10,016	$ 20,217	$ 18,048
Weighted average common shares outstanding				
Basic	25,662,828	25,990,496	25,636,203	25,991,444
Diluted	25,693,256	26,002,701	25,657,519	26,004,549
Per share amounts				
Net earnings - basic	$ 0.43	$ 0.39	$ 0.79	$ 0.69
Net earnings - diluted	$ 0.43	$ 0.39	$ 0.79	$ 0.69
Cash dividends per share	$ 0.175	$ 0.175	$ 0.350	$ 0.350

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(*Dollars in thousands*)

	Three months ended August 31,		Six months ended August 31,	
	2015	**2014**	**2015**	**2014**
Net earnings	11,046	$ 10,016	$ 20,217	$ 18,048
Foreign currency translation adjustment, net of deferred taxes	(2,611)	(445)	(3,275)	535
Comprehensive income	$ 8,435	$ 9,571	$ 16,942	$ 18,583

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six months ended August 31,	
	2015	**2014**
Cash flows from operating activities:		
Net earnings	$ 20,217	$ 18,048
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	5,594	5,221
Amortization of deferred finance charges	75	75
Amortization of trade names, customer lists, and patent	2,990	2,836
Gain from disposal of assets	(10)	(4)
Bad debt expense	614	231
Stock based compensation	657	685
Deferred income taxes	9	
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	80	(1,016)
Prepaid expenses	3,605	(887)
Inventories	21,678	5,695
Other assets	342	(45)
Accounts payable and accrued expenses	4,190	882
Other liabilities	(469)	70
Liability for pension benefits	1,103	547
Net cash provided by operating activities	60,675	32,338
Cash flows from investing activities:		
Capital expenditures	(2,520)	(927)
Purchase of businesses, net of cash acquired	(331)	(10,500)
Proceeds from disposal of plant and property	27	13
Net cash used in investing activities	(2,824)	(11,414)
Cash flows from financing activities:		
Borrowings on debt		11,000
Repayment of debt	(43,500)	(12,500)
Dividends	(9,012)	(9,141)
Purchase of treasury stock		(2,051)
Proceeds from exercise of stock options		54
Net cash used in financing activities	(52,512)	(12,638)

Effect of exchange rate changes on cash	(1,834)	180
Net change in cash	3,505	8,466
Cash at beginning of period	15,346	5,316
Cash at end of period	$ 18,851	$ 13,782

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

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, 2015 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, 2015, from which the accompanying consolidated balance sheet at February 28, 2015 was derived. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included and are of a normal recurring nature. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU No. 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASU No. 2014-09 supersedes most existing revenue recognition guidance in U.S. GAAP. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. The guidance permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures.

2. Accounts Receivable and Allowance for Doubtful Receivables

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

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

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

2. Accounts Receivable and Allowance for Doubtful Receivables-continued

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

	Three months ended August 31,		Six months ended August 31,	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	$ 3,717	$ 3,718	$ 3,559	$ 3,672
Bad debt expense	307	87	614	231
Recoveries	11	8	35	19
Accounts written off	(587)	(229)	(760)	(338)
Balance at end of period	$ 3,448	$ 3,584	$ 3,448	$ 3,584

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, 2015	February 28, 2015
Raw material	$ 19,488	$ 18,153
Work-in-process	9,091	7,195
Finished goods	69,259	94,466
	$ 97,838	$ 119,814

4. Acquisitions

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

On December 31, 2014, the Company completed the acquisition of Kay Toledo Tag and Special Service Partners and their related entities (collectively Kay Toledo) for $16.2 million, in a stock purchase transaction. An additional $1.0 million is available to be paid to the sellers over the next 3 years under an earn-out provision if certain financial metrics are achieved. The goodwill recognized as a part of this acquisition is not tax deductible. Kay Toledo has locations in Toledo, Ohio and Neenah, Wisconsin through Special Service Partners. Experts in digital printing and customer short-run printing, Kay Toledo produces tags, labels, tickets and commercial printing. Kay Toledo, which generated approximately $25.0 million in unaudited sales during calendar year 2014, will continue to operate under its respective brand names. For the three and six months ended August 31, 2015, Kay Toledo added $6.6 million and $12.8 million, respectively, in sales and $1.0 million and $1.9 million, respectively, in earnings (pre-tax). The acquisition expands and strengthens the tag and label operations of the Company.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

4. Acquisitions-continued

The following is a summary of the purchase price allocations for Kay Toledo (in thousands):

Accounts receivable	$ 1,872
Inventories	2,168
Property, plant & equipment	9,218
Customer lists	2,813
Trade names	1,690
Goodwill	4,249
Accounts payable and accrued liabilities	(1,120)
Deferred taxes	(4,652)
	$ 16,238

On October 3, 2014, the Company acquired the assets of Hoosier Data Forms for $0.2 million in cash plus the assumption of certain trade payables. Management considers this acquisition immaterial and has omitted further discussion.

On June 16, 2014, the Company acquired the assets of Sovereign Business Forms, and its related entities, TRI-C Business Forms, Inc., Falcon Business Forms, Inc., Forms Manufacturers, Inc., Mutual Graphics, Inc., and Curtis Business Forms, Inc. (collectively Sovereign) for $10.6 million in cash plus the assumption of certain trade liabilities. In addition, if certain financial metrics are met, up to an additional $1.0 million is available to be paid to the sellers over the next 4 years under an earn-out provision. The goodwill generated in this acquisition is tax deductible. The cash portion of the purchase price was funded by borrowing under the Company s line of credit facility. Sovereign, which generated approximately $27.1 million in unaudited sales during the 2013 calendar year, will continue to operate under its respective brand names. For the three and six months ended August 31, 2015, Sovereign added $6.7 million and $12.9 million, respectively, in sales and $1.1 million and $2.1 million, respectively, in earnings (pre-tax). The acquisition expanded the geographic locations of producing business forms for the Company.

The following is a summary of the purchase price allocations for Sovereign (in thousands):

Accounts receivable	$ 2,477
Inventories	1,305

Other assets	653
Property, plant & equipment	3,300
Customer lists	1,550
Trade names	1,403
Goodwill	993
Accounts payable and accrued liabilities	(1,048)
	$ 10,633

The results of operations for Sovereign and Kay Toledo are included in the Company s consolidated financial statements from the dates of acquisition. The following table represents certain operating information on a pro forma basis as though all operations had been acquired as of March 1, 2014, after the estimated impact of adjustments such as amortization of intangible assets, interest expense, interest income, and related tax effects (in thousands, except per share amounts):

	Three months ended August 31, 2014	**Six months ended August 31, 2014**
Pro forma net sales	$ 158,790	$ 312,737
Pro forma net earnings	10,011	18,546
Pro forma earnings per share - diluted	0.39	0.71

The pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

5. Goodwill and Other Intangible Assets

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

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 15 years). Trademarks and trade names with indefinite lives are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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

As of August 31, 2015	**Weighted Average Remaining Life** ***(in years)***	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Amortized intangible assets				
Trade names		$ 1,234	$ 1,234	$
Customer lists	9.1	75,518	30,399	45,119

Noncompete	2.3	75	17	58
Patent	2.5	783	456	327
Total	9.1	$ 77,610	$ 32,106	$ 45,504

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

5. Goodwill and Other Intangible Assets-continued

As of February 28, 2015	Weighted Average Remaining Life *(in years)*	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets				
Trade names		$ 1,234	$ 1,234	$
Customer lists	9.6	74,670	27,486	47,184
Noncompete	2.8	75	4	71
Patent	3.0	773	392	381
Total	9.5	$ 76,752	$ 29,116	$ 47,636

	August 31, 2015	February 28, 2015
Non-amortizing intangible assets		
Trademarks and trade names	$ 28,591	$ 28,591

Amortizing and non-amortizing intangible assets by segment as of the date indicated are as follows (in thousands):

	August 31, 2015		
Category	Print Segment	Apparel Segment	Total
Amortizing intangibles, net	$ 39,271	$ 6,233	$ 45,504
Non-amortizing intangibles	15,291	13,300	28,591
Total	$ 54,562	$ 19,533	$ 74,095

February 28, 2015

Category	Print Segment	Apparel Segment	Total
Amortizing intangibles, net	$ 40,670	$ 6,966	$ 47,636
Non-amortizing intangibles	15,291	13,300	28,591
Total	$ 55,961	$ 20,266	$ 76,227

Aggregate amortization expense for the six months ended August 31, 2015 and August 31, 2014 was $3.0 million ($2.3 million Print and $0.7 million Apparel) and $2.8 million ($2.1 million Print and $0.7 million Apparel), respectively.

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

	Print Segment	Apparel Segment	Total
2017	$ 4,666	$ 1,467	$ 6,133
2018	4,452	1,467	5,919
2019	3,935	1,467	5,402
2020	3,847	1,099	4,946
2021	3,778		3,778

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

5. Goodwill and Other Intangible Assets-continued

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

	Print Segment	Apparel Segment	Total
Balance as of March 1, 2014	$ 59,284	$ 55,923	$ 115,207
Goodwill acquired	5,205		5,205
Goodwill impairment		(55,923)	(55,923)
Balance as of February 28, 2015	64,489		64,489
Goodwill acquired	48		48
Goodwill impairment			
Balance as of August 31, 2015	$ 64,537	$	$ 64,537

During the fiscal year ended February 28, 2015, $12,000 was added to goodwill related to the adjustment of the fair values of certain Wisco assets, $945,000 was added to goodwill related to the acquisition of Sovereign, $4.2 million was added to goodwill related to the acquisition of Kay Toledo, and an adjustment of ($55.9 million) reflects an impairment charge related to goodwill recorded in the Apparel segment. During the six months ended August 31, 2015, $48,000 was added to goodwill related to the acquisition of Sovereign.

6. Other Accrued Expenses

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

	August 31, 2015	February 28, 2015
Accrued taxes	$ 156	$ 380
Accrued legal and professional fees	569	558
Accrued interest	231	425
Accrued utilities	112	131
Accrued acquisition related obligations	672	127
Accrued credit card fees	319	277

Other accrued expenses	854	454
	$ 2,913	$ 2,352

7. Long-Term Debt

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

	August 31, 2015	February 28, 2015
Revolving credit facility	$ 63,000	$ 106,500

On September 19, 2013, the Company 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 $100.0 million, with step-ups equal to 25% of consolidated net income. 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 18, 2016. During the period the Company has received a binding commitment from its primary lender to extend the maturity date on the above Facility to September 18, 2017 for an amount in excess of the amount outstanding under the same terms and conditions. As a result of this agreement, the Company s debt is classified as long-term. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.0% to 2.25% (LIBOR + 1.5% or 1.7% at August 31, 2015 and 1.7% at August 31, 2014), 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, 2015, the Company had $63.0 million of

ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

7. Long-Term Debt-continued

borrowings under the revolving credit line and $2.8 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately $84.2 million. The Facility contains financial covenants, including 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, 2015. 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.

8. Shareholders Equity

Changes in shareholders equity accounts for the six months ended August 31, 2015 are as follows (in thousands, except share amounts):

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Total
Balance March 1, 2015	30,053,443	$ 75,134	$ 121,687	$ 188,413	$ (22,197)	(4,514,905)	$ (78,357)	$ 284,680
Net earnings				20,217				20,217
Foreign currency translation, net of deferred tax of $2,006					(3,275)			(3,275)
Dividends paid ($.35 per share)				(9,012)				(9,012)
Stock based compensation			657					657
Exercise of stock options and restricted			(1,352)			77,900	1,352	

stock grants

Balance August 31, 2015	30,053,443	$ 75,134	$ 120,992	$ 199,618	$ (25,472)	(4,437,005)	$ (77,005)	$ 293,267

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. 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. The Board increased the authorized amount available to repurchase the Company s shares by an additional $5.0 million on April 20, 2012 and by another $10.0 million on December 19, 2014. There were no repurchases of common stock during the six months ended August 31, 2015 and have been 718,511 common shares repurchased under the program since its inception at an average price of $13.74 per share. There is currently $10.1 million available to repurchase the Company s common stock under the program.

9. <u>Stock Option Plan and Stock Based Compensation</u>

The Company grants stock options and restricted stock to key executives and managerial employees and non-employee directors. At August 31, 2015, 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 638,693 shares of unissued common stock reserved under the Plan for issuance as of August 31, 2015. 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, 2015 and August 31, 2014, the Company included compensation expense related to share-based compensation in selling, general and administrative expenses, compensation expense of $0.4 million ($0.2 million net of tax), and $0.3 million ($0.2 million net of tax), respectively. For the six months ended August 31, 2015 and August 31, 2014, the Company included compensation expense related to share-based compensation of $0.7 million ($0.4 million net of tax), and $0.7 million ($0.4 million net of tax), respectively, in selling, general and administrative expenses.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2015

9. Stock Option Plan and Stock Based Compensation-continued

Stock Options

The Company had the following stock option activity for the six months ended August 31, 2015:

	Number of Shares *(exact quantity)*	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life *(in years)*	Aggregate Intrinsic Value(a) *(in thousands)*
Outstanding at March 1, 2015	374,823	$ 15.95	5.7	$ 210
Granted	43,426	13.69		
Terminated	(20,000)	16.42		
Exercised				
Outstanding at August 31, 2015	398,249	$ 15.68	6.0	$ 587
Exercisable at August 31, 2015	321,824	$ 16.00	5.2	$ 433

(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, 2015 and August 31, 2014:

	August 31, 2015	August 31, 2014
Expected volatility	24.06%	29.25%
Expected term (years)	3	3
Risk free interest rate	0.89%	0.91%
Dividend yield	4.92%	4.11%

Weighted average grant-date fair value	$2.24	$2.70

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,	
	2015	2014	2015	2014
Total cash received	$	$	$	$ 54
Income tax benefits				
Total grant-date fair value				9
Intrinsic value				36

