

ENNIS, INC.  
Form 10-Q  
July 01, 2014  
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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 May 31, 2014**

**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)**

<b>Texas</b> <b>(State or Other Jurisdiction of</b>	<b>75-0256410</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>2441 Presidential Pkwy., Midlothian, Texas</b> <b>(Address of Principal Executive Offices)</b>	<b>76065</b> <b>(Zip code)</b>
<b>(972) 775-9801</b>	
<b>(Registrant's Telephone Number, Including Area Code)</b>	

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 June 30, 2014, there were 26,142,017 shares of the Registrant's common stock outstanding.

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**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED MAY 31, 2014**

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	<b>May 31, 2014</b>	<b>February 28, 2014</b>
	<i>(unaudited)</i>	
<b>Assets</b>		
Current assets		
Cash	\$ 13,266	\$ 5,316
Accounts receivable, net of allowance for doubtful receivables of \$3,718 at May 31, 2014 and \$3,672 at February 28, 2014	63,904	63,695
Prepaid expenses	9,218	8,152
Prepaid income taxes	162	623
Inventories	129,598	130,095
Deferred income taxes	6,262	6,262
<b>Total current assets</b>	<b>222,410</b>	<b>214,143</b>
Property, plant and equipment, at cost		
Plant, machinery and equipment	160,226	160,229
Land and buildings	82,649	81,555
Other	23,558	23,403
<b>Total property, plant and equipment</b>	<b>266,433</b>	<b>265,187</b>
Less accumulated depreciation	176,205	173,622
<b>Net property, plant and equipment</b>	<b>90,228</b>	<b>91,565</b>
Goodwill	115,219	115,207
Trademarks and trade names	62,898	62,898
Other intangible assets, net	47,460	48,877
Deferred finance charges, net	335	373
Other assets	3,341	3,284
<b>Total assets</b>	<b>\$ 541,891</b>	<b>\$ 536,347</b>

*See accompanying notes to consolidated financial statements.*



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**ENNIS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

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

	<b>May 31, 2014</b>	<b>February 28, 2014</b>
	<i>(unaudited)</i>	
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Accounts payable	\$ 21,290	\$ 22,062
Accrued expenses		
Employee compensation and benefits	14,149	16,520
Taxes other than income	866	445
Income taxes payable	3,869	338
Other	2,417	2,512
<b>Total current liabilities</b>	<b>42,591</b>	<b>41,877</b>
Long-term debt	105,500	105,500
Liability for pension benefits	2,189	1,915
Deferred income taxes	23,504	22,904
Other liabilities	1,183	1,216
<b>Total liabilities</b>	<b>174,967</b>	<b>173,412</b>
Commitments and contingencies		
Shareholders equity		
Preferred stock \$10 par value, authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at May 31 and February 28, 2014	75,134	75,134
Additional paid-in capital	120,813	122,517
Retained earnings	254,602	251,137
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	65	(915)
Minimum pension liability, net of taxes	(11,498)	(11,498)
<b>Total accumulated other comprehensive income (loss)</b>	<b>(11,433)</b>	<b>(12,413)</b>
Treasury stock	(72,192)	(73,440)
<b>Total shareholders equity</b>	<b>366,924</b>	<b>362,935</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 541,891</b>	<b>\$ 536,347</b>

*See accompanying notes to consolidated financial statements.*

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

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Net sales	\$ 141,186	\$ 138,466
Cost of goods sold	105,798	102,671
Gross profit margin	35,388	35,795
Selling, general and administrative	21,795	22,205
Gain from disposal of assets	(1)	(7)
Income from operations	13,594	13,597
Other income (expense)		
Interest expense	(502)	(251)
Other, net	(343)	157
	(845)	(94)
Earnings before income taxes	12,749	13,503
Provision for income taxes	4,717	4,997
Net earnings	\$ 8,032	\$ 8,506
Weighted average common shares outstanding		
Basic	25,973,227	26,038,068
Diluted	25,987,377	26,055,869
Per share amounts		
Net earnings basic	\$ 0.31	\$ 0.33
Net earnings diluted	\$ 0.31	\$ 0.33
Cash dividends per share	\$ 0.175	\$

*See accompanying notes to consolidated financial statements.*





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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(Dollars in thousands)***(Unaudited)**

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Net earnings	\$ 8,032	\$ 8,506
Foreign currency translation adjustment, net of deferred taxes	980	150
Comprehensive income	\$ 9,012	\$ 8,656

*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>Three months ended May 31,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net earnings	\$ 8,032	\$ 8,506
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,582	2,387
Amortization of deferred finance charges	37	37
Amortization of trade names, customer lists, and patent	1,417	795
Gain from disposal of assets	(1)	(7)
Bad debt expense	144	1,099
Stock based compensation	359	405
Deferred income taxes		(1)
Changes in operating assets and liabilities:		
Accounts receivable	(263)	(4,850)
Prepaid expenses	(380)	4,100
Inventories	642	11,683
Other assets	(56)	36
Accounts payable and accrued expenses	558	(3,167)
Other liabilities	(33)	8
Liability for pension benefits	274	520
<b>Net cash provided by operating activities</b>	<b>13,312</b>	<b>21,551</b>
Cash flows from investing activities:		
Capital expenditures	(305)	(669)
Proceeds from disposal of plant and property	2	7
<b>Net cash used in investing activities</b>	<b>(303)</b>	<b>(662)</b>
Cash flows from financing activities:		
Repayment of debt		(12,500)
Dividends	(4,567)	
Purchase of treasury stock	(869)	(1)
Proceeds from exercise of stock options	54	
<b>Net cash used in financing activities</b>	<b>(5,382)</b>	<b>(12,501)</b>

Effect of exchange rate changes on cash	323	(224)
Net change in cash	7,950	8,164
Cash at beginning of period	5,316	6,232
Cash at end of period	\$ 13,266	\$ 14,396

*See accompanying notes to consolidated financial statements.*

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2014**

**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 May 31, 2014 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, 2014, from which the accompanying consolidated balance sheet at February 28, 2014 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 July 2013, the FASB issued Accounting Standards Update No. 2013-11 Income Taxes (Topic 40): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. ASU 2013-11 is effective for the Company in the first quarter of fiscal year 2015. The adoption of this standard did not have a material impact on the Company's 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. 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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**2. Accounts Receivable and Allowance for Doubtful Receivables-continued**

The following table presents the activity in the Company's allowance for doubtful receivables for the three months ended May 31, 2014 and May 31, 2013 (in thousands):

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Balance at beginning of period	\$ 3,672	\$ 3,952
Bad debt expense	144	1,099
Recoveries	11	5
Accounts written off	(109)	(2,349)
Balance at end of period	\$ 3,718	\$ 2,707

**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):

	<b>May 31,</b>	<b>February 28,</b>
	<b>2014</b>	<b>2014</b>
Raw material	\$ 17,504	\$ 16,400
Work-in-process	11,904	14,386
Finished goods	100,190	99,309

\$ 129,598      \$ 130,095

**4. Acquisitions**

On September 27, 2013, the Company acquired the 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 cash portion of the purchase price was funded by borrowing under the Company's line of credit facility. The CED assets are comprised of the Wisco® ( Wisco ) brand, which is produced at an owned facility in Tullahoma, TN, and the National Imprint Corporation® ( National Imprint® , 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 and will continue to be operated under the Wisco and NIC brand names at their respective locations. Wisco and NIC had sales in excess of \$40 million for the twelve month period ended December 31, 2012. The acquisition expanded and strengthened the envelope product line for the Company.



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**ENNIS, INC. AND SUBSIDIARIES**  
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**4. Acquisitions-continued**

The following is a summary of the preliminary purchase price allocations for Wisco and NIC (in thousands):

Accounts receivable	\$ 3,331
Inventories	2,391
Other assets	581
Property, plant & equipment	4,889
Customer lists	26,400
Trade names	3,600
Goodwill	9,462
Accounts payable and accrued liabilities	(3,404)
	<b>\$ 47,250</b>

On September 30, 2013, the Company acquired the assets of the businesses operating under the trade name of Folder Express® from Wright Printing Company for \$14.6 million in cash plus the assumption of certain trade payables. The cash portion of the purchase price was funded by borrowing under the Company's line of credit facility. The businesses produce folders and specialty folders for music stores and public schools. 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 and related brand names. The acquisition expands the Company's geographic presence in folder products.

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

Accounts receivable	\$ 1,171
Inventories	2,102
Other assets	196
Property, plant & equipment	1,617
Customer lists	5,920
Trade name	1,520
Goodwill	2,574
Accounts payable and accrued liabilities	(493)

\$ 14,607

The results of operations for Wisco, NIC and Folder Express 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, 2012, 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):

	<b>Three months ended May 31, 2013</b>
Pro forma net sales	\$ 154,091
Pro forma net earnings	9,699
Pro forma earnings per share - diluted	0.37

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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**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, 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 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):

	<b>Weighted Average Remaining Life (in years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b><u>As of May 31, 2014</u></b>				
Amortized intangible assets				
Trade names		\$ 1,234	\$ 1,234	\$
Customer lists	6.9	70,207	23,225	46,982
Patent	3.8	773	295	478
Total	6.9	\$ 72,214	\$ 24,754	\$ 47,460
<b><u>As of February 28, 2014</u></b>				
Amortized intangible assets				
Trade names		\$ 1,234	\$ 1,234	\$
Customer lists	7.1	70,207	21,840	48,367

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Patent	4.0	773	263	510
Total	7.1	\$ 72,214	\$ 23,337	\$ 48,877

	<b>May 31, 2014</b>	<b>February 28, 2014</b>
Non-amortizing intangible assets		
Trademarks and trade names	\$ 62,898	\$ 62,898

Aggregate amortization expense for the three months ended May 31, 2014 and May 31, 2013 was \$1.4 million and \$0.8 million, respectively.

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

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):

2016	5,491
2017	5,491
2018	5,252
2019	4,789
2020	4,383

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

	<b>Print Segment Total</b>	<b>Apparel Segment Total</b>	<b>Total</b>
Balance as of February 28, 2013	\$ 47,260	\$ 74,549	\$ 121,809
Goodwill acquired	12,024		12,024
Goodwill impairment		(18,626)	(18,626)
Balance as of February 28, 2014	59,284	55,923	115,207
Goodwill acquired	12		12
Goodwill impairment			
Balance as of May 31, 2014	\$ 59,296	\$ 55,923	\$ 115,219

During the fiscal year ended February 28, 2014, \$12.0 million was added to goodwill related to the acquisition of the Wisco, NIC and Folder Express assets, and an adjustment of (\$18.6) million reflects an impairment charge related to goodwill recorded from the previous acquisition of Alstyle Apparel. During the three months ended May 31, 2014, \$12,000 was added to goodwill related to the adjustment of the fair values of certain Wisco assets.

**6. Other Accrued Expenses**

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

	<b>May 31, 2014</b>	<b>February 28, 2014</b>
Accrued taxes	\$ 375	\$ 362
Accrued legal and professional fees	706	964
Accrued interest	159	193
Accrued utilities	124	130
Accrued acquisition related obligations	139	146
Other accrued expenses	914	717
	<b>\$ 2,417</b>	<b>\$ 2,512</b>

## **7. Long-Term Debt**

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

	<b>May 31, 2014</b>	<b>February 28, 2014</b>
Revolving credit facility	\$ 105,500	\$ 105,500

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Long-Term Debt-continued**

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 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. 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 1.65% at May 31, 2014 and 1.69% at May 31, 2013), 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 May 31, 2014, the Company had \$105.5 million of borrowings under the revolving credit line and \$3.3 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately \$41.2 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 May 31, 2014. 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 three months ended May 31, 2014 are as follows (in thousands, except share amounts):

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
<b>Balance February 28, 2014</b>	30,053,443	\$ 75,134	\$ 122,517	\$ 251,137	\$ (12,413)	(4,131,276)	\$ (73,440)	\$ 362,935
Net earnings				8,032				8,032
Foreign currency translation, net of deferred tax					980			980

of \$600								
Dividends declared (\$.175 per share)			(4,567)					(4,567)
Stock based compensation	359							359
Exercise of stock options and restricted stock grants	(2,063)			119,061	2,117			54
Stock repurchases				(58,051)	(869)			(869)

**Balance**

**May 31, 2014**      30,053,443    \$ 75,134    \$ 120,813    \$ 254,602    \$ (11,433)    (4,070,266)    \$ (72,192)    \$ 366,924

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. On April 20, 2012, the Board increased the authorized amount available to repurchase the Company's shares by an additional \$5.0 million, bringing the total available to repurchase the Company's common stock to approximately \$9.0 million at that time. During the three months ended May 31, 2014 the Company repurchased 58,051 shares of common stock at an average price of \$14.96 per share. There have been a total of 273,953 common shares repurchased under the program since its inception at an average price of \$13.53 per share.

**9. 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 May 31, 2014, 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 775,767 shares of unissued common stock reserved under the Plan for issuance as of May 31, 2014. The exercise price of each stock option granted under the



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

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 May 31, 2014 and May 31, 2013, 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 (\$0.3 million net of tax), respectively.

Stock Options

The Company had the following stock option activity for the three months ended May 31, 2014:

	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, 2014	369,405	\$ 15.86	6.0	\$ 416
Granted	31,418	15.78		
Terminated	(20,000)	16.21		
Exercised	(6,000)	8.94		
Outstanding at May 31, 2014	374,823	\$ 15.95	6.4	\$ 301
Exercisable at May 31, 2014	295,063	\$ 16.16	5.8	\$ 274

(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 three months ended May 31, 2014 and May 31, 2013:

	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Expected volatility	29.25%	30.41%
Expected term (years)	3	3
Risk free interest rate	0.91%	0.35%
Dividend yield	4.11%	4.63%
Weighted average grant-date fair value	\$ 2.70	\$ 1.96

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

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Total cash received	\$ 54	\$
Income tax benefits		
Total grant-date fair value	9	
Intrinsic value	36	

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

A summary of the status of the Company's unvested stock options at February 28, 2014, and changes during the three months ended May 31, 2014 is presented below:

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at February 28, 2014	112,211	\$ 2.89
New grants	31,418	2.70
Vested	(63,869)	3.27
Forfeited		
Unvested at May 31, 2014	79,760	\$ 2.51

As of May 31, 2014, 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 2.0 years. The total fair value of shares underlying the options vested during the three months ended May 31, 2014 was \$1.0 million.

Restricted Stock

The Company had the following restricted stock grant activity for the three months ended May 31, 2014:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at February 28, 2014	180,902	\$ 15.77
Granted	85,807	15.78
Terminated		

Vested	(113,061)	16.42
Outstanding at May 31, 2014	153,648	\$ 15.30

As of May 31, 2014, the total remaining unrecognized compensation cost related to unvested restricted stock granted under the Plan was approximately \$2.2 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.2 years. As of May 31, 2014, the Company's outstanding restricted stock had an underlying fair value at date of grant of \$2.4 million.

#### **10. Pension Plan**

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan (the "Pension Plan"), covering approximately 8% 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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**10. 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):

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Components of net periodic benefit cost		
Service cost	\$ 281	\$ 315
Interest cost	612	601
Expected return on plan assets	(964)	(872)
Amortization of:		
Prior service cost	(36)	(36)
Unrecognized net loss	381	512
Net periodic benefit cost	\$ 274	\$ 520

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, 2015. 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 2015. The Company contributed \$3.0 million to the Pension Plan during fiscal year 2014.

**11. 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.

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For the three months ended May 31, 2014 and May 31, 2013, 296,668 and 333,405 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:

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Basic weighted average common shares outstanding	25,973,227	26,038,068
Effect of dilutive options	14,150	17,801
Diluted weighted average common shares outstanding	25,987,377	26,055,869
Per share amounts:		
Net earnings basic	\$ 0.31	\$ 0.33
Net earnings diluted	\$ 0.31	\$ 0.33
Cash dividends	\$ 0.175	\$

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**12. Segment Information and Geographic Information**

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

The Print Segment, which represented 63% of the Company's consolidated net sales for the three months ended May 31, 2014, 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 50 manufacturing plants throughout the United States in 21 strategically located states. Approximately 95% 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<sup>SM</sup>, 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® and Folder Express® brands (which provide presentation folders and document folders); Ennis Tag & Label<sup>SM</sup> (which provides custom printer high performance labels and custom and stock tags); Atlas Tag & Label® (which provides custom and stock tags and labels); Trade Envelopes® and Block Graphics®, Wisco® and National Imprint Corporation® (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. Assets in this segment increased in 2014 primarily as a result of the Company's acquisition of Wisco, NIC and Folder Express.

The Apparel Segment, which accounted for 37% of the Company's consolidated net sales for the three months ended May 31, 2014, 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 months ended May 31, 2014 and May 31, 2013 were as follows (in thousands):

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended May 31, 2014:</b>				
Net sales	\$ 88,384	\$ 52,802	\$	\$ 141,186
Depreciation	1,564	951	67	2,582
Amortization of identifiable intangibles	1,050	367		1,417
Segment earnings (loss) before income tax	15,482	1,176	(3,909)	12,749
Segment assets	218,534	307,296	16,061	541,891
Capital expenditures	252	47	6	305



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

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended May 31, 2013:</b>				
Net sales	\$ 81,439	\$ 57,027	\$	\$ 138,466
Depreciation	1,377	970	40	2,387
Amortization of identifiable intangibles	428	367		795
Segment earnings (loss) before income tax	13,447	4,368	(4,312)	13,503
Segment assets	161,672	307,420	20,325	489,417
Capital expenditures	479	150	40	669

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 months ended is as follows (in thousands):

	<b>United States</b>	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>Three months ended May 31, 2014:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 88,384	\$	\$	\$ 88,384
Apparel Segment	48,002	4,627	173	52,802
	\$ 136,386	\$ 4,627	\$ 173	\$ 141,186
Identifiable long-lived assets				
Print Segment	\$ 42,537	\$	\$	\$ 42,537
Apparel Segment	128	39	43,813	43,980
Corporate	3,711			3,711
	\$ 46,376	\$ 39	\$ 43,813	\$ 90,228
<b>Three months ended May 31, 2013:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 81,439	\$	\$	\$ 81,439
Apparel Segment	51,702	5,262	63	57,027

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	\$ 133,141	\$ 5,262	\$ 63	\$ 138,466
Identifiable long-lived assets				
Print Segment	\$ 39,499	\$	\$	\$ 39,499
Apparel Segment	215	48	46,978	47,241
Corporate	3,303			3,303
	\$ 43,017	\$ 48	\$ 46,978	\$ 90,043

**13. Supplemental Cash Flow Information**

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

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2014</b>	<b>2013</b>
Interest paid	\$ 536	\$ 267
Income taxes paid	\$ 567	\$ 546

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**14. Concentrations of Risk**

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 May 31, 2014, cash balances included \$10.1 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 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 May 31, 2014, the Company had \$0.6 million in Canadian and \$1.2 million in Mexican bank accounts.

**15. Subsequent Events**

On June 16, 2014, the Company acquired certain 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. (the businesses ) for \$10.5 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 earn over the next 4 years under an earn-out provision. The businesses, which generated approximately \$27.1 million in sales during the 2013 calendar year, will continue to operate under their respective brand names. Due to the timing of the acquisition, the preliminary purchase price allocation has not been completed.

**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 independent print distributors, commercial printers, direct mail, fulfillment companies, payroll and accounts payable software companies, 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 with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The apparel line features a wide variety of tees and fleece.

On September 27, 2013, we acquired the 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 cash portion of the purchase price was funded by borrowing under our line of credit facility. The CED assets are comprised of the Wisco® brand ( Wisco ), which is produced at an owned facility in Tullahoma, TN, and the National Imprint Corporation ( NIC ) and National Imprint Corporation® 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 and will continue to be operated under the Wisco and NIC brand names at their respective locations. Wisco and NIC had sales in excess of \$40 million for the twelve month period ended December 31, 2012.

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On September 30, 2013, we acquired the assets of the businesses operating under the trade name of Folder Express<sup>®</sup> from Wright Printing Company for \$14.6 million in cash plus the assumption of certain trade payables. The cash portion of the purchase price was funded by borrowing under our line of credit facility. The businesses produce folders and specialty folders for music stores and public schools. The businesses had combined sales of approximately \$20 million during the twelve month period ended December 31, 2012 and will operate under the Folder Express and other brand names.

On June 16, 2014, we completed the acquisition of Sovereign Business Forms, and its related entities, TRI-C Business Forms, Inc., Falcon Business Forms, Inc., Form Manufacturers, Inc., Mutual Graphics, Inc., and Curtis Business Forms, Inc. ( the businesses ) for \$10.5 million, plus the assumption of certain trade payables. In addition, if certain financial metrics are met, up to an additional \$1.0 million is available to earn over the next 4 years under an earn-out provision. The businesses, which generated approximately \$27.1 million in sales during the 2013 calendar year, will continue to operate under their respective brand names.

**Business Segment Overview**

Our management believes we are the largest provider of business forms, labels, tags, envelopes, and presentation folders 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 12 of the Notes to the Consolidated Financial Statements beginning on page 17.

**Print Segment**

The Print Segment, which represented 63% of our consolidated net sales for the three months ended May 31, 2014, 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 50 manufacturing plants throughout the United States in 21 strategically located states. Approximately 95% 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<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>SM</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> and Folder Express<sup>®</sup> brands (which provide presentation folders and document folders); Ennis Tag & Label<sup>SM</sup> (which provides custom printed high performance labels and custom and stock tags); Atlas Tag & Label<sup>®</sup> (which provides custom and stock tags and labels); Trade Envelopes<sup>®</sup> and Block Graphics<sup>®</sup>, Wisco<sup>®</sup> and National

Imprint Corporation® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

The Print Segment sells predominantly through 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 Cenveo, 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 the largest producer of business forms, labels, tags, envelopes, and presentation folders in the United States distributing primarily through independent dealers.

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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, direct mail, commercial printers, payroll and accounts payable software companies, 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 factors 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:

**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 and weather related issues** Decreased demand due to economic uncertainties and intensified price competition resulted in a decline in our revenue during the past several fiscal years above

historical averages. Unusual weather related issues during the fourth quarter of fiscal year 2014 caused our sales to be less than forecasted. 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 37% of our consolidated net sales for the three months ended May 31, 2014 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 and approximately 91% of their sales are sold domestically. Alstyle s branded product lines are sold mainly under the AAA<sup>®</sup> and Murina<sup>®</sup> brands.



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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 customers' 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.

Alstyle's most popular styles are produced based on demand management forecasts to service at-once business 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 products such as fleece and some fashion basics from other countries like China, Pakistan, Central America 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, Hanes, and Fruit of the Loom. 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 51% of our cotton and yarn from one supplier.

***Our Apparel Business Challenges*** In our apparel segment industry, our market niche is highly competitive and commodity driven. In the past, the domestic apparel industry was generally dominated by a limited number of companies. However, due to changes in regulations and trade agreements in the last few years, this industry has become more globalized and our core competition has now extended to other parts of the world, particularly Asia

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and Central America. While the domestic economic environment has improved somewhat in the last couple of years which has led to increased demand, this globalization has led to increased pricing pressures and has led to the direct importation by many screen-printers and big-box suppliers products that were once sourced domestically.

In addition, many retailers have started to pre-approve many manufacturers. This has allowed screen-printers and big-box suppliers to use any supplier on a retailer's pre-approved list without having to take full responsibility for the quality of products being shipped to the stores. As such, the overall quality of the product has become of lesser concern to screen-printers and big-box suppliers. Alstyle believes their products to be some of the highest in the industry with respect to quality and color consistency. However, such quality comes at a cost which has become more difficult to recoup in today's market. However, it appears lately that some retailers are starting to become more concerned with the quality of garments in their stores. If these concerns are continuing and lead to improvements in the pre-approval process and in-store inspections, such changes could benefit Alstyle in the future.

In order to find their niche to survive in a highly competitive and globalized environment, some of our customers and their customers have moved to alternative fabrics to differentiate themselves from others. While some smaller garments producers are well set to change quickly as market demand changes on fabrics and colors, such changes are not best for large manufactures like Alstyle. However, Alstyle is currently working very diligently on dealing with such changes in fabrics and fashions, which come with inherent risks.

The unusual domestic winter weather conditions last year negatively impacted the already weak retail landscape, and definitely contributed to the softness in our Apparel sales during the current quarter. Some improvement in the environment, however, seemed to be occurring during the tail end of the quarter.

**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 lock 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. The divergence between the cost of cotton in our finished goods inventory and the current price of cotton is now in line with historical measurements. However, the positive impact of lower cotton costs on our operational results in fiscal year 2013, which help offset the negative impact of lower selling prices, has all but abated. Therefore, continued downward pressure on selling prices due to competitive pricing pressures may negatively impact our reported operating margins, unless offset by operational improvements. In addition, short-term cotton prices and other material related input costs have started to increase over comparable periods, which will also negatively impact our reported margins without an increase in selling price.

**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 previous 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 labor/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, and absent some other disruption, we would not expect any obstacles to increasing production levels to coincide with increases in demand. In addition, with such production increases we would expect to see steady improvement in both our efficiency and utilization gains at all of our production facilities.

**Continued economic uncertainties** The economic climate in which we operate continues to be volatile and challenging both domestically and internationally. While the domestic economy has recovered somewhat, the recovery has not been as broad-based as recoveries in the past. Unemployment still remains high, and the disposable income of the majority of the population remains restrained. We saw a significant drop in our sales

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during the latter half of fiscal year 2012 due to competitive pricing pressures, which we attribute to softness in the market. During fiscal years 2013 and 2014 the marketplace continued to be extremely competitive, with prices continuing to be driven lower as manufacturers tried to maintain certain volume levels. While we saw the same challenging environment during the first quarter of this fiscal year, whether or not this will continue throughout all of this fiscal year is unknown. However, whichever direction the market may take, we feel we are in a much better position today than in years past given the improving operational efficiency of our Agua Prieta facility and the current cost of our finished goods inventory.

**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, believe, estimate, intend, intent, plan, will, foresee, project, forecast, or the negative thereof or various similar expressions identify 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, 2014 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,

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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 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.

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 intangibles (amortizable and non-amortizable) and goodwill are determined based on valuation analysis for our acquisitions. Amortizable intangibles 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 May 31, 2014, our goodwill and other intangible assets were approximately \$115.2 million and \$110.4 million, respectively. Management will complete its annual impairment analysis during the 4<sup>th</sup> quarter of this fiscal year. 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 \$3.5 million and \$3.1 million of revenue were recognized under these agreements during the three months ended May 31, 2014 and May 31, 2013, 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 based on our history of earnings expectations for future taxable income, including taxable income in prior carry-back years, as



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well as 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.

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 months ended May 31, 2014 and May 31, 2013.

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

***Consolidated Summary***

<b>Consolidated Statements of Earnings Data (Dollars in thousands)</b>	<b>Three Months Ended May 31,</b>			
	<b>2014</b>		<b>2013</b>	
Net sales	\$ 141,186	100.0%	\$ 138,466	100.0%
Cost of goods sold	105,798	74.9	102,671	74.1
Gross profit margin	35,388	25.1	35,795	25.9
Selling, general and administrative	21,795	15.4	22,205	16.0

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Gain from disposal of assets	(1)		(7)	
Income from operations	13,594	9.7	13,597	9.9
Other expense, net	(845)	(0.6)	(94)	(0.1)
Earnings before income taxes	12,749	9.1	13,503	9.8
Provision for income taxes	4,717	3.4	4,997	3.7
Net earnings	\$ 8,032	5.7%	\$ 8,506	6.1%

**Three months ended May 31, 2014 compared to three months ended May 31, 2013**

*Net Sales.* Our consolidated net sales were \$141.2 million for the quarter ended May 31, 2014, compared to \$138.5 million for same quarter last year, or an increase of 1.9%. Print sales increased by 8.6% on a comparable quarter basis, from \$81.4 million to \$88.4 million. Our apparel sales, on a comparable quarter basis, declined from \$57.0 million to \$52.8 million, or 7.4%. Our apparel volume was down 2.6% for the period, while its selling price per unit was down 4.8%. The extreme winter weather conditions, coupled with continuing economic uncertainties, stressed an already stressed retail market during this time period. While our print sales were up during the period due to our recent acquisitions, they too were impacted by the extreme winter weather conditions this year.

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*Cost of Goods Sold.* Our manufacturing costs increased by \$3.1 million from \$102.7 million for the three months ended May 31, 2013 to \$105.8 million for the three months ended May 31, 2014, or 3.0%. Our consolidated gross profit margin ( margin ) decreased from 25.9% to 25.1% for the quarter ended May 31, 2013 and May 31, 2014, respectively. Our print margin increased from 29.7% to 30.5% on a comparable quarter, an increase of 80 basis points, due to improved operational efficiencies associated with our recent acquisitions. Apparel margin decreased on a comparable quarter basis from 20.3% to 16.0% due to higher input costs and lower selling prices.

*Selling, general and administrative expense.* For the three months ended May 31, 2014, our selling, general and administrative expenses were \$21.8 million, or 15.4% of sales, compared to \$22.2 million, or 16.0% of sales for the three months ended May 31, 2013. Our selling, general and administrative expenses continue to improve as we further integrate our print acquisitions into our operating systems/environment. In addition, we had lower bad debt expense this period compared to the same period last year.

*Gain from disposal of assets.* The gain of \$1,000 during the current quarter related primarily to the sale of manufacturing equipment. The gain of \$7,000 for the three months ended May 31, 2013 related to the sale of a used vehicle.

*Income from operations.* Our income from operations for the three months ended May 31, 2014 was \$13.6 million or 9.7% of sales, as compared to \$13.6 million, or 9.9% of sales for the three months ended May 31, 2013. The decrease in our operational earnings related primarily to the slight decline in our gross profit margin during the quarter.

*Other income and expense.* Interest expense increased from \$0.3 million for the three months ended May 31, 2013 to \$0.5 million for the three months ended May 31, 2014. The increase in our interest expense during the quarter related to the increased level of debt outstanding which related to the funding of our recent print acquisitions.

*Provision for income taxes.* Our effective tax rate remained level at 37.0% for the three months ended May 31, 2013 and 2014.

*Net earnings.* Due to the above factors, our net earnings for the three months ended May 31, 2014 were \$8.0 million, or 5.7% of sales, as compared to \$8.5 million, or 6.1% of sales for the three months ended May 31, 2013. Our basic and diluted earnings per share were \$0.31 per share for the three months ended May 31, 2014, as compared to \$0.33 per share for the three months ended May 31, 2013.

***Segment Operating Results***

<b>Net Sales by Segment (in thousands)</b>	<b>Three months ended</b>	
	<b>2014</b>	<b>May 31, 2013</b>

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Print	\$ 88,384	\$ 81,439
Apparel	52,802	57,027
<b>Total</b>	<b>\$ 141,186</b>	<b>\$ 138,466</b>

**Print Segment.** Our net print sales, which represented 63% of our consolidated sales for the three months ended May 31, 2014, were approximately \$88.4 million compared to \$81.4 million for the three months ended May 31, 2013, an increase of \$7.0 million or 8.6% for the quarter. The increase in our print sales for the comparable quarter was a result of our recent acquisitions which added approximately \$13.9 million in sales. This increase was offset by a net 8.5% decline in sales at our other print locations, which we attribute mainly to the extreme winter weather conditions experienced across the country during the period.

**Apparel Segment.** Our net apparel sales, which represented 37% of our consolidated sales for the three months ended May 31, 2014, were approximately \$52.8 million compared to \$57.0 million for the three months May 31, 2013, a decrease of \$4.2 million or 7.4% for the quarter (volume down 2.6%, selling price down 4.8%). While our finished good pricing allows us to be more competitive, and while we continue to make cost-side improvements, the apparel market continues to be extremely challenging, both from a volume and pricing perspective. Apparel

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volumes during the last half of last fiscal year and into this fiscal year continue to be softer than expected, especially on the East Coast and in the Mid-West. We attribute the recent weakness to the extreme winter weather conditions experienced across the country during this time period. This market softness and the continued rather anemic and non-broad based economic recovery, has led to continued market softness and the prevalence of pricing pressures in the marketplace. While the market continued to be challenging through most of the quarter, we did start to see some signs of improvement towards the end of the quarter. Whether this will continue throughout the remainder of year is unknown.

Gross Profit by Segment (in thousands)	Three months ended May 31,	
	2014	2013
Print	\$ 26,951	\$ 24,227
Apparel	8,437	11,568
Total	\$ 35,388	\$ 35,795

**Print Segment.** Our print gross profit margin for the three months ended May 31, 2014 was \$27.0 million, as compared to \$24.2 million for the three months ended May 31, 2013. For the quarter, print margin increased from 29.7% to 30.5% compared to the same quarter last year, and increased sequentially from 28.4% last quarter. This is due primarily to the continued elimination of duplicate costs associated with prior year acquisitions as we convert them onto our computer systems and into our production processes.

**Apparel Segment.** Our apparel gross profit margin for the three months ended May 31, 2014 was \$8.4 million, as compared to \$11.6 million for the three months ended May 31, 2013. As a percent of sales, our apparel margin was 16.0% for the current quarter ended May 31, 2014, as compared to 20.3% for the comparable quarter last year. Although, as noted earlier, some recent improvements have been noted in the general market conditions, our margins are highly dependent on selling prices of our products and upon our production volumes. We attempt to align our production volumes with general market conditions, which at this time continues to be challenging and somewhat soft. This continued market softness intensified an already competitive landscape from a pricing perspective, as competitors continued to try to maintain production volumes in a market already challenged by consistent economic uncertainties. Whether this challenging landscape will continue or whether the recent signs of an improving landscape will take hold and be sustainable is unknown at this point.

Three months  
ended  
May 31,

<b>Profit by Segment (in thousands)</b>	<b>2014</b>	<b>2013</b>
Print	\$ 15,482	\$ 13,447
Apparel	1,176	4,368
<b>Total</b>	<b>16,658</b>	<b>17,815</b>
Less corporate expenses	3,909	4,312
<b>Earnings before income taxes</b>	<b>\$ 12,749</b>	<b>\$ 13,503</b>

**Print Segment.** Our print profit for the three months ended May 31, 2014 was \$15.5 million, as compared to \$13.4 million for the three months ended May 31, 2013. As a percent of sales, our print profits increased from 16.5% to 17.5% for the comparable quarters and increased sequentially from 15.9% last quarter due to improving operational performance of our recent acquisitions.

**Apparel Segment.** As a result of the factors mentioned above, our apparel profit decreased approximately \$3.2 million, from \$4.4 million, or 7.7% of sales for the three months ended May 31, 2013 to \$1.2 million, or 2.2% of sales for the three months ended May 31, 2014.

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Liquidity and Capital Resources

<i>(Dollars in thousands)</i>	May 31, 2014	February 28, 2014
Working Capital	\$ 179,819	\$ 172,266
Cash	\$ 13,266	\$ 5,316

**Working Capital.** Our working capital increased approximately \$7.6 million or 4.4%, from \$172.3 million at February 28, 2014 to \$179.8 million at May 31, 2014. Our current ratio, calculated by dividing our current assets by our current liabilities, increased as well from 5.1 to 1.0 at February 28, 2014 to 5.2 to 1.0 at May 31, 2014. The increase in our working capital related primarily to the increase in our cash of approximately \$8.0 million and an increase in our prepaid items of approximately \$1.0 million. These increases were offset by an increase in our accounts payable and other accrued expenses of approximately \$0.7 million.

<i>(Dollars in thousands)</i>	Three months ended May 31,	
	2014	2013
Net Cash provided by operating activities	\$ 13,312	\$ 21,551
Net Cash used in investing activities	\$ (303)	\$ (662)
Net Cash used in financing activities	\$ (5,382)	\$ (12,501)

**Cash flows from operating activities.** Cash provided by operating activities decreased by \$8.2 million from \$21.6 million for the three months ended May 31, 2013 to \$13.3 million for the three months ended May 31, 2014. Our lower operational cash flows for the comparable period last year was primarily due to the impact of apparel inventory on our operating cash. Last year our apparel inventory provided approximately \$11.7 million in cash, while this year it provided \$0.6 million. In addition, our receivables during the current period provided approximately \$4.6 million less in operational cash than during the same period last year.

**Cash flows from investing activities.** Due to a decrease in our capital expenditures during the period, our cash used in investing activities decreased \$0.4 million, from \$0.7 million to \$0.3 million for the three months ended May 31, 2013 and 2014, respectively.

**Cash flows from financing activities.** We used \$7.1 million less in cash this period, than during the same period last year. We used \$12.5 million in cash last year to pay down our debt and \$5.4 million in cash this year to pay dividends and repurchase our common stock under our stock repurchase program. No dividends were paid in the comparable period last year due to the action taken by the Board, whereby, due to tax law uncertainties, the Board of Directors felt it appropriate to advance the payment of the normal January and May dividend payments into December 2012.

**Credit Facility.** On September 19, 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. 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 18, 2016. 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 1.65% at May 31, 2014 and 1.69% at May 31, 2013), depending on our ratio of total funded debt to the sum of net earnings plus interest, tax, depreciation and amortization (EBITDA). As of May 31, 2014, we had \$105.5 million of borrowings under the revolving credit line and \$3.3 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$41.2 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 minimum tangible equity level and total funded debt to EBITDA ratio. We were in compliance with all these covenants as of May 31, 2014. 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.



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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, 2015. However, we expect to make a cash contribution to the Pension Plan of between \$2.0 million and \$3.0 million during fiscal year 2015. We made contributions of \$3.0 million to our Pension Plan during fiscal 2014. 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 May 31, 2014, we had an unfunded pension liability recorded on our balance sheet of \$2.2 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 \$0.3 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, 2014 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 May 31, 2014.

**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 \$105.5 million at May 31, 2014. 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 May 31, 2014 would be approximately \$1.1 million.

***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

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comprehensive income. In future periods, foreign exchange rate fluctuations could have an increased impact on our reported results of operations. A sensitivity analysis to changes in the value of the U.S. dollar on foreign currency denominated investments and monetary assets and liabilities indicated that if the U.S. dollar uniformly strengthened by 10% against all currency exposures of the Company at May 31, 2014, the decrease in fair value and results of operations would be approximately \$0.3 million.

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 May 31, 2014 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 May 31, 2014.

**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, 2014.

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

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, bringing the total to \$10.0 million. As of July 1, 2014, the Company has repurchased 273,953 shares under the repurchase program since its inception at an average price per share of \$13.53. There is a maximum amount of approximately \$6.3 million available to purchase shares under the program.

Table of Contents**ENNIS, INC. AND SUBSIDIARIES****FORM 10-Q****FOR THE PERIOD ENDED MAY 31, 2014**

<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>
March 1, 2014 - March 31, 2014		\$		\$ 7,160,849
April 1, 2014 - April 30, 2014		\$		\$ 7,160,849
May 1, 2014 - May 31, 2014	58,051	\$ 14.96	58,051	\$ 6,292,433
<b>Total</b>	58,051	\$ 14.96	58,051	\$ 6,292,433

**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	Third Amended and Restated Bylaws of Ennis, Inc., dated April 17, 2014, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 21, 2014 (File No. 001-05807).
Exhibit 10.1	Third Amendment and Consent to Second Amended and Restated Credit Agreement between Ennis, Inc., each of the other co-borrowers who are parties, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Regions Bank, as Syndication Agent, Comerica Bank, as Documentation Agent and the other lenders who are parties, dated as of September 20, 2013 herein incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 20, 2013 (File No. 001-05807).

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- Exhibit 10.2 2004 Long-Term Incentive Plan, as amended and restated effective June 30, 2011, incorporated herein by reference to Appendix A of the Registrant's Form DEF 14A filed on May 26, 2011.
- Exhibit 10.3 Amended and Restated Chief Executive Officer Employment Agreement between Ennis, Inc. and Keith S. Walters, effective as of December 19, 2008, herein incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K file on January 20, 2009 (File No. 001-05807).
- Exhibit 10.4 Amended and Restated Executive Employment Agreement between Ennis, Inc. and Michael D. Magill, effective as of December 19, 2008, herein incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on January 20, 2009 (File No. 001-05807).
- Exhibit 10.5 Amended and Restated Executive Employment Agreement between Ennis, Inc. and Ronald M. Graham, effective as of December 19, 2008, herein incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on January 20, 2009 (File No. 001-05807).
- Exhibit 10.6 Amended and Restated Executive Employment Agreement between Ennis, Inc. and Richard L. Travis, Jr., effective as of December 19, 2008, herein incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed on January 20, 2009 (File No. 001-05807).
- Exhibit 10.7 Amended and Restated Executive Employment Agreement between Ennis, Inc. and Irshad Ahmad, effective as of December 19, 2008, herein incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K filed on January 20, 2009 (File No. 001-05807).

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**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED MAY 31, 2014**

Exhibit Number	Description
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 May 31, 2014, filed on July 1, 2014, 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.

\* Filed herewith

\*\* Furnished herewith

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**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED MAY 31, 2014**

**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: July 1, 2014

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

Date: July 1, 2014

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



**Table of Contents****INDEX TO EXHIBITS**

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