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ENNIS, INC.
Form 10-K
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended February 28, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-5807

ENNIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$2.50 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated Filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company.	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of August 31, 2017 was approximately \$467 million. Shares of voting stock held by executive officers, directors and holders of more than 10% of the outstanding voting stock have been excluded from this calculation because such persons may be deemed to be affiliates. Exclusion of such shares should not be construed to indicate that any of such persons possesses the power, direct or indirect, to control the Registrant, or that any such person is controlled by or under common control with the Registrant.

The number of shares of the Registrant's Common Stock, par value \$2.50, outstanding at April 30, 2018 was 25,489,502.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

ENNIS, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE PERIOD ENDED FEBRUARY 28, 2018

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Cautionary Statements Regarding Forward-Looking Statements

All of the statements in this Annual Report on Form 10-K, other than historical facts, are forward-looking statements, including, without limitation, the statements made in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” particularly under the caption “Overview.” As a general matter, forward-looking statements are those focused upon anticipated events or trends, expectations, and beliefs relating to matters that are not historical in nature. The words “could,” “should,” “feel,” “anticipate,” “aim,” “preliminary,” “expect,” “believe,” “estimate,” “intent,” “plan,” “will,” “foresee,” “project,” “forecast,” or the negative thereof or variations thereon, and 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 and volatile; 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, trade regulations 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.

PART I

ITEM 1. BUSINESS

Overview

Ennis, Inc. (“we” or the “Company”) was organized under the laws of Texas in 1909. The Company and its subsidiaries print and manufacture a broad line of business forms and other business products. We distribute 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. We also sell products to many of our competitors to satisfy their customers’ needs.

On April 30, 2018, we acquired the assets of a tag and label operation located in New York for \$4.75 million in cash plus the assumption of trade payables. On July 7, 2017, we acquired the assets of a tag operation located in Ohio, for \$1.4 million in cash plus the assumption of certain accrued liabilities. Management considers both of these acquisitions immaterial.

On January 27, 2017, we completed the acquisition of Independent Printing Company, Inc. and its related entities (collectively “Independent”) for \$17.7 million in cash consideration, in a stock purchase transaction. Independent’s main facility located in DePere, Wisconsin. The business produces presentation folders, checks, wide format and commercial print. Independent operates under its brand name and generated approximately \$37.0 million in sales during the 2016 calendar year. Independent sells mainly through distributors and resellers. We now have four folder facilities located in Michigan, Kansas, California and Wisconsin, as well as wide format capabilities in Colorado and Wisconsin.

On May 25, 2016 the Company sold its apparel business, consisting of Alstyle Apparel, LLC and its subsidiaries (the “Apparel Segment”) to Gildan Activewear Inc. (“Gildan”) for an all-cash purchase price of \$110.0 million, subject to a working capital adjustment, customary indemnification arrangements, and the other terms of the Unit Purchase Agreement dated May 4, 2016. In connection with the sale of the Apparel Segment to Gildan, the Company was required to place \$2.0 million of the purchase price in escrow as a source of funds to pay any liabilities that arose post-closing from an employment contract with a former officer of the Company. The Company believed in good faith, based on consultation with its advisors, that no liability existed with respect to the employment contract, and as such, recorded a receivable for the full amount of the funds held in escrow. In January 2017, the purchaser, without notice to the Company, voluntarily paid \$2.0 million to the former officer of the Company and requested that all of the escrowed funds be released to it as reimbursement. The Company denied the request, due in part because of the purchaser’s failure to provide the Company prior notice and a right to defend as the Company believes was contractually required. In February 2018 an arbitrator ruled in favor of Gildan but did not authorize the release of the escrow funds, as his opinion was appealable. Although the Company has filed a complaint to vacate the arbitrator’s opinion, in the fourth quarter of fiscal year 2018 the Company wrote off the full amount of the receivable.

During the fourth quarter of fiscal year 2016, we moved our folder operations from Omaha, Nebraska to Columbus, Kansas, due to the landlord’s desire to sell the facility. The move and inefficiencies associated with starting-up and training new employees had a negative impact on revenues and operational margins over the first half of fiscal year 2017. However, during the second half of fiscal year 2017 we saw a turnaround and the operations were marginally profitable. This momentum largely carried over into the 2018 fiscal year. In addition, our medical claims during fiscal year 2017 exceeded historical levels, which resulted in us incurring an additional \$4.3 million in increased medical charges that had a negative impact on our earnings. To mitigate further medical charges, we implemented a new cost reimbursement program, as well as other changes to our health plan, as of the start of the calendar year 2017. At the completion of the first year of this program, we are encouraged with the results.

Business Overview

Our management believes we are the largest provider of business forms, pressure-seal forms, labels, tags, envelopes, and presentation folders to independent distributors in the United States.

We are in the business of manufacturing, designing and selling business forms and other printed business products primarily to distributors located in the United States. We operate 56 manufacturing plants throughout the United States in 20 strategically located states. Approximately 95% of the business products manufactured 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 LabelsSM, ColorWorx®, Enfusion®, Uncompromised Check Solutions®, VersaSeal®, Ad ConceptsSM, FormSource LimitedSM, Star Award Ribbon Company®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphicsSM, Calibrated Forms®, PrintXcelSM, Printegra®, Curtis Business FormsSM, Falcon Business FormsSM, Forms ManufacturersSM, Mutual GraphicsSM, TRI-C Business FormsSM, Major Business SystemsSM, Independent PrintingSM, Hoosier Data Forms®, and Hayes Graphics®. We also sell 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®, Folder Express®, and Independent Folders® brands (which provide presentation folders and document folders); Ennis Tag & LabelSM (which provides custom printed, high performance labels and custom and stock tags); Atlas Tag & Label®, Kay Toledo Tag® and Special Service Partners® (SSP) (which provides custom and stock tags and labels); Trade Envelopes®, 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).

We sell predominantly through private printers and independent distributors, as well as to many of our competitors. Northstar Computer Forms, Inc., our wholly-owned subsidiary, 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). Adams McClure, LP, a wholly-owned subsidiary, also sells direct to a small number of customers, where sales are generally through advertising agencies.

The printing industry generally sells its products either predominantly to end users, a market dominated by a few large manufacturers, such as R.R. Donnelley and Sons, Staples, Inc., Standard Register Co. (a subsidiary of Taylor Corporation), and Cenveo, Inc., 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, pressure-seal forms, labels, tags, envelopes, and presentation folders in the United States distributing primarily through independent dealers.

There are a number of competitors that operate in this segment, ranging in size from single employee-owned 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, resellers, direct mail, commercial printers, payroll and accounts payable software companies, and advertising agencies.

Raw materials principally consist of a wide variety of weights, widths, colors, sizes, and qualities of paper for business products purchased from generally one major supplier at favorable prices based on the volume of business.

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.

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Patents, Licenses, Franchises and Concessions

Outside of the patent for our VersaSeal® product, we do not have any significant patents, licenses, franchises, or concessions.

Intellectual Property

We market our products under a number of trademarks and trade names. The protection of our trademarks is important to our business. We believe that our registered and common law trademarks have significant value and these trademarks are important to our ability to create and sustain demand for our products. We have registered trademarks in the United States for Ennis®, EnnisOnlineSM, B&D Litho of AZ®, B&D Litho®, ACR®, Block Graphics®, Enfusion®, 360° Custom LabelsSM, Admore®, CashManagementSupply.comSM, Securestar®, Northstar®, MICRLink®, MICR ConnectionTM, Ennisstores.comTM, General Financial Supply®, Calibrated Forms®, PrintXcelSM, Printegra®, Trade Envelopes®, Witt Printing®, Genforms®, Royal Business Forms®, Crabar/GBFSM, BF&SSM, Adams McClure®, Advertising ConceptsTM, ColorWorx®, Atlas Tag & Label®, PrintgraphicsSM, Uncompromised Check Solutions®, VersaSeal®, VersaSeal SecureX®, Folder Express®, Wisco®, National Imprint Corporation®, Star Award Ribbon®, Kay Toledo Tag®, Curtis Business FormsSM, Falcon Business FormsSM, Forms ManufacturersSM, Mutual GraphicsSM, TRI-C Business FormsSM, SSP®, EOSTouchpoint®, Printersmall®, Check Guard®, Envirofolder®, Independent®, Independent Checks®, Independent Folders®, Independent Large Format Solutions®, and variations of these brands as well as other trademarks. We have similar trademark registrations internationally.

Customers

No single customer accounts for as much as five percent of our consolidated net sales or accounts receivable.

Backlog

At February 28, 2018, our backlog of orders was approximately \$17.4 million, as compared to approximately \$14.9 million at February 28, 2017.

Research and Development

While we seek new products to sell through our distribution channel, there have been no material amounts spent on research and development in fiscal years 2018, 2017 or 2016.

Environment

We are subject to various federal, state, and local environmental laws and regulations concerning, among other things, wastewater discharges, air emissions and solid waste disposal. Our manufacturing processes do not emit substantial foreign substances into the environment. We do not believe that our compliance with federal, state, or local statutes or regulations relating to the protection of the environment has any material effect upon capital expenditures, earnings or our competitive position. There can be no assurance, however, that future changes in federal, state, or local regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Similarly, the extent of our liability, if any, for past failures to comply with laws, regulations, and permits applicable to our operations cannot be determined.

Employees

At February 28, 2018, we had 2,183 employees. 210 employees are represented by labor unions under collective bargaining agreements, which are subject to periodic negotiations.

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Available Information

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 available free of charge under the Investors Relations page on our website, www.ennis.com, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Information on our website is not included as a part of, or incorporated by reference into, this report. Our SEC filings are also available through the SEC's website, www.sec.gov. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this Annual Report on Form 10-K, before making an investment in our common stock. The risks described below are not the only ones we face in our business. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. If any of the following risks occur, our business, financial condition or operating results could be materially harmed. In such an event, our common stock could decline in price and you may lose all or part of your investment.

Our results and financial condition are affected by global and local market conditions, and competitors' pricing strategies, which can adversely affect our sales, margins, and net income.

Our results of operations can be affected by local, national and worldwide market conditions. The consequences of domestic and international economic uncertainty or instability, volatility in commodity markets, and domestic or international policy uncertainty, all of which we have seen in the past, can all impact economic activity. Unfavorable conditions can depress the demand for our products and thus sales in a given market and may prompt competitor's pricing strategies that adversely affect our margins or constrain our operating flexibility. Certain macroeconomic events, such as the past crisis in the financial markets, could have a more wide-ranging and prolonged impact on the general business environment, which could also adversely affect us. Whether we can manage these risks effectively depends mainly on the following:

Our ability to manage movements in commodity prices and the impact of government actions to manage national economic conditions such as consumer spending, inflation rates and unemployment levels, particularly given the past volatility in the global financial markets; and

The impact on our margins of labor costs given our labor-intensive business model, the trend toward higher wages in both mature and developing markets and the potential impact of union organizing efforts on day-to-day operations of our manufacturing facilities.

The terms and conditions of our credit facility impose certain restrictions on our operations. We may not be able to raise additional capital, if needed, for proposed expansion projects.

The terms and conditions of our credit facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions and asset dispositions, as well as impose other customary covenants, such as requiring that our fixed charge coverage ratio not be less than 1.25:1.00 and our total leverage ratio not exceed 3.00:1.00. Our ability to comply with the covenants may be affected by events beyond our control, such as distressed and volatile financial and/or consumer markets, etc. A breach of any of these covenants could result in a default under

our credit facility. In the event of a default, the bank could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable. As of February 28, 2018, we were in compliance with all terms and conditions of our credit facility, which matures on August 11, 2020, and have cash on hand in excess of 3.2 times our current outstanding debt level.

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Declining financial market conditions and continued decline in long-term interest rates could adversely impact the funded status of our pension plan.

We maintain a noncontributory defined benefit retirement plan (the “Pension Plan”) covering approximately 20% of our 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. In addition, as our Pension Plan assets are invested in marketable securities, severe fluctuations in market values could potentially negatively impact our funded status, recorded pension liability, and future required minimum contribution levels. A decline in long-term debt interest rates puts downward pressure on the discount rate used by plan sponsors to determine their pension liabilities. Each 10 basis point change in the discount rate impacts our computed liability by about \$900,000. Similar to fluctuations in market values, a drop in the discount rate could potentially negatively impact our funded status, recorded pension liability and future contribution levels. Also, continued changes in the mortality tables could potentially impact our funded status. As of February 28, 2018, our pension plan was 98.7% funded on a projected benefit obligation (PBO) basis and 106.8% on an accumulated benefit obligation (ABO) basis.

We may be unable to identify or to complete acquisitions or to successfully integrate the businesses we acquire.

We have evaluated, and may continue to evaluate, potential acquisition transactions. We attempt to address the potential risks inherent in assessing the attractiveness of acquisition candidates, as well as other challenges such as retaining the employees and integrating the operations of the businesses we acquire. Integrating acquired operations, such as our acquisition of Independent, involves significant risks and uncertainties, including maintenance of uniform standards, controls, policies and procedures; diversion of management’s attention from normal business operations during the integration process; unplanned expenses associated with integration efforts; and unidentified issues not discovered in due diligence, including legal contingencies. Due to these risks and others, there can be no guarantee that the businesses we acquire will lead to the cost savings or increases in net sales that we expect or desire. Additionally, there can be no assurance that suitable acquisition opportunities will be available in the future, which could harm our business plan.

We may be required to write down goodwill and other intangible assets, which could cause our financial condition and results of operations to be negatively affected in the future.

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. The annual impairment test is based on several factors requiring judgment. An impairment may be caused by any number of factors outside our control, such as a decline in market conditions caused by a recession, or protracted recovery there-from, or other factors like competitor’s pricing strategies, which may be tied to such economic events. Though to date, we have not been required to take an impairment charge relating to our print business, continued sale-side pressures due to technology transference, competitor pricing pressures, and economic uncertainties could result in a determination that a portion of the recorded value of goodwill and intangible assets may be required to be written down. Although such a charge would be a non-cash expense, it would impact our reported operating results and financial position. At February 28, 2018, our consolidated goodwill and other intangible assets were approximately \$70.6 million and \$49.3 million, respectively.

Digital technologies will continue to erode the demand for our printed business documents.

The increasing sophistication of software, internet technologies, and digital equipment combined with our customers' general preference, as well as governmental influences for paperless business environments will continue to reduce the number of traditional printed documents sold. Moreover, the documents that will continue to coexist with software applications will likely contain less value-added print content.

Many of our custom-printed documents help companies control their internal business processes and facilitate the flow of information. These applications will increasingly be conducted over the internet or through other

electronic payment systems. The predominant method of our customers' communication to their customers is by printed information. As their customers become more accepting of internet communications, our clients may increasingly opt for what is perceived to be less costly electronic option, which would reduce our revenue. The pace of these trends is difficult to predict. These factors will tend to reduce the industry-wide demand for printed documents and require us to gain market share to maintain or increase our current level of print-based revenue which could place pressure on our operating margins.

In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, and we aren't able to increase our market share, our sales and profits will be affected. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins or impact the value of our recorded goodwill and intangible assets. This reduction could in turn adversely impact our profits, unless we are able to offset the reduction through the introduction of new high margin products and services or realize cost savings in other areas.

Our distributor customers may be acquired by other manufacturers who redirect business within their plants.

Some of our customers are being absorbed by the distribution channels of some of our manufacturing competitors. However, we do not believe this will significantly impact our business model. We have continued to sell to some of these customers even after they were absorbed by our competition because of the breadth of our product line and our geographic diversity.

Our distributors face increased competition from various sources, such as office supply superstores. Increased competition may require us to reduce prices or to offer other incentives in order to enable our distributors to attract new customers and retain existing customers.

Low price, high value office supply chain stores offer standardized business forms, checks and related products. Because of their size, these superstores have the buying power to offer many of these products at competitive prices. These superstores also offer the convenience of "one-stop" shopping for a broad array of office supplies that our distributors do not offer. In addition, superstores have the financial strength to reduce prices or increase promotional discounts to expand market share. This could result in us reducing our prices or offering incentives in order to enable our distributors to attract new customers and retain existing customers, which could reduce our profits.

Technological improvements may reduce our competitive advantage over some of our competitors, which could reduce our profits.

Improvements in the cost and quality of printing technology are enabling some of our competitors to gain access to products of complex design and functionality at competitive costs. Increased competition from these competitors could force us to reduce our prices in order to attract and retain customers, which could reduce our profits.

We could experience labor disputes that could disrupt our business in the future.

As of February 28, 2018, approximately 10% of our employees are represented by labor unions under collective bargaining agreements, which are subject to periodic negotiations. While we feel we have a good working relationship with all of the unions, there can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

We obtain our raw materials from a limited number of suppliers, and any disruption in our relationships with these suppliers, or any substantial increase in the price of raw materials or material shortages could have a material adverse effect on us.

We purchase our paper products from a limited number of sources, which meet stringent quality and on-time delivery standards under long-term contracts. However, fluctuations in the quality of our paper, unexpected price changes or other factors that relate to our paper products could have a material adverse effect on our operating results.

Paper is a commodity that is subject to periodic increases or decreases in price, which are sometimes quite significant. There is no effective market of derivative instruments to cost-effectively insulate us against unexpected changes in price of paper, and corporate negotiated purchase contracts provide only limited protection against price increases. Generally, when paper prices are increased, we attempt to recover the higher costs by raising the prices of our products to our customers. In the price-competitive marketplaces in which we operate, we may not always be able to pass through any or all of the higher costs. As such, any significant increase in the price of paper or shortages in its availability, could have a material adverse effect on our results of operations. Lately, paper pricing has been increasing due to higher pulp prices and reduced domestic capacity, which has been caused by capacity being taken off-line (planned or unplanned) or transferred to different paper types coupled with the impact of a cheaper dollar on foreign imports. Fewer imports and less domestic capacity may cause higher prices and in some cases imposed allocations, which tends to put pressure on our selling prices and operating margins.

We face intense competition to gain market share, which may lead some competitors to sell substantial amounts of goods at prices against which we cannot profitably compete.

Our marketing strategy is to differentiate ourselves by providing quality service and quality products to our customers. Even if this strategy is successful, the results may be offset by reductions in demand or price declines due to competitors' pricing strategies or other micro or macro-economic factors. We face the risk of our competition following a strategy of selling its products at or below cost in order to cover some amount of fixed costs, especially in stressed economic times.

Environmental regulations may impact our future operating results.

We are subject to extensive and changing federal, state and foreign laws and regulations establishing health and environmental quality standards, concerning, among other things, wastewater discharges, air emissions and solid waste disposal, and may be subject to liability or penalties for violations of those standards. We are also subject to laws and regulations governing remediation of contamination at facilities currently or formerly owned or operated by us or to which we have sent hazardous substances or wastes for treatment, recycling or disposal. We may be subject to future liabilities or obligations as a result of new or more stringent interpretations of existing laws and regulations. In addition, we may have liabilities or obligations in the future if we discover any environmental contamination or liability at any of our facilities, or at facilities we may acquire.

We are subject to taxation related risks.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are applied. On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including, among other things, a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. In the future, we may be subject to increased taxes under the Tax Act, including possible significant limitations on deductions for certain items, such as interest on debt, executive compensation, etc. Also, we may be required to make material adjustments to provisional items recorded. In addition, there can be no assurance that U.S. tax laws, including the corporate income tax rate, which the Tax Act lowered to 21%, would not undergo additional changes in the future. The final impact of the Tax Act on the Company may differ from the estimates reported, possibly materially, due to such factors as changes in interpretations and assumptions made, additional guidance that may be issued, and actions taken by the Company as a result of the Tax Act, among others. All of these factors and uncertainties may adversely affect our results of operations, financial position and cash flows.

We are exposed to the risk of non-payment by our customers on a significant amount of our sales.

Our extension of credit involves considerable judgment and is based on an evaluation of each customer's financial condition and payment history. We monitor our credit risk exposure by periodically obtaining credit reports and updated financials on our customers. We generally see a heightened amount of bankruptcies by our customers during economic downturns. While we maintain an allowance for doubtful receivables for potential credit losses based upon our historical trends and other available information, in times of economic turmoil, there is heightened risk that our historical indicators may prove to be inaccurate. The inability to collect on sales to significant customers or a group of customers could have a material adverse effect on our results of operations.

Our business incurs significant freight and transportation costs.

We incur transportation expenses to ship our products to our customers. Significant increases in the costs of freight and transportation could have a material adverse effect on our results of operations, as there can be no assurance that we could pass on these increased costs to our customers. Recently, due to imposed government regulations, the availability of drivers has become a significant challenge in the industry. Costs to employ drivers have increased and transportation shortages have become more prevalent.

We depend upon the talents and contributions of a limited number of individuals, many of whom would be difficult to replace.

The loss or interruption of the services of our Chief Executive Officer, Executive Vice President or Chief Financial Officer could have a material adverse effect on our business, financial condition or results of operations. Although we maintain employment agreements with these individuals, it cannot be assured that the services of such individuals will continue.

If our internal controls are found to be ineffective, our financial results or our stock price could be adversely affected.

We believe that we currently have adequate internal control procedures in place. However, increased risk of internal control breakdowns generally exists in a business environment that is decentralized. In addition, if our internal control over financial reporting is found to be ineffective, investors may lose confidence in the reliability of our financial statements, which may adversely affect our stock price.

Our services depend on the reliability of computer systems we and our vendors maintain. If these systems fail, our operations may be adversely affected.

We depend on information technology and data processing systems to operate our business, and a significant malfunction or disruption in the operation of our systems may disrupt our business and adversely affect our ability to operate and compete in the markets we serve. These systems include systems that we own and operate, as well as systems of our vendors. Such systems are susceptible to malfunctions and interruptions. We also periodically upgrade and install new systems, which if installed or programmed incorrectly, may cause significant disruptions. The disruptions could interrupt our operations and adversely affect our results of operations, financial condition and cash flows.

We may suffer a data breach of sensitive information, which may result in significant costs to investigate and remediate the breach, litigation expenses and government enforcement actions and penalties, all of which could have an adverse effect on our operations and reputation.

It is critically important for us to maintain the confidentiality, integrity and availability of our systems, software and solutions. Many of our clients provide us with information they consider confidential or sensitive, and many of our client's industries have established standards for safeguarding the confidentiality, integrity and availability of information relating to their businesses and customers. Confidential and sensitive information stored in our systems or available through web portals are susceptible to cybercrime or intentional disruption, which generally have increased across all industries in terms of sophistication and frequency. Disclosure of confidential information maintained on our systems or available through web portals due to human error, breach of our systems through cybercrime, a leak of confidential information due to employee misconduct or similar events may damage our reputation, subject us to regulatory enforcement action and cause significant reputational harm for our clients. Any of

these outcomes may adversely affect our results of operations, financial condition and cash flows.

Increases in the cost of employee benefits could impact our financial results and cash flow.

Our expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could impact our financial results and cash flow. Healthcare costs have risen significantly in recent years,

and recent legislative and private sector initiatives regarding healthcare reform could result in significant changes to the U.S. healthcare system. While the Company has various cost controls measures in place and employs oversight and outside cost reviews on larger claims, this has been and is expected to continue to be a significant cost to the Company. As seen during the fiscal year 2017, the Company incurred significant additional medical costs in excess of what we anticipated. As such, effective with the start of calendar year 2017, the Company made changes to its medical reimbursement program. Indications through the current fiscal year were positive with medical claims now trending more in line with historical levels. Even so, medical costs are and will continue to be a significant expense to the Company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Midlothian, Texas. We operate manufacturing facilities throughout the United States. See the table below for additional information on our locations.

All of the properties are used for the production, warehousing and shipping of the following: business forms, flexographic printing, advertising specialties and Post-it® Notes (Wolfe City, Texas); presentation products (Macomb, Michigan and Anaheim, California); printed and electronic promotional media (Denver, Colorado); envelopes (Portland, Oregon; Columbus, Kansas and Tullahoma, Tennessee); financial forms (Minneapolis/St. Paul, Minnesota; Nevada, Iowa and Bridgewater, Virginia) and other business products.

Our plants are operated at production levels required to meet our forecasted customer demands. Production levels fluctuate with market demands and depend upon the product mix at any given point in time. Equipment is added as existing machinery becomes obsolete or not repairable, and as new equipment becomes necessary to meet market demands; however, at any given time, these additions and replacements are not considered to be material additions to property, plant and equipment, although such additions or replacements may increase a plant's efficiency or capacity.

All of the foregoing facilities are considered to be in good condition. We do not anticipate that substantial expansion, refurbishing, or re-equipping will be required in the near future.

All of the rented property is held under leases with original terms of one or more years, expiring at various times through October 2024. No difficulties are presently foreseen in maintaining or renewing leases as they expire.

The accompanying list contains each of our owned and leased locations:

Location	General Use	Approximate Square Footage	
		Owned	Leased
Ennis, Texas	Three Manufacturing Facilities *	325,118	—
Chatham, Virginia	Two Manufacturing Facilities	127,956	—
Paso Robles, California	Manufacturing	94,120	—
DeWitt, Iowa	Two Manufacturing Facilities	95,000	—
Ft. Scott, Kansas	Manufacturing	86,660	—
Portland, Oregon	Manufacturing	—	103,402
Wolfe City, Texas	Two Manufacturing Facilities	119,259	—
Moultrie, Georgia	Held for Sale	25,000	—

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Coshocton, Ohio	Manufacturing	24,750	—
Macomb, Michigan	Manufacturing	56,350	—
Denver, Colorado	Four Manufacturing Facilities	60,000	117,575
Brooklyn Park, Minnesota	Manufacturing	94,800	—
Coon Rapids, Minnesota	Warehouse	—	4,800
Roseville, Minnesota	Manufacturing	—	41,300
Nevada, Iowa	Two Manufacturing Facilities	232,000	—
Nevada, Iowa	Held for Sale	58,752	—
Bridgewater, Virginia	Manufacturing	—	27,000

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Location	General Use	Approximate Square Footage	
		Owned	Leased
Columbus, Kansas	Two Manufacturing Facilities and Warehouse	174,089	—
Leipsic, Ohio	Manufacturing	83,216	—
El Dorado Springs, Missouri	Manufacturing	70,894	—
Princeton, Illinois	Manufacturing	—	44,190
Arlington, Texas	Two Manufacturing Facilities	69,935	—
Tullahoma, Tennessee	Two Manufacturing Facilities	142,061	—
Caledonia, New York	Manufacturing	138,730	—
Sun City, California	Manufacturing	52,617	—
Livermore, California	Sales Office	—	650
Perris, California	Warehouse	—	6,788
Phoenix, Arizona	Manufacturing and Warehouse	—	59,000
Neenah, Wisconsin	Two Manufacturing Facilities & One Warehouse	72,354	97,161
West Chester, Pennsylvania	Sales Office	—	1,150
Claysburg, Pennsylvania	Manufacturing	—	69,000
Vandalia, Ohio	Held for Sale	47,820	—
Fairport, New York	Two Manufacturing Facilities	—	40,800
Indianapolis, Indiana	Two Manufacturing Facilities	—	38,000
Smyrna, Georgia	Manufacturing	—	65,000
Clarksville, Tennessee	Manufacturing	51,900	—
Fairhope, Alabama	Manufacturing	65,000	—
Toledo, Ohio	Three Manufacturing Facilities	120,947	—
Visalia, California	Manufacturing	—	56,000
Corsicana, Texas	Manufacturing	39,685	—
Girard, Kansas	Manufacturing	69,474	—
Powell, Tennessee	Manufacturing	43,968	—
Houston, Texas	Manufacturing	—	29,668
DePere, Wisconsin	Manufacturing & Two Warehouses	—	171,847
Mosinee, Wisconsin	Manufacturing & Warehouse	—	20,940
		2,642,455	994,271
Corporate Offices			
Ennis, Texas	Administrative Offices	9,300	—
Midlothian, Texas	Executive and Administrative Offices	28,000	—
		37,300	—
	Totals	2,679,755	994,271

*7,000 square feet of Ennis, Texas location leased

ITEM 3. LEGAL PROCEEDINGS

From time to time we are involved in various litigation matters arising in the ordinary course of our business. We do not believe the disposition of any current matter will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange ("NYSE") under the trading symbol "EBF". The following table sets forth the high and low sales prices, the common stock trading volume as reported by the New York Stock Exchange and dividends per share paid by the Company for the periods indicated:

	Common Stock Price Range		Common Stock Trading Volume (number of shares in thousands)	Dividends per share of Common Stock
	High	Low		
Fiscal Year Ended February 28, 2018				
First Quarter	\$ 17.90	\$ 15.20	1,514	\$ 0.175
Second Quarter	19.80	15.95	1,420	\$ 0.200
Third Quarter	21.45	18.70	1,188	\$ 0.200
Fourth Quarter	21.30	19.15	1,265	\$ 0.300
Fiscal Year Ended February 28, 2017				
First Quarter	\$ 21.53	\$ 17.25	3,081	\$ 0.175
Second Quarter	20.40	15.99	3,438	\$ 1.675
Third Quarter	17.53	14.45	2,293	\$ 0.175
Fourth Quarter	18.05	16.10	1,827	\$ 0.175

Dividends paid in the fourth quarter of fiscal year 2018 included a special one-time cash dividend of \$0.10 per share of common stock in response to the signing of the Tax Act. Dividends paid in the second quarter of 2017 included a special one-time cash dividend of \$1.50 per share of common stock as a result of the Company's sale of the Apparel Segment.

The last reported sale price of our common stock on NYSE on April 30, 2018 was \$17.90. As of that date, there were approximately 716 shareholders of record of our common stock. Cash dividends may be paid or repurchases of our common stock may be made from time to time, as our Board of Directors deems appropriate, after considering our growth rate, operating results, financial condition, cash requirements, restrictive lending covenants, and such other factors as the Board of Directors may deem appropriate.

In the 2016 calendar year, the Board authorized the repurchase of up to an aggregate of \$40.0 million of the Company's stock through the Company's stock repurchase program. Under the repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. During our fiscal year ended February 28, 2018, the Company, under the program, repurchased 191,033 shares of common stock at an average price of \$17.33 per share. Since the program's inception in October 2008, there have been 1,442,236 common shares repurchased at an average price of \$14.99 per share. As of February 28, 2018 there was \$18.4 million available to repurchase shares of the Company's common stock under the program. Unrelated to the stock repurchase program, the Company purchased 145 shares of its common stock during the fiscal year ended February 28, 2018.

The following table details shares of stock repurchased during the three months ended February 28, 2018 and the remaining amount available to repurchase additional shares of the Company's stock under the program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Amount that May Yet Be Used to Purchase Shares Under the Program
December 1, 2017 - December 31, 2017	—	\$ —	—	\$ 18,377,146
January 1, 2018 - January 27, 2018	—	\$ —	—	\$ 18,377,146
January 28, 2018 - February 28, 2018	—	\$ —	—	\$ 18,377,146
Total	—	\$ —	—	\$ 18,377,146

Stock Performance Graph

The graph below matches our cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S&P 500 Index and the Russell 2000 Index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from February 28, 2013 to February 28, 2018.

	2013	2014	2015	2016	2017	2018
Ennis, Inc.	\$100.00	\$103.90	\$96.30	\$142.02	\$132.59	\$165.54
S&P 500	100.00	125.37	144.81	135.85	169.78	198.81
Russell 2000	100.00	131.56	138.97	118.16	160.83	177.74

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth key operating metrics as of and for the periods indicated and have been derived from our audited historical consolidated financial statements for the four years ended February 28, 2018. The selected financial data for the year ended February 28, 2014, was derived from audited financial statements with certain adjustments to reflect discontinued operations. Our consolidated financial statements and notes thereto as of February 28, 2018, February 28, 2017, and for the three years in the period ended February 28, 2018, and the reports of Grant Thornton LLP are included in Item 15 of this Report. The selected financial data should be read in conjunction with Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included in Item 15 of this Report.

	Fiscal Years Ended				
	2018	2017	2016	2015	2014
	(Dollars and shares in thousands, except per share and ratio amounts)				
Operating results:					
Net sales	\$370,171	\$356,888	\$385,946	\$380,379	\$339,347
Gross profit margin	116,914	103,950	116,310	115,071	101,040
Selling, general and administrative expenses	69,451	63,147	65,743	60,661	57,032
Earnings from continuing operations	32,758	26,417	32,258	34,470	29,005
Earnings (loss) from discontinued operations, net of tax	147	(24,637)	3,478	(79,003)	(15,816)
Net earnings (loss)	\$32,905	\$1,780	\$35,736	\$(44,533)	\$13,189
Earnings (loss) and dividends per share:					
Basic and Diluted					
Continuing operations	\$1.29	\$1.03	\$1.25	\$1.33	\$1.11
Discontinued operations	0.01	(0.96)	0.14	(3.05)	(0.61)
Net earnings (loss)	\$1.30	\$0.07	\$1.39	\$(1.72)	\$0.50
Dividends	\$0.875	(1)\$2.20	(1)\$0.70	\$0.70	\$0.53
Weighted average shares outstanding:					
Basic	25,392	25,735	25,688	25,864	26,125
Diluted	25,417	25,749	25,722	25,864	26,146
Financial Position:					
Working capital	\$133,773	\$119,282	\$135,441	\$170,023	\$166,004
Current assets	163,344	149,250	175,841	210,270	207,881
Total assets	329,439	324,285	390,044	446,990	530,085
Current liabilities	29,571	29,968	40,400	40,247	41,877
Long-term debt	30,000	30,000	40,000	106,500	105,500
Total liabilities	67,735	72,930	91,498	162,310	167,150
Shareholders' equity	261,704	251,355	298,546	284,680	362,935
Current ratio	5.52 to 1.0	4.98 to 1.0	4.35 to 1.0	5.22 to 1.0	4.96 to 1.0
Long-term debt to equity ratio	0.11 to 1.0	0.12 to 1.0	0.13 to 1.0	0.37 to 1.0	0.29 to 1.0

(1) Fiscal year 2018 included a special one-time cash dividend of \$0.10 per share of common stock in response to the signing of the Tax Act. Fiscal year 2017 included a special one-time cash dividend of \$1.50 per share of common

stock as a result of the Company's sale of the Apparel Segment.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. Statements that are not historical are forward-looking and involve risk and uncertainties, including those discussed under the caption "Risk Factors" in Item 1A starting on page 7 of this Annual Report on Form 10-K and elsewhere in this Report. You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. The words "anticipate," "preliminary," "expect," "believe," "intend" and similar expressions identify forward-looking statements. 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.

In view of such uncertainties, investors should not place undue reliance on our forward-looking statements since such statements may prove to be inaccurate and 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.

This Management's Discussion and Analysis includes the following sections and is for the continuing operations of the Company, which is comprised of the production and sale of business forms and other business products, and excludes the discontinued operations of the Apparel Segment:

• **Overview** – An overall discussion on our Company, the business challenges and opportunities we believe are key to our success, and our plans for facing these challenges relating to our continuing operations.

• **Critical Accounting Policies and Estimates** – A discussion of the accounting policies that require our most critical judgments and estimates relating to our continuing operations. This discussion provides insight into the level of subjectivity, quality, and variability involved in these judgments and estimates. This section also provides a summary of recently adopted and recently issued accounting pronouncements that have or may materially affect our business.

• **Results of Operations** – An analysis of our consolidated results of operations and segment results for the three years presented in our consolidated financial statements. This analysis discusses material trends within our continuing business and provides important information necessary for an understanding of our continuing operating results.

• **Liquidity and Capital Resources** - An analysis of our cash flows and a discussion of our financial condition and contractual obligations. This section provides information necessary to evaluate our ability to generate cash and to meet existing and known future cash requirements over both the short and long term.

References to 2018, 2017 and 2016 refer to the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016, respectively.

Overview

The Company – Our management believes we are the largest provider of business forms, pressure-seal forms, labels, tags, envelopes, and presentation folders to independent distributors in the United States.

Our Business Challenges - We are engaged in an industry experiencing consolidation of some of our traditional channels, product obsolescence, paper supplier capacity adjustments, and increased pricing and potential supply allocations due to demand/supply curve imbalance. 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. Improved equipment has become more accessible to our competitors due to the continued low interest rate environment. We face highly competitive conditions throughout the supply chain in an already over-supplied, price-competitive print industry. The challenges 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 through the use of cheaper paper grades or imported paper, 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 through lower labor and fixed charges 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 through acquisitions, such as the addition of our envelope offerings, tag offerings, folder offerings, healthcare wristbands, secure document solutions, innovative in-mold label offerings and long-run integrated products with high color web printing, which provide us with an opportunity for growth and differentiate us from our competition.

Production capacity and price competition within our industry – The strong dollar during the first half of fiscal year 2018 attracted cheaper material into the United States, notwithstanding the imposition of trade tariffs, which impaired the price advantage larger suppliers had over smaller competitors and helped to maintain pricing. However, with the subsequent weakening of the dollar, the price advantage of foreign imports has for the most part dissipated which has led to lower volumes of imported paper and an increase in domestic exports. Meanwhile, a significant amount of capacity has come out of the market this past year, either planned or unplanned, as through the bankruptcy filing of several mills. In addition, some mills moved capacity formerly used for coated production to uncoated production due to their ability to get higher margins on these products. Even with shrinking demand, this has led to a supply/demand imbalance with most mills running in excess of 90% of capacity across all grades. At this level historically, suppliers have raised prices in the marketplace and recently several increases have been announced across all paper grades. It is too early to tell whether all or some of these announced increases will be implemented. In the past, the Company has been fairly successful in passing cost increases through to the marketplace over time. 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, production and costing models, as well as working closely with our domestic suppliers to reduce our procurement costs. We will continue to look for ways to reduce as well as leverage our fixed costs. As always, some of these negative factors are cyclical and we will continue to focus on maintaining our margins when these negative factors swing the other way.

Continued consolidation of our customers – Our customers, who are distributors, are consolidating or are being acquired by competitors. As such, they demand better pricing and services, or they are required to relocate their business to their new parent company's manufacturing facilities. While we continue to maintain a majority of this business, it is possible that these consolidations and acquisitions will impact our margins and our sales.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements, we are required to make estimates and assumptions that affect the disclosures and reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis, including those related to allowance for doubtful receivables, inventory valuations, property, plant and equipment, intangible assets, pension plan obligations, accrued liabilities and income taxes. We base our estimates and judgments on historical experience and on various other factors that

we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We believe the following 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 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 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 goodwill for impairment. We assess the impairment of goodwill as of November 30 of each fiscal year or earlier if events or changes in circumstances indicate that the carrying value may not be recoverable.

The Company uses qualitative factors to determine whether it is more likely than not (likelihood of more than 50%) that the fair value of a reporting unit exceeds its carrying amount, including goodwill. Some of the qualitative factors considered in applying this test include consideration of macroeconomic conditions, industry and market conditions, cost factors affecting the business, overall financial performance of the business, and performance of the share price of the Company.

If qualitative factors are not deemed sufficient to conclude that it is more likely than not that the fair value of the reporting unit exceeds its carrying value, then a one-step approach is applied in making an evaluation. The evaluation utilizes multiple valuation methodologies, including a market approach (market price multiples of comparable companies) and an income approach (discounted cash flow analysis). The computations require management to make significant estimates and assumptions, including, among other things, selection of comparable publicly traded companies, the discount rate applied to future earnings reflecting a weighted average cost of capital, and earnings growth assumptions. A discounted cash flow analysis requires management to make various assumptions about future sales, operating margins, capital expenditures, working capital, and growth rates. If the evaluation results in the fair value of the goodwill for the reporting unit being lower than the carrying value, an impairment charge is recorded. A goodwill impairment charge was not required for the fiscal year ended February 28, 2018 and 2017.

We recognize revenues from product sales upon shipment to the customer if the terms of the sale are freight on board (“FOB”) shipping point (and therefore title and all risks of ownership, including risk of loss, passes to the customer upon shipping) or, to a lesser extent, upon delivery to the customer if the terms of the sale are FOB destination (and therefore title and all risks of ownership, including risk of loss, passes to the customer upon delivery). 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 \$9.7 million, \$10.7 million, and \$12.9 million of revenue were recognized under these agreements during fiscal years ended February 28, 2018, February 28, 2017, and February 29, 2016, 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 sales managers, and discussions with the customers directly.

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Our inventories are valued at the lower of cost or net realizable value. 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 net realizable 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 financial reporting 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 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 operations. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including, among other things, a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. A majority of the provisions in the Tax Act are effective January 1, 2018. In response to the Tax Act, the SEC staff issued guidance on accounting for the tax effects of the Tax Act. The guidance provides a one-year measurement period for companies to complete the accounting. We reflected the income tax effects of those aspects of the Tax Act for which the accounting is complete. To the extent our accounting for certain income tax effects of the Tax Act is incomplete but we are able to determine a reasonable estimate, we recorded a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. As a result of the reduction of the corporate tax rate to 21%, we re-valued our deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the reporting period of enactment. This change in the statutory tax rate resulted in reduction in income tax expense being recognized of \$3.6 million due to the adjustment of deferred tax liabilities based on the expected prevailing tax rate at the expected time of their realization.

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. Unless otherwise indicated, this financial overview is for the continuing operations of the Company, which are comprised of the production and sales of business forms and other business products, and exclude the discontinued operations of the Apparel Segment, which we sold in May 2016. The operating results of the Company for fiscal year 2018 and the comparative fiscal years 2017 and 2016 are included in the tables below.

Consolidated Summary

Consolidated Statements of Operations - Data (in thousands, except per share amounts)	Fiscal years ended					
	2018		2017		2016	
Net sales	\$370,171	100.0%	\$356,888	100.0%	\$385,946	100.0%
Cost of goods sold	253,257	68.4	252,938	70.9	269,636	69.9
Gross profit margin	116,914	31.6	103,950	29.1	116,310	30.1
Selling, general and administrative	69,451	18.8	63,147	17.6	65,743	17.0
(Gain) loss from disposal of assets	162	-	278	0.1	(479)	(0.1)
Income from operations	47,301	12.8	40,525	11.4	51,046	13.2
Other expense	(392)	(0.1)	(492)	(0.2)	(5)	—
Earnings from continuing operations before income taxes	46,909	12.7	40,033	11.2	51,041	13.2
Provision for income taxes	14,151	3.8	13,616	3.8	18,783	4.9
Earnings from continuing operations	32,758	8.9 %	26,417	7.4 %	32,258	8.3 %
Earnings (loss) from discontinued operations, net of tax	147	—	(24,637)	(6.9)	3,478	1.0
Net earnings	\$32,905	8.9 %	\$1,780	0.5 %	\$35,736	9.3 %
Earnings (loss) per share - diluted						
Continuing operations	\$1.29		\$1.03		\$1.25	
Discontinued operations	0.01		(0.96)		0.14	
Net earnings	\$1.30		\$0.07		\$1.39	

Net Sales. Our net sales increased from \$356.9 million for the fiscal year ended February 28, 2017 to \$370.2 million for the fiscal year ended February 28, 2018, an increase of 3.7%. The market continues to be fairly soft with competitive pricing pressures. However, the current reversal of some of the dollar's strength has made domestic paper production more attractive. This factor, along with the shrinking of some domestic mill capacity, has resulted in the announcement of some recent paper price increases. It is still too early to tell whether or not these developments will remain and be passed through to the marketplace. If so, this may offset some of the normal industry sales attrition expected in the marketplace. The acquisition of Independent, which was completed in January 2017 and is an integral part of our strategy to offset normal industry print attrition and other changes, had a comparative impact of approximately \$36.0 million on our net sales during the current fiscal year.

Our net sales decreased from \$385.9 million for the fiscal year ended February 29, 2016 to \$356.9 million for the fiscal year ended February 28, 2017, a decrease of 7.5%. Management has estimated that the move of our folder operations from Omaha, Nebraska to Columbus, Kansas negatively impacted sales by approximately \$5.8 million during the fiscal year 2017. In previous years, acquisitions have been an integral part of our strategy to offset industry revenue declines that result from normal print attrition and general economic conditions. We were able to complete the acquisition of Independent on January 27, 2017, which contributed \$3.0 million in net sales during fiscal year 2017.

Cost of Goods Sold. Our manufacturing costs increased slightly from \$252.9 million for the fiscal year 2017 to \$253.3 million for the fiscal year 2018, or 0.2%. Our gross profit margin ("margin") increased from 29.1% for the fiscal year 2017 to 31.6% for the fiscal year 2018. In fiscal year 2017, our margin was negatively impacted by increased medical expenses due to our medical claims exceeding historical levels. We implemented a new cost reimbursement program, as well as other changes to our health plan, at the start of calendar year 2017. While the program is still relatively

new, we were encouraged by our medical claims trend line and feel the program positively impacted our margin by over \$4.0 million during fiscal year 2018.

Our manufacturing costs decreased by \$16.7 million from \$269.6 million for the fiscal year 2016 to \$252.9 million for the fiscal year 2017, or 6.2%. Our margin decreased from 30.1% for the fiscal year 2016 to 29.1% for the fiscal year 2017. Our margin was negatively impacted by increased medical expenses due to our medical claims

exceeding historical levels, impacting our margin for the fiscal year 2017 by approximately \$2.9 million. To mitigate the increase in medical expenses, we implemented a new cost reimbursement program, as well as other changes to our health plan, at the start of calendar year 2017.

Selling, general, and administrative expenses. For fiscal year 2018, our selling, general, and administrative (“SG&A”) expenses increased approximately \$6.4 million, or 10.1%, from \$63.1 million for the fiscal year 2017 to \$69.5 million for the fiscal year 2018. As a percentage of sales, SG&A expenses were 18.8% and 17.6% for the fiscal years 2018 and 2017, respectively. The acquisition of Independent added approximately \$8.0 million in SG&A expenses during fiscal year 2018, or 20.3% of its respective net sales. As we continue to integrate this acquisition into our culture and systems, we will continue to look for ways to reduce these expenses to be more in line with our historical SG&A percentage. In addition, the Company (i) changed its accounting practice for handling its trademarks/trade names from an indefinite life to a finite life method on March 1, 2017 which added approximately \$0.8 million to SG&A expense during the period, (ii) paid a special bonus to our non-management level employees of \$500 per employee in December 2017 in connection with the enactment of the Tax Cuts and Jobs Act of 2017 which impacted our SG&A expense by \$1.2 million, and (iii) paid approximately \$1.8 million more in performance related bonuses in fiscal year 2108 in connection with its operating performance.

For fiscal year 2017, our SG&A expenses decreased approximately \$2.6 million, or 4.0%, from \$65.7 million for the fiscal year 2016 to \$63.1 million for the fiscal year 2017. As a percentage of sales, SG&A expenses were 17.6% and 17.0% for the fiscal years 2017 and 2016, respectively, which increased as compared to the prior fiscal year due to lower sales volumes and the impact of the acquisition of Independent Printing. The transition services provided to the buyer of our Apparel Segment concluded during the last quarter of fiscal year 2017. Also, our SG&A expense line was further impacted during the 2017 fiscal year by the approximately \$1.3 million associated with the additional medical expenses.

(Gain) loss from disposal of assets. The \$0.2 million loss from disposal of assets for fiscal year 2018 related primarily to the sale of manufacturing equipment as well as the closing and consolidation of manufacturing facilities. The \$0.3 million loss from disposal of assets for the fiscal year 2017 related primarily to the \$0.5 million loss on the sale of an unused manufacturing facility and its associated property offset by the \$0.2 million gain on the sale of a second unused manufacturing facility and manufacturing equipment. The gain from disposal of assets of \$0.5 million for the fiscal year 2016 related primarily to the sale of an unused manufacturing facility, as well as manufacturing equipment.

Income from operations. As a result of the above factors, our income from continuing operations for fiscal year 2018 was \$47.3 million, or 12.8% of net sales, as compared to \$40.5 million, or 11.4% of net sales, for fiscal year 2017. The acquisition of Independent positively impacted our operational results for fiscal year 2018 by approximately \$4.9 million.

Our income from continuing operations for fiscal year 2017 was \$40.5 million or 11.4% of sales, as compared to \$51.0 million, or 13.2% of sales for fiscal year 2016. The negative impact of the additional charge to our medical reserve during fiscal year 2017 was \$4.3 million.

Other expense. Other expense was \$0.4 million for fiscal year 2018 as compared to \$0.5 million for fiscal year 2017. This decrease related primarily to the increase of investment income in fiscal year 2018. Other expense increased by approximately \$0.5 million for the fiscal year 2017 as compared to the fiscal year 2016. This related primarily to the reallocation of interest expense from the Print Segment to our former Apparel Segment as part of discontinued operations for last fiscal year.

Provision for income taxes. Our effective tax rates for fiscal years 2018, 2017 and 2016 were 30.2%, 34.0%, and 36.8%, respectively. The lower effective tax rate for fiscal year 2018 was primarily due to the enactment of the Tax Cuts and Jobs Act of 2017. The lower effective tax rate for fiscal year 2017 as compared to fiscal year 2016 was due to the reversal of the valuation allowance relating to certain foreign tax credits. During fiscal year 2017, the Company

also filed amended tax returns to fully utilize all remaining foreign tax credits.

Net earnings (loss). Our net earnings from continuing operations were \$32.3 million, or \$1.25 per diluted share for fiscal year 2016, \$26.4 million, or \$1.03 per diluted share for fiscal year 2017 and \$32.8 million, or \$1.29 per diluted share for fiscal year 2018. Net earnings from discontinued operations for fiscal year 2018 was \$0.01 per

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diluted share, which consisted of a write-off of a \$2.0 million receivable (\$1.4 million, net of tax) relating to the escrowed purchase price from the sale of our Apparel Segment and a \$1.6 million tax benefit related to the determination of the final tax basis on assets sold in the sale of the Apparel Segment. Net loss from discontinued operations for fiscal year 2017 was (\$0.96) per diluted share, which consisted of the net earnings prior to the sale of the Apparel Segment of \$0.09 per diluted share and the net loss from the sale of \$27.1 million, net of tax, or (\$1.05) per diluted share. The loss from the sale included the write-off of the balance of foreign currency translation adjustments of \$16.1 million, or \$10.7 million, net of taxes. Net earnings from discontinued operations for fiscal year 2016 was \$3.5 million, or \$0.14 per diluted share. Overall, the Company realized net earnings of \$32.9 million, or \$1.30 per diluted share for fiscal year 2018, \$1.8 million, or \$0.07 per diluted share for fiscal year 2017 and \$35.7 million, or \$1.39 per diluted share for fiscal year 2016.

Liquidity and Capital Resources

(Dollars in thousands)	Fiscal Years Ended		
	2018	2017	2016
Working Capital	\$133,773	\$119,282	\$135,441
Cash	\$96,230	\$80,466	\$7,957

Working Capital. Our working capital increased by approximately \$14.5 million, or 12.1%, from \$119.3 million at February 28, 2017 to \$133.8 million at February 28, 2018. Our working capital increased primarily due to the increase in our cash. Our current ratio, calculated by dividing our current assets by our current liabilities, increased from 5.0-to-1.0 for the fiscal year 2017 to 5.5-to-1.0 for the fiscal year 2018. Our current ratio increased primarily as a result of the increase in our cash.

Our working capital decreased by approximately \$16.2 million, or 11.9%, from \$135.4 million at February 29, 2016 to \$119.3 million at February 28, 2017. Our working capital decreased primarily due to the acquisition of Independent as well as the special one-time dividend of \$1.50 per share paid in connection with the sale of the Apparel Segment. Our current ratio, calculated by dividing our current assets by our current liabilities, increased from 4.4-to-1.0 for the fiscal year 2016 to 5.0-to-1.0 for the fiscal year 2017. Our current ratio increased primarily as a result of the impact associated with the cash sale of the Apparel Segment offset by the acquisition of Independent.

Cash Flow Components

(Dollars in thousands)	Fiscal years ended		
	2018	2017	2016
Net cash provided by operating activities	\$45,290	\$58,887	\$86,684
Net cash provided by (used in) investing activities	\$(3,953)	\$86,090	\$(4,116)
Net cash used in financing activities	\$(25,573)	\$(72,468)	\$(84,590)

Cash flows from operating activities. Cash provided by operating activities was \$45.3 million for the fiscal year 2018 compared to \$58.9 million for the fiscal year 2017 and \$86.7 million for the fiscal year 2016, or a decrease of \$13.6 million in 2018 over 2017 and a decrease of \$27.8 million in 2017 over 2016.

Our decreased operational cash flows in fiscal year 2018 in comparison to fiscal year 2017 was primarily the result of four factors: (i) a decrease in operating cash flows related to our Apparel Segment of \$34.8 million, (ii) a decrease in our deferred taxes of \$6.2 million, (iii) an increase in our prepaid income taxes of \$2.7 million, and (iv) increased earnings of \$31.1 million.

Our decreased operational cash flows in fiscal year 2017 in comparison to fiscal year 2016 was primarily the result of two factors: (i) a decrease in operating cash flows from the Apparel Segment that was sold on May 25, 2016, and (ii) decreased operational earnings.

Cash flows from investing activities. Cash provided by (used in) investing activities decreased \$90.1 million from \$86.1 million provided in fiscal year 2018 compared to \$4.0 million used for each of the fiscal years 2017 and 2018, respectively, and increased \$90.2 million from \$4.1 million used in fiscal year 2018 to \$86.1 million provided

for each of the fiscal years 2016 and 2017, respectively. The decrease in cash in fiscal year 2018 was primarily due to the net proceeds of \$107.4 million from the sale of the Apparel Segment which took place on May 25, 2016, offset by a decrease of \$17.2 million in cash used for the acquisition of businesses. The increase in cash provided from investing activities in fiscal year 2017 over fiscal year 2016 was as a result of the net proceeds from the sale of the Apparel Segment and a decrease \$1.2 million in capital expenditures offset by \$18.6 million in cash consideration used for acquisitions.

Cash flows from financing activities. Cash used in financing activities was \$25.6 million in the fiscal year 2018 compared to \$72.5 million used in fiscal year 2017 and \$84.6 million used in fiscal year 2016.

The decrease in our cash used in the fiscal year 2018 as compared to the fiscal year 2017 resulted from three factors: (i) no debt was paid down in the fiscal year 2018 compared to \$10.0 million paid down in 2017, (ii) \$34.9 million less in dividends were paid in the fiscal year 2018 compared to 2017, which included a special one-time dividend of \$1.50 per share that was paid as a result of the sale of the Apparel Segment, and (iii) \$5.1 million less was used to repurchase our common stock under the board-approved repurchase program in the fiscal year 2018 as compared to 2017.

The decrease in our cash used in fiscal year 2017 as compared to fiscal year 2016 resulted from four factors: (i) we paid down our debt by \$10.0 million in fiscal year 2017 compared to \$59.0 million paid down in fiscal year 2016, (ii) we used \$57.2 million to pay dividends in fiscal year 2017 compared to \$18.0 million paid in 2016, (iii) we repurchased \$8.4 million of our common stock in fiscal year 2017, whereas we did not repurchase any of our common stock in fiscal year 2016, and (iv) we received \$2.9 million from the exercise of stock options in fiscal year 2017, whereas in fiscal year 2016 no stock options were exercised.

Stock Repurchase – In the 2016 calendar year, the Board authorized the repurchase of up to an aggregate of \$40.0 million of the Company’s stock through the Company’s existing stock repurchase program. Under the repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases are 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. During our fiscal year ended February 28, 2018, the Company, under the program, repurchased 191,033 shares of common stock at an average price of \$17.33 per share. Since the program’s inception in October 2008, there have been 1,442,236 common shares repurchased at an average price of \$14.99 per share. As of February 28, 2018 there was \$18.4 million available to repurchase shares of the Company’s common stock under the program. Unrelated to the stock repurchase program, the Company purchased 145 shares of its common stock during the fiscal year ended February 28, 2018. The Company expects to continue to repurchase its shares under its repurchase program during fiscal year 2019 as it determines such repurchases to be in its and its shareholders best interest.

Credit Facility – The Company has entered into a Second Amended and Restated Credit Agreement, which has been amended from time to time, pursuant to which a credit facility has been extended to the Company (the “Credit Facility”) until August 11, 2020 that provides the Company and its subsidiaries with up to \$100.0 million in revolving credit, as well as a \$20.0 million sublimit for the issuance of letters of credit and a \$15.0 million sublimit for swing-line loans. Under the Credit Facility, the Company or any of its subsidiaries also can request up to three increases in the aggregate commitments in an aggregate amount not to exceed \$50.0 million. The terms and conditions of the Credit Facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions and asset dispositions, as well as imposing other customary covenants, such as requiring that our fixed charge coverage ratio not be less than 1.25:1.00 and our total leverage ratio not exceed 3.00:1.00. The Company may make dividends or distributions to shareholders so long as (a) no event of default has occurred and is continuing and (b) the Company’s net leverage ratio both before and after giving effect to any such dividend or distribution is equal to or less than 2.50:1.00.

The Credit Facility bears interest at the LIBOR rate plus a spread ranging from 1.0% to 2.0%, which rate was 3.0% (3 month LIBOR + 1.0%) at February 28, 2018 and 1.86% (2 month LIBOR + 1.0%) at February 28, 2017. The rate is determined by our fixed charge coverage ratio of total funded debt to EBITDA. As of February 28, 2018, we had \$30.0 million of borrowings under the revolving credit line and \$1.2 million outstanding under standby letters of credit arrangements, leaving approximately \$68.8 million available in borrowing capacity. The Credit Facility is secured by substantially all of our assets (other than real property), as well as all capital securities of each of our subsidiaries.

We did not pay any additional amounts on the revolving credit line for fiscal year 2018. It is anticipated that the available line of credit is sufficient to cover, should it be required, our working capital needs for the foreseeable future.

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 21st Century (“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. We anticipate that we will contribute from \$2.0 million to \$3.0 million during fiscal year 2019. We made contributions of \$3.0 million to our Pension Plan during each of our last three fiscal years. As our Pension Plan assets are invested in marketable securities, fluctuations in market values could potentially impact our funded status, associated liabilities recorded, and future required minimum contributions. At February 28, 2018, we had an unfunded pension liability recorded on our balance sheet of \$0.7 million. During fiscal year 2018, we decreased the discount rate we used to calculate our pension liability to 4.05% from 4.1% used in fiscal year 2017, which increased our recorded pension liability by approximately \$0.4 million (each 10 basis point change in the discount rate potentially impacts our computed pension liability by approximately \$900,000). In addition, we adopted the new MP-2017 mortality improvement scale associated with the RP-2014 mortality tables (which were adopted two years ago), which reduced our recorded pension liability by approximately \$0.4 million. The updated mortality improvement scale MP-2017 reflects slightly lower projected mortality experience improvement in the future compared to the previous scale MP-2016 utilized in fiscal year 2017’s valuation of liabilities. The projected return on our pension assets remained at 7.5% for fiscal year 2018.

Inventories – We believe our current 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 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 expenditure requirements for fiscal year 2019, exclusive of capital required for possible acquisitions, will be in line with our historical levels of between \$3.0 million and \$5.0 million. We expect to fund these expenditures through existing cash flows. We expect to generate sufficient cash flows from our operating activities to cover our operating and other normal 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, 2017 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 February 28, 2018. The following table represents our contractual commitments as of February 28, 2018 (in thousands).

	Total	Due in less than 1 year	Due in 1-3 years	Due in 4-5 years	Due in more than 5 years
Debt:					
Revolving credit facility	\$30,000	\$—	\$30,000	\$—	\$—
Interest rate swap	—	—	—	—	—
Other	—	—	—	—	—
Debt subtotal	30,000	—	30,000	—	—
Other contractual commitments:					

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Estimated pension benefit payments	40,000	4,200	8,500	8,300	19,000
Letters of credit	1,231	1,231	—	—	—
Operating leases	12,938	4,277	5,438	1,973	1,250
Total other contractual commitments	54,169	9,708	13,938	10,273	20,250
Total	\$84,169	\$9,708	\$43,938	\$10,273	\$20,250

We expect future interest payments of \$0.8 million for fiscal years February 28, 2019 and February 29, 2020 and \$0.4 million for fiscal year February 28, 2021, assuming interest rates and debt levels remain the same throughout the remaining term of the facility.

ITEM 7A. 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 totaled \$30.0 million at February 28, 2018 and is subject to fluctuations in the LIBOR rate. The 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 February 28, 2018 would be approximately \$0.3 million.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements and Supplementary Data required by this Item 8 are set forth following the signature page of this report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No matter requires disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

A review and evaluation was 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 Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the “Exchange Act”)) as of February 28, 2018. Based upon that review and evaluation, we have concluded that our disclosure controls and procedures were effective as of February 28, 2018.

Management’s Report on Internal Control over Financial Reporting

The financial statements, financial analysis and all other information in this Annual Report on Form 10-K were prepared by management, who is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company’s internal control over financial reporting includes those policies and procedures that:

- i. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;
- ii. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- iii.

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or dispositions of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only

reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of February 28, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control—Integrated Framework ("2013 COSO framework"). Based on management's assessment using those criteria, we believe that, as of February 28, 2018, the Company's internal control over financial reporting is effective.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company for the fiscal year ended February 28, 2018 and has attested to the effectiveness of the Company's internal control over financial reporting as of February 28, 2018. Their report on the effectiveness of internal control over financial reporting is presented on page F-3 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

No matter requires disclosure.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Item 10 is incorporated herein by reference to the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders.

The Securities and Exchange Commission and the New York Stock Exchange have issued multiple regulations requiring policies and procedures in the corporate governance area. In complying with these regulations, it has been the goal of the Company's Board of Directors and senior leadership to do so in a way which does not inhibit or constrain the Company's unique culture, and which does not unduly impose a bureaucracy of forms and checklists. Accordingly, formal, written policies and procedures have been adopted in the simplest possible way, consistent with legal requirements, including a Code of Ethics applicable to the Company's principal executive officer, principal financial officer, and principal accounting officer or controller. The Company's Corporate Governance Guidelines, its charters for each of its Audit, Compensation, Nominating and Corporate Governance Committees and its Code of Ethics covering all Employees are available on the Company's website, www.ennis.com, and a copy will be mailed upon request to Investor Relations at 2441 Presidential Parkway, Midlothian, TX 76065. If we make any substantive amendments to the Code, or grant any waivers to the Code for any of our senior officers or directors, we will disclose such amendment or waiver on our website and in a report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12, as to certain beneficial owners and management, is hereby incorporated by reference to the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report.

1. Index to Consolidated Financial Statements of the Company

An "Index to Consolidated Financial Statements" has been filed as a part of this Report beginning on page F-1 hereof.

2. All schedules for which provision is made in the applicable accounting regulation of the SEC have been omitted because of the absence of the conditions under which they would be required or because the information required is included in the consolidated financial statements of the Registrant or the notes thereto.

3. Exhibits

Exhibit Number	Description
Exhibit 3.1(a)	<u>Restated Articles of Incorporation, as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985, June 16, 1988 and November 4, 1998, incorporated herein by reference to Exhibit 3.1(a) to the Registrant's Form 10-Q filed on October 6, 2017 (File No. 001-05807).</u>
Exhibit 3.1(b)	<u>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 filed on May 9, 2007 (File No. 001-05807).</u>
Exhibit 3.2	<u>Fourth Amended and Restated Bylaws of Ennis, Inc., dated July 10, 2017, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 10, 2017 (File No. 001-05807).</u>
Exhibit 10.1	<u>Unit Purchase Agreement, dated May 4, 2016, by and between Ennis, Inc. and Gildan Activewear Inc., incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2016 (File No. 001-05807).</u>
Exhibit 10.2	<u>Fourth Amendment and Consent to Second Amended and Restated Credit Agreement, effective as of May 25, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).</u>
Exhibit 10.3	<u>Fifth Amendment to Second Amended and Restated Credit Agreement, dated June 20, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 24, 2016 (File No. 001-05807).</u>
Exhibit 10.4	<u>Sixth Amendment to Second Amended and Restated Credit Agreement, dated August 11, 2016, by and among Ennis, Inc., each of the co-borrowers party thereto, each of the lenders party thereto, and Bank of America, N.A., in its capacity as administrative agent for the Lenders incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 17, 2016 (File No. 001-05807).</u>

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- Exhibit 10.5 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 10.6 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 filed on January 20, 2009 (File No. 001-05807).+

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Exhibit Number	Description
Exhibit 10.7	<u>Amended and Restated Executive Employment Agreement between Ennis, Inc. and Michael D. Magill, effective as of July 31, 2017, herein incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 3, 2017 (File No. 001-05807).+</u>
Exhibit 10.8	<u>Amended and Restated Executive Employment Agreement between Ennis, Inc. and Ronald M. Graham, effective as of July 31, 2017, herein incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on August 3, 2017 (File No. 001-05807).+</u>
Exhibit 10.9	<u>Amended and Restated Executive Employment Agreement between Ennis, Inc. and Richard L. Travis, Jr., effective as of July 31, 2017, herein incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on August 3, 2017 (File No. 001-05807).+</u>
Exhibit 10.10	<u>Stock Purchase Agreement, dated January 27, 2017, by and between Ennis, Inc., Independent Printing Company, Inc. and the related entities signatory thereto, herein incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-K files on May 5, 2017 (File No. 001-05807).</u>
Exhibit 21	<u>Subsidiaries of Registrant*</u>
Exhibit 23	<u>Consent of Independent Registered Public Accounting Firm*</u>
Exhibit 31.1	<u>Certification Pursuant to Rule 13a-14(a) of Chief Executive Officer.*</u>
Exhibit 31.2	<u>Certification Pursuant to Rule 13a-14(a) of Chief Financial Officer.*</u>
Exhibit 32.1	<u>Section 1350 Certification of Chief Executive Officer.**</u>
Exhibit 32.2	<u>Section 1350 Certification of Chief Financial Officer.**</u>
Exhibit 101	The following information from Ennis, Inc.'s Annual Report on Form 10-K for the year ended February 28, 2018, filed on May 11, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

* Filed herewith.

**Furnished herewith.

+Represents a management contract or a compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: May 11, 2018 /s/ KEITH S. WALTERS
Keith S. Walters, Chairman of the Board,
Chief Executive Officer and President

Date: May 11, 2018 /s/ RICHARD L. TRAVIS, JR.
Richard L. Travis, Jr.
Vice President — Finance and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: May 11, 2018 /s/ KEITH S. WALTERS
Keith S. Walters, Chairman of the Board,

Chief Executive Officer and President

Date: May 11, 2018 /s/ MICHAEL D. MAGILL
Michael D. Magill, Executive Vice President, Secretary and Director

Date: May 11, 2018 /s/ JOHN R. BLIND
John R. Blind, Director

Date: May 11, 2018 /s/ FRANK D. BRACKEN
Frank D. Bracken, Director

Date: May 11, 2018 /s/ GODFREY M. LONG, JR.
Godfrey M. Long, Jr., Director

Date: May 11, 2018 /s/ THOMAS R. PRICE
Thomas R. Price, Director

Date: May 11, 2018 /s/ ALEJANDRO QUIROZ
Alejandro Quiroz, Director

Date: May 11, 2018 /s/ MICHAEL J. SCHAEFER
Michael J. Schaefer, Director

Date: May 11, 2018 /s/ JAMES C. TAYLOR
James C. Taylor, Director

Date: May 11, 2018 /s/ RICHARD L. TRAVIS, JR.

Richard L. Travis, Jr., Principal Financial and Accounting Officer

ENNIS, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ennis, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Ennis, Inc. (a Texas corporation) and subsidiaries (the “Company”) as of February 28, 2018 and February 28, 2017, the related consolidated statements of operations, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended February 28, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2018 and February 28, 2017, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of February 28, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated May 11, 2018 expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2005.

Dallas, Texas

May 11, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Ennis, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Ennis, Inc. (a Texas corporation) and subsidiaries (the “Company”) as of February 28, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 28, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended February 28, 2018, and our report dated May 11, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Dallas, Texas

May 11, 2018

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	February 28, 2018	February 28, 2017
Assets		
Current assets		
Cash	\$96,230	\$80,466
Accounts receivable, net of allowance for doubtful receivables of \$1,194 at February 28, 2018 and \$1,674 at February 28, 2017	35,654	37,368
Prepaid expenses	1,305	1,351
Prepaid income taxes	3,600	855
Inventories	26,480	27,965
Assets held for sale	75	1,245
Total current assets	163,344	149,250
Property, plant and equipment		
Plant, machinery and equipment	133,222	136,584
Land and buildings	54,318	53,821
Other	23,208	23,644
Total property, plant and equipment	210,748	214,049
Less accumulated depreciation	164,840	164,054
Net property, plant and equipment	45,908	49,995
Goodwill	70,603	70,603
Intangible assets, net	49,254	53,927
Other assets	330	510
Total assets	\$329,439	\$324,285

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS-continued

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

	February 28, 2018	February 28, 2017
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 12,168	\$ 14,202
Accrued expenses		
Employee compensation and benefits	15,597	13,515
Taxes other than income	135	225
Other	1,671	2,026
Total current liabilities	29,571	29,968
Long-term debt	30,000	30,000
Liability for pension benefits	735	4,846
Deferred income taxes	6,189	6,953
Other liabilities	1,240	1,163
Total liabilities	67,735	72,930
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 February 28, 2018 and 2017	75,134	75,134
Additional paid-in capital	121,333	121,525
Retained earnings	164,177	150,685
Accumulated other comprehensive income (loss):		
Minimum pension liability, net of taxes	(16,428)	(15,261)
Total accumulated other comprehensive income (loss)	(16,428)	(15,261)
Treasury stock	(82,512)	(80,728)
Total shareholders' equity	261,704	251,355
Total liabilities and shareholders' equity	\$ 329,439	\$ 324,285

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Fiscal Years Ended		
	2018	2017	2016
Net sales	\$370,171	\$356,888	\$385,946
Cost of goods sold	253,257	252,938	269,636
Gross profit margin	116,914	103,950	116,310
Selling, general and administrative	69,451	63,147	65,743
(Gain) loss from disposal of assets	162	278	(479)
Income from operations	47,301	40,525	51,046
Other income (expense)			
Interest expense	(777)	(613)	—
Other, net	385	121	(5)
Total other income (expense)	(392)	(492)	(5)
Earnings from continuing operations before income taxes	46,909	40,033	51,041
Income tax expense	14,151	13,616	18,783
Earnings from continuing operations	32,758	26,417	32,258
Earnings (loss) from discontinued operations, net of tax	147	(24,637)	3,478
Net earnings	\$32,905	\$1,780	\$35,736
Weighted average common shares outstanding			
Basic	25,391,998	25,734,667	25,688,273
Diluted	25,417,244	25,749,185	25,722,367
Earnings (loss) per share - basic and diluted			
Continuing operations	\$1.29	\$1.03	\$1.25
Discontinued operations	\$0.01	\$(0.96)	\$0.14
Net earnings	\$1.30	\$0.07	\$1.39
Cash dividends per share	\$0.875	\$2.20	\$0.70

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Fiscal Years Ended		
	2018	2017	2016
Net earnings	\$32,905	\$1,780	\$35,736
Foreign currency translation adjustment, net of deferred taxes	—	9,940	(5,313)
Adjustment to pension, net of deferred taxes	1,680	2,084	225
Comprehensive income	\$34,585	\$13,804	\$30,648

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED 2016, 2017, AND 2018

(in thousands, except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total
Balance March 1, 2015	30,053,443	\$75,134	\$121,687	\$188,413	\$(22,197)	(4,514,905)	\$(78,357)	\$284,680
Net earnings	—	—	—	35,736	—	—	—	35,736
Foreign currency translation, net of deferred tax of \$3,254	—	—	—	—	(5,313)	—	—	(5,313)
Adjustment to pension, net of deferred tax of \$138	—	—	—	—	225	—	—	225
Dividends paid (\$0.70 per share)	—	—	—	(18,044)	—	—	—	(18,044)
Excess tax benefit of stock option exercises and restricted stock grants	—	—	(46)	—	—	—	—	(46)
Stock based compensation	—	—	1,308	—	—	—	—	1,308
Exercise of stock options and restricted stock	—	—	(1,352)	—	—	77,900	1,352	—
Balance February 29, 2016	30,053,443	\$75,134	\$121,597	\$206,105	\$(27,285)	(4,437,005)	\$(77,005)	\$298,546
Net earnings	—	—	—	1,780	—	—	—	1,780
Foreign currency translation, net of deferred tax of \$6,087	—	—	—	—	9,940	—	—	9,940
Adjustment to pension, net of deferred tax of \$1,276	—	—	—	—	2,084	—	—	2,084
Dividends paid (\$2.20 per share)	—	—	—	(57,200)	—	—	—	(57,200)
Excess tax benefit of stock option exercises and restricted stock grants	—	—	265	—	—	—	—	265
Stock based compensation	—	—	1,361	—	—	—	—	1,361
Stock based compensation allocated to loss on sale of discontinued operations	—	—	112	—	—	—	—	112
Exercise of stock options and restricted stock	—	—	(1,810)	—	—	282,988	4,720	2,910
Common stock repurchases	—	—	—	—	—	(532,804)	(8,443)	(8,443)

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Balance February 28, 2017	30,053,443	\$75,134	\$121,525	\$150,685	\$(15,261)	(4,686,821)	\$(80,728)	\$251,355
Net earnings	—	—	—	32,905	—	—	—	32,905
Adjustment to pension (net of deferred tax of \$1,030) and reclassification of the income tax effects of the US Tax Cuts and Jobs Act	—	—	—	2,847	(1,167)	—	—	1,680
Dividends paid (\$0.875 per share)	—	—	—	(22,260)	—	—	—	(22,260)
Stock based compensation	—	—	1,337	—	—	—	—	1,337
Exercise of stock options								
and restricted stock	—	—	(1,529)	—	—	88,771	1,529	—
Common stock repurchases	—	—	—	—	—	(191,178)	(3,313)	(3,313)
Balance February 28, 2018	30,053,443	\$75,134	\$121,333	\$164,177	\$(16,428)	(4,789,228)	\$(82,512)	\$261,704

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal Years Ended		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$32,905	\$1,780	\$35,736
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	8,033	7,934	7,798
Amortization of deferred finance charges	114	65	—
Amortization of intangible assets	6,058	4,673	4,555
Pre-tax loss from discontinued operations	2,000	36,775	—
Operating cash flows of discontinued operations	—	538	38,508
(Gain) loss from disposal of assets	162	278	(479)
Bad debt expense, net of recoveries	(265)	263	253
Stock based compensation	1,337	1,361	1,308
Excess tax benefit of stock based compensation	—	(265)	46
Deferred income taxes	(1,794)	4,359	(5,457)
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	(21)	3,315	4,166
Prepaid expenses and income taxes	(2,699)	1,134	1,887
Inventories	1,566	1,428	318
Other current assets	—	—	228
Other assets	65	(589)	—
Accounts payable and accrued expenses	(847)	(140)	(701)
Other liabilities	76	(3,579)	(689)
Liability for pension benefits	(1,400)	(443)	(793)
Net cash provided by operating activities	45,290	58,887	86,684
Cash flows from investing activities:			
Capital expenditures	(2,667)	(3,065)	(4,227)
Purchase of businesses, net of cash acquired	(1,350)	(18,584)	(331)
Proceeds from sale of discontinued operations	—	107,354	—
Investing cash flows of discontinued operations	—	(279)	(596)
Proceeds from disposal of plant and property	64	664	1,038
Net cash provided by (used in) investing activities	(3,953)	86,090	(4,116)
Cash flows from financing activities:			
Repayment of debt	—	(10,000)	(59,010)
Dividends paid	(22,260)	(57,200)	(18,044)
Financing cash flows of discontinued operations	—	—	(7,490)
Common stock repurchases	(3,313)	(8,443)	—
Proceeds from exercise of stock options	—	2,910	—
Excess tax benefit of stock based compensation	—	265	(46)

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Net cash used in financing activities	(25,573)	(72,468)	(84,590)
Effect of exchange rate changes on cash	—	—	(3,378)
Net change in cash	15,764	72,509	(5,400)
Cash at beginning of period	80,466	7,957	13,357
Cash at end of period	\$96,230	\$80,466	\$7,957

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies and General Matters

Nature of Operations. Ennis, Inc. and its wholly owned subsidiaries (collectively, the “Company”) are principally engaged in the production of and sale of business forms and other business products to customers primarily located in the United States.

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company’s last three fiscal years ended on the following days: February 28, 2018, February 28, 2017 and February 29, 2016 (fiscal years ended 2018, 2017 and 2016, respectively).

Accounts Receivable. Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date. The Company’s allowance for doubtful receivables reserve 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.

Inventories. With the exception of approximately 12.9% and 12.8% of its inventories valued at the lower of last-in, first-out (LIFO) for fiscal years 2018 and 2017, respectively, the Company values its inventories at the lower of first-in, first-out (FIFO) cost or net realizable value. 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 Company provides reserves for excess and obsolete inventory when necessary based upon analysis of quantities on hand, recent sales volumes and reference to market prices. Reserves for excess and obsolete inventory at fiscal years ended 2018 and 2017 were \$0.8 million and \$0.8 million, respectively.

Property, Plant and Equipment. Depreciation of property, plant and equipment is calculated using the straight-line method over a period considered adequate to amortize the total cost over the useful lives of the assets, which range from 3 to 11 years for machinery and equipment and 10 to 33 years for buildings and improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized and depreciated over the remaining life of the specific property unit. The Company capitalizes all leases that are in substance acquisitions of property. As of February 28, 2018, the Company had building and improvements of approximately \$0.1 million classified as assets held for sale on the consolidated balance sheet.

Goodwill and Other Intangible Assets. Goodwill is the excess of the purchase price paid over the value of net assets of businesses acquired and is not amortized. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Goodwill is 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 related business unit to its carrying value.

Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is

measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is based upon the fair value of assets.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Financial Instruments. The carrying amounts of cash, accounts receivables, and accounts payable approximate fair value because of the short maturity and/or variable rates associated with these instruments. Long-term debt as of fiscal years ended 2018 and 2017 approximates its fair value as the interest rate is tied to market rates.

Treasury Stock. The Company accounts for repurchases of common stock using the cost method with common stock in treasury classified in the Consolidated Balance Sheets as a reduction of shareholders' equity.

Deferred Finance Charges. Deferred finance charges in connection with the Company's revolving credit facility are amortized to interest expense over the term of the facility using the straight-line method. If the facility is extinguished before the end of the term, the remaining balance of the deferred finance charges will be amortized fully in such year.

Revenue Recognition. We recognize revenues from product sales upon shipment to the customer if the terms of the sale are freight on board ("FOB") shipping point (and therefore title and all risks of ownership, including risk of loss, passes to the customer upon shipping) or, to a lesser extent, upon delivery to the customer if the terms of the sale are FOB destination (and therefore title and all risks of ownership, including risk of loss, passes to the customer upon delivery). Net sales represent gross sales invoiced to customers, less certain related charges, including sales tax, discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, the Company prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss passes to the customer, the customer is invoiced under normal credit terms, and revenue is recognized when manufacturing is complete. Approximately \$9.7 million, \$10.7 million and \$12.9 million of revenue was recognized under these arrangements during fiscal years 2018, 2017 and 2016, respectively.

Advertising Expenses. The Company expenses advertising costs as incurred. Catalog and brochure preparation and printing costs, which are considered direct response advertising, are amortized to expense over the life of the catalog, which typically ranges from three to twelve months. Advertising expense was approximately \$0.9 million, \$0.6 million and \$0.6 million during the fiscal years ended 2018, 2017 and 2016, respectively, and is included in selling, general and administrative expenses in the Consolidated Statements of Operations. Included in this advertising expense is amortization related to direct response advertising of approximately \$0.2 million, \$0.1 million, and \$0.2 million for the fiscal years ended 2018, 2017 and 2016, respectively. Unamortized direct advertising costs included in prepaid expenses at fiscal years ended 2018, 2017 and 2016 were approximately \$0.1 million, \$0.2 million, and \$0.3 million, respectively.

Income Taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share. Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding, and then adding the number of additional shares that would have been outstanding if potentially dilutive securities had been issued. This is calculated using the treasury stock

method. At year-end 2017 and 2016, there were 42,500 and 145,243 options, respectively, not included in the diluted earnings per share computation because their effect was anti-dilutive. For fiscal year 2018, all options were included in the diluted earnings per share computation because the average fair market value of the Company's stock exceeded the exercise price of the options.

Accumulated Other Comprehensive Loss. Accumulated other comprehensive loss is defined as the change in equity resulting from transactions from non-owner sources. Other comprehensive income consisted of changes in the following: changes in the funded status of the Company's pension plan and the election to reclassify the stranded income tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act").

Foreign Currency Translation. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations in

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

other expense, net as incurred. Transaction losses totaled approximately \$7,000, \$22,000, and \$7,000 for fiscal years ended 2018, 2017 and 2016, respectively.

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Shipping and Handling Costs. The Company records amounts billed to customers for shipping and handling costs in net sales and related costs are included in cost of goods sold.

Stock Based Compensation. The Company recognizes stock based compensation expense net of estimated forfeitures over the requisite service period of the individual grants, which generally equals the vesting period. Estimated forfeiture rates are derived from our historical forfeitures of similar awards. The fair value of all share based awards is estimated on the date of grant.

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). ASU 2018-02 is effective in the first quarter of fiscal year 2019, however, early adoption is permitted for annual periods, including the reporting period in which the Tax Act was enacted. The Company early adopted this standard in fiscal year 2018, which resulted in \$2.8 million reclassified from other comprehensive income to retained earnings.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). The update requires the service cost component of net benefit costs to be reported in the same line of the income statement as other compensation costs and the other components of net benefit costs (non-service costs) to be presented separately from the service cost component, outside a subtotal of operating income. Additionally, only the service cost component of net benefit costs will be eligible for capitalization. The update is required to be adopted the first quarter of fiscal year 2019 and is required to be retrospectively adopted. The Company is currently evaluating the impact the adoption of ASU 2017-07 will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), which simplifies how an entity is required to measure goodwill impairment. The amendments in ASU 2017-04 require that goodwill impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit and the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in ASU 2017-04 should be applied on a prospective basis and are effective for annual or any interim goodwill impairment tests in annual reporting periods beginning after December 15, 2019. The Company adopted ASU 2017-04 on June 1, 2017, which had no impact on the Company’s consolidated financial statements at the time of adoption.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718) (“ASU 2016-09”), which makes several modifications to the accounting for employee share-based payment transactions, including the requirement to recognize the income tax effects of awards that vest or settle as income tax expense. The amendments in ASU 2016-09 also clarify the presentation of certain components of share-based awards in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016. The Company adopted ASU 2016-09 in fiscal year 2018 beginning in March of 2017. The adoption of ASU 2016-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. For lessors, ASU 2016-02 also modifies the classification criteria and the accounting for sales-type and

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direct financing leases. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and is effective in the first quarter of fiscal year 2020. Early adoption of ASU 2016-02 is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which institutes a number of modifications to the reporting of financial assets and liabilities. These modifications include: (i) measurement of non-equity method assets and liabilities at fair value, with changes to fair value recognized through net income, (ii) performance of qualitative impairment assessments of equity investments without readily determinable fair values at each reporting period, (iii) elimination of the requirement to disclose methods and significant assumptions used in calculating the fair value of financial instruments measured at amortized cost, (iv) measurement of the fair value of financial instruments measured at amortized cost using the exit price notion consistent with Topic 820, Fair Value Measurement, (v) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk, (vi) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (vii) evaluation of the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This ASU is effective for financial statements issued with fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact the adoption of ASU 2016-01 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The standard will be effective for us in the first quarter of fiscal 2019. The Company has completed its evaluation of the impact of this standard and has concluded that it did not have a material impact on its consolidated financial statements on the date of adoption, nor is it expected to going forward given the Company’s sales contracts. The Company adopted the standard on March 1, 2018 and applied the modified retrospective approach. The adoption of the guidance will result in additional disclosures regarding the Company’s revenue recognition policies beginning with the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2018.

(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.

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

The following table represents the activity in the Company's allowance for doubtful receivables for the fiscal years ended (in thousands):

	2018	2017	2016
Balance at beginning of period	\$1,674	\$2,041	\$2,158
Bad debt expense, net of recoveries	(265)	263	253
Accounts written off	(215)	(630)	(370)
Balance at end of period	\$1,194	\$1,674	\$2,041

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(3) Inventories

The following table summarizes the components of inventories at the different stages of production as of February 28, 2018 and February 28, 2017 (in thousands):

	2018	2017
Raw material	\$15,854	\$16,130
Work-in-process	3,114	3,199
Finished goods	7,512	8,636
	\$26,480	\$27,965

The excess of current costs at FIFO over LIFO stated values was approximately \$4.9 million and \$4.7 million as of fiscal years ended 2018 and 2017, respectively. During both fiscal year 2018 and 2017, as inventory quantities were reduced, this resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of fiscal year 2017 and 2016. The effect decreased cost of sales by approximately \$0.3 million, \$0.2 million and \$0.0 million for fiscal years 2018, 2017 and 2016, respectively. Cost includes materials, labor and overhead related to the purchase and production of inventories.

(4) Acquisitions

On July 7, 2017, the Company acquired the assets of a tag operation located in Ohio, for \$1.4 million in cash plus the assumption of certain accrued liabilities. Management considers this acquisition immaterial.

On January 27, 2017, the Company completed the acquisition of Independent Printing Company, Inc. and its related entities (collectively "Independent") for \$17.7 million in cash consideration, in a stock purchase transaction. The goodwill recognized as a part of this acquisition is not deductible for tax purposes. Independent has four locations in Wisconsin, with its main facility located in DePere, Wisconsin. The business produces presentation folders, checks, wide format and commercial print. Independent, which generated approximately \$37.0 million in unaudited sales during calendar year 2016, will continue to operate under its respective brand names. Independent sells mainly through distributors and resellers. The Company now has four folder facilities in Michigan, Kansas, California and Wisconsin, as well as wide format capabilities in Colorado and Wisconsin.

The following is a summary of the final purchase price allocation for Independent (in thousands):

Accounts receivable	\$4,252
Inventories	1,539
Other assets	575
Property, plant & equipment	5,526

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Customer lists	3,390
Trademarks	2,408
Goodwill	6,066
Accounts payable and accrued liabilities	(6,079)
	\$17,677

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The results of operations for Independent are included in the Company's consolidated financial statements from the date of acquisition. The following table represents certain operating information on a pro forma basis as though all Independent operations had been acquired as of March 1, 2016, 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 amount):

	Unaudited 2017
Pro forma net sales	\$ 390,169
Pro forma net earnings	27,249
Pro forma earnings per share from continuing operations - diluted	1.06

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

(5) Discontinued Operations

On May 25, 2016 the Company sold its Apparel Segment to Gildan Activewear Inc. for an all-cash purchase price of \$110.0 million, subject to a working capital adjustment, customary indemnification arrangements, and the other terms of the Unit Purchase Agreement dated May 4, 2016.

At the time of the sale of the Company's former apparel operations, \$2.0 million of the purchase price was placed in escrow as a source of funds to pay any liabilities that arose post-closing from an employment contract with a former officer of the Company. The Company believed in good faith, based on consultation with its advisors, that no liability existed with respect to the employment contract, and as such, recorded a receivable for the full amount of the funds held in escrow. In January 2017, the purchaser, without notice to the Company, voluntarily paid \$2.0 million to the former officer of the Company and requested that all of the escrowed funds be released to it as reimbursement. The Company denied the request, due in part because of the purchaser's failure to provide the Company prior notice and a right to defend as the Company believes was contractually required. In February 2018 an arbitrator ruled that the escrow funds be released to the purchaser. Although the Company has filed a complaint to vacate the arbitrator's opinion, in the fourth quarter of fiscal year 2018 the Company wrote off the full amount of the receivable.

The Company recognized a tax benefit in the amount of \$2.1 million related to discontinued operations during fiscal year 2018. This includes a \$0.5 million tax benefit from the write-off of the \$2.0 million receivable described in the previous paragraph as well as a \$1.6 million tax benefit related to the determination of the final tax basis on assets sold in the sale of the Apparel Segment in fiscal year 2017.

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to the Apparel Segment and that have been eliminated from ongoing operations. The following tables show the key components of the sale and discontinued operations related to the Apparel Segment that was completed on May 25, 2016 (in thousands):

Sales price	\$ 110,000
Carrying value of disposed	(130,174)
Expenses related to sales ⁽¹⁾	(4,365)
Loss on sale before write-off of foreign currency	
translation adjustment	(24,539)
Write-off of foreign currency translation adjustments	
recorded in other comprehensive income	(16,109)
Loss on sale of sale of discontinued operations	\$ (40,648)

(1) Includes the termination fee, in the amount of \$3.0 million, paid as a result of the termination of a prior purchase agreement for the sale of the Apparel Segment to Alstyle Operations, LLC.

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	2018	2017	2016
Net sales	\$—	\$41,038	\$183,027
Income from discontinued operations before income taxes	—	3,873	5,531
Loss on sale of discontinued operations before income taxes	(2,000)	(40,648)	—
Income (loss) on discontinued operations before income taxes	(2,000)	(36,775)	5,531
Income tax (benefit) expense	(2,147)	(12,138)	2,053
Net income (loss) from discontinued operations	\$147	\$(24,637)	\$3,478

(6) 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 other intangible assets are tested for impairment at a reporting unit level. The annual impairment test of goodwill and intangible assets is performed as of November 30 of each fiscal year.

The Company uses qualitative factors to determine whether it is more likely than not (likelihood of more than 50%) that the fair value of a reporting unit exceeds its carrying amount, including goodwill. Some of the qualitative factors considered in applying this test include consideration of macroeconomic conditions, industry and market conditions, cost factors affecting the business, overall financial performance of the business, and performance of the share price of the Company.

If qualitative factors are not deemed sufficient to conclude that the fair value of the reporting unit more likely than not exceeds its carrying value, then a one-step approach is applied in making an evaluation. The evaluation utilizes multiple valuation methodologies, including a market approach (market price multiples of comparable companies) and an income approach (discounted cash flow analysis). The computations require management to make significant estimates and assumptions, including, among other things, selection of comparable publicly traded companies, the discount rate applied to future earnings reflecting a weighted average cost of capital, and earnings growth assumptions. A discounted cash flow analysis requires management to make various assumptions about future sales, operating margins, capital expenditures, working capital, and growth rates. If the evaluation results in the fair value of the goodwill for the reporting unit being lower than the carrying value, an impairment charge is recorded. A goodwill impairment charge was not required for the fiscal years ended February 28, 2018 and 2017.

Beginning March 1, 2017, given the general declining trend line of print sales, and its expected continuance into the foreseeable future, the Company elected to treat the recorded value of trademarks/trade names as no longer being an indefinite-lived asset. As such, as of March 1, 2017, the Company began amortizing the carrying value of these assets over their estimated remaining useful life, approximately 17 - 19 years. The amortization expense associated with this election increased the Company's selling, general and administrative expense line by approximately \$830,000 during fiscal year 2018.

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

As of February 28, 2018	Weighted Average Remaining Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets				
Trademarks and trade names	16.0	\$ 19,625	\$ 2,408	\$ 17,217
Customer lists	8.1	58,040	26,039	32,001
Noncompete	1.1	175	140	35
Patent	0.4	783	782	1
Total	10.8	\$ 78,623	\$ 29,369	\$ 49,254

As of February 28, 2017				
Amortized intangible assets				
Trademarks and trade names	8.0	\$ 3,642	\$ 1,234	\$ 2,408
Customer lists	8.9	57,347	21,336	36,011
Noncompete	0.8	175	86	89
Patent	1.0	783	655	128
Total	8.8	\$ 61,947	\$ 23,311	\$ 38,636

	February 28, 2018	February 28, 2017
Non-amortizing intangible assets		
Trademarks and trade names	\$ —	\$ 15,291

Aggregate amortization expense for each of the fiscal years 2018, 2017 and 2016 was approximately \$6.1 million, \$4.7 million and \$4.6 million, respectively.

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

2019	\$ 5,557
2020	5,475
2021	5,406
2022	5,362
2023	4,574

Changes in the net carrying amount of goodwill for fiscal years 2017 and 2018 are as follows (in thousands):

Balance as of March 1, 2016	\$64,537
Goodwill acquired	6,066
Goodwill impairment	—
Balance as of February 28, 2017	70,603
Goodwill acquired	—
Goodwill impairment	—
Balance as of February 28, 2018	\$70,603

During the fiscal year ended February 28, 2017, \$6.1 million was added to goodwill related to the acquisition of Independent.

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(7) Other Accrued Expenses

The following table summarizes the components of other accrued expenses for the fiscal years ended (in thousands):

	February 28, 2018	February 28, 2017
Accrued taxes	\$ 161	\$ 329
Accrued legal and professional fees	282	414
Accrued interest	143	98
Accrued utilities	148	90
Accrued acquisition related obligations	654	789
Accrued credit card fees	115	119
Other accrued expenses	168	187
	\$ 1,671	\$ 2,026

(8) Long-Term Debt

Long-term debt consisted of the following at fiscal years ended (in thousands):

	February 28, 2018	February 28, 2017
Revolving credit facility	\$ 30,000	\$ 30,000

The Company has entered into a Second Amended and Restated Credit Agreement, which has been amended from time to time, pursuant to which a credit facility has been extended to the Company (the "Credit Facility") until August 11, 2020 that provides the Company and its subsidiaries with up to \$100.0 million in revolving credit, as well as a \$20.0 million sublimit for the issuance of letters of credit and a \$15.0 million sublimit for swing-line loans. Under the Credit Facility, the Company or any of its subsidiaries also can request up to three increases in the aggregate commitments in an aggregate amount not to exceed \$50.0 million. Under the Credit Facility: (i) the Company's net leverage ratio may not exceed 3.00:1.00, (ii) the Company's fixed charge coverage ratio may not be less than 1.25:1.00, and (iii) the Company may make dividends or distributions to shareholders so long as (a) no event of default has occurred and is continuing and (b) the Company's net leverage ratio both before and after giving effect to any such dividend or distribution is equal to or less than 2.50:1.00. As of February 28, 2018, the Company was in compliance with all terms and conditions of its Credit Facility.

The Credit Facility bears interest at the LIBOR rate plus a spread ranging from 1.0% to 2.0%, which rate was 3.0% (3 month LIBOR + 1.0%) at February 28, 2018 and 1.86% (2 month LIBOR + 1.0%) at February 28, 2017. The rate is determined by our fixed charge coverage ratio of total funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). As of February 28, 2018, we had \$30.0 million of borrowings under the revolving credit line

and \$1.2 million outstanding under standby letters of credit arrangements, leaving approximately \$68.8 million available in borrowing capacity. The Credit Facility is secured by substantially all of our assets (other than real property), as well as all capital securities of each of our subsidiaries.

(9) Shareholders' Equity

The Board has authorized the repurchase of up to an aggregate of \$40.0 million of the Company's outstanding common stock through a stock repurchase program. Under the repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

During the fiscal year ended February 28, 2018 the Company, under the program, repurchased 191,033 shares of common stock at an average price of \$17.33 per share. Since the program's inception in October 2008, there have been 1,442,236 common shares repurchased at an average price of \$14.99 per share. As of February 28, 2018 there was \$18.4 million available to repurchase shares of the Company's common stock under the program. Unrelated to

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the stock repurchase program, the Company purchased 145 shares of its common stock during the fiscal year ended February 28, 2018.

The Company's revolving credit facility maintains certain restrictions on the amount of treasury shares that may be purchased and distributions to its shareholders.

(10) 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 fiscal year ended 2018, the Company has 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 529,408 shares of unissued common stock reserved under the plan for issuance. The exercise price of each stock option granted under the Plan equals a referenced price of the Company's common stock as reported on the New York Stock Exchange on the date of grant, and an option's maximum term is ten years. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from grant date up to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the years ended 2018, 2017 and 2016, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$1.3 million, \$1.4 million and \$1.3 million, respectively.

Stock Options

The Company had the following stock option activity for the three years ended February 28, 2018:

	Number of Shares (exact quantity)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value(a) (in thousands)
Outstanding at March 1, 2015	374,823	\$ 15.95	5.7	\$ 210
Granted	43,426	13.69		
Terminated	(47,300)	18.31		
Exercised	—	—		
Outstanding at February 29, 2016	370,949	\$ 15.38	5.9	\$ 1,616
Granted	—	—		
Terminated	(5,000)	8.94		