

ENNIS, INC.  
Form 10-Q  
June 30, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended May 31, 2008**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-5807**

**ENNIS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Texas**

**75-0256410**

(State or Other Jurisdiction of Incorporation or  
Organization)

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

**2441 Presidential Pkwy., Midlothian, Texas**

**76065**

(Address of Principal Executive Offices)

(Zip code)

**(972) 775-9801**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 20, 2008, there were 25,776,846 shares of the Registrant's common stock outstanding.

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED MAY 31, 2008**  
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Certification Pursuant to Rule 13a-14(a)  
Certification Pursuant to Rule 13a-14(a)  
Section 1350 Certification of Chief Executive Officer  
Section 1350 Certification of Chief Financial Officer

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

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

<b>Assets</b>	<b>May 31, 2008 <i>(unaudited)</i></b>	<b>February 29, 2008</b>
Current assets		
Cash and cash equivalents	\$ 2,294	\$ 3,393
Accounts receivable, net of allowance for doubtful receivables of \$3,721 at May 31, 2008 and \$3,954 at February 29, 2008	81,594	72,278
Prepaid expenses	4,906	3,500
Inventories	91,265	98,570
Deferred income taxes	7,870	7,786
Assets held for sale	292	292
<b>Total current assets</b>	<b>188,221</b>	<b>185,819</b>
Property, plant and equipment, at cost		
Plant, machinery and equipment	131,510	130,214
Land and buildings	42,937	42,793
Other	22,665	22,586
<b>Total property, plant and equipment</b>	<b>197,112</b>	<b>195,593</b>
Less accumulated depreciation	138,909	136,605
<b>Net property, plant and equipment</b>	<b>58,203</b>	<b>58,988</b>
Goodwill	178,388	178,388
Trademarks and tradenames, net	63,842	63,880
Customer lists, net	23,697	24,260
Deferred finance charges, net	822	934
Prepaid pension asset		260
Other assets	605	602
<b>Total assets</b>	<b>\$ 513,778</b>	<b>\$ 513,131</b>

*See accompanying notes to consolidated financial statements.*

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

	<b>May 31, 2008</b>	<b>February 29, 2008</b>
	<i>(unaudited)</i>	
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Accounts payable	\$ 31,287	\$ 29,658
Accrued expenses		
Employee compensation and benefits	14,398	14,840
Taxes other than income	1,195	989
Federal and state income taxes payable	4,935	501
Other	5,616	5,583
Current installments of long-term debt	227	255
 Total current liabilities	 57,658	 51,826
 Long-term debt, less current installments	 78,654	 90,710
Liability for pension benefits	75	
Deferred income taxes	20,768	20,775
Other liabilities	895	1,341
 Total liabilities	 158,050	 164,652
 Commitments and contingencies		
 Shareholders equity		
Series A junior participating preferred stock of \$10 par value, Authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at May 31 and February 29, 2008	75,134	75,134
Additional paid in capital	122,642	122,566
Retained earnings	242,573	235,624
Accumulated other comprehensive income (loss):		
Foreign currency translation	909	929
Minimum pension liability	(6,450)	(6,450)
	(5,541)	(5,521)
	434,808	427,803
Treasury stock		
Cost of 4,377,661 shares at May 31, 2008 and 4,391,193 shares at February 29, 2008	(79,080)	(79,324)

Total shareholders' equity	355,728	348,479
Total liabilities and shareholders' equity	\$ 513,778	\$ 513,131

*See accompanying notes to consolidated financial statements.*

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

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2008</b>	<b>2007</b>
Net sales	\$ 163,200	\$ 152,774
Cost of goods sold	122,748	111,416
Gross profit	40,452	41,358
Selling, general and administrative	22,189	22,636
(Gain) loss from disposal of assets	(54)	12
Income from operations	18,317	18,710
Other income (expense)		
Interest expense	(1,033)	(1,492)
Other expense, net	(61)	(81)
	(1,094)	(1,573)
Earnings before income taxes	17,223	17,137
Provision for income taxes	6,287	6,341
Net earnings	\$ 10,936	\$ 10,796
Weighted average common shares outstanding		
Basic	25,668,361	25,585,449
Diluted	25,896,982	25,874,789
Per share amounts		
Net earnings basic	\$ 0.43	\$ 0.42
Net earnings diluted	\$ 0.42	\$ 0.42
Cash dividends per share	\$ 0.155	\$ 0.155

*See accompanying notes to consolidated financial statements.*





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

	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net earnings	\$ 10,936	\$ 10,796
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,683	3,301
Amortization of deferred finance charges	112	112
Amortization of trademarks and customer lists	605	466
(Gain) loss from disposal of assets	(54)	12
Bad debt expense		373
Stock based compensation	236	124
Excess tax benefit of stock based compensation	(84)	
Deferred income taxes	80	3
Changes in operating assets and liabilities:		
Accounts receivable	(9,344)	(6,858)
Prepaid expenses	(1,385)	622
Inventories	7,221	(1,845)
Other assets	(7)	21
Accounts payable and accrued expenses	5,766	2,481
Other liabilities	(446)	(528)
Prepaid pension asset/liability for pension benefits	335	404
Net cash provided by operating activities	16,654	9,484
Cash flows from investing activities:		
Capital expenditures	(1,865)	(1,018)
Proceeds from disposal of plant and property	5	23
Net cash used in investing activities	(1,860)	(995)
Cash flows from financing activities:		
Repayment of debt	(12,084)	(5,705)
Dividends	(3,987)	(3,967)
Proceeds from exercise of stock options		3
Excess tax benefit of stock based compensation	84	
Net cash used in financing activities	(15,987)	(9,669)
Effect of exchange rate changes on cash	94	149

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Net change in cash and cash equivalents	(1,099)	(1,031)
Cash and cash equivalents at beginning of period	3,393	3,582
Cash and cash equivalents at end of period	\$ 2,294	\$ 2,551

*See accompanying notes to consolidated financial statements.*

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

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

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis ), for the quarter ended May 31, 2008 has been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 29, 2008, from which the accompanying consolidated balance sheet at February 29, 2008 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

**Reclassifications.** Reclassifications were made to prior period financial statements to conform to the current period presentations. The Company reclassified \$858,000 to selling, general and administrative expense and \$12,000 to loss from disposal of assets for the three months ended May 31, 2007, which were previously reported as part of other expense, net. The Company reclassified \$2,791,000 of distribution warehousing expense, which was previously reported as part of cost of goods sold, to selling, general and administrative expense.

**Recent Accounting Pronouncements**

**FAS 157.** In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The Company's adoption of SFAS 157 on March 1, 2008 did not have a significant effect on its consolidated financial position, results of operations, or cash flows.

**FAS 157-2.** In February 2008, the FASB issued FASB Staff Position 157-2 which defers the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). The Company will be required to adopt FAS 157 for these nonfinancial assets and nonfinancial liabilities as of March 1, 2009. The Company does not expect the adoption of FAS 157 deferral provisions to have a material impact on its consolidated financial position, results of operations, or cash flows.

**FAS 159.** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159, also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attribute the Company elects for similar types of assets and liabilities. At the adoption of FAS 159 on March 1, 2008, the Company did not elect the fair value option under this standard; therefore the adoption of this standard did not have any effect on its consolidated financial position, results of operations, or cash flows.

**FAS 141R.** In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business combinations ( FAS 141R ), which replaces FAS 141. FAS 141R establishes principles and

requirements for how an acquirer in a business combination recognizes and measures in its financial statements the

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

**1. Significant Accounting Policies and General Matters-continued**

identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (the Company's fiscal year ended February 28, 2009). The Company does not expect the adoption of FAS 141R to have a material impact on its consolidated financial position, results of operations or cash flows.

**FAS 160.** In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51 ( FAS 160 ). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008 (the Company's fiscal year ended February 28, 2009). The Company has not completed its evaluation of the potential impact, if any, of the adoption of FAS 160 on its consolidated financial position, results of operations and cash flows.

**FAS 161.** In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 requires entities to provide enhanced disclosures about derivative instruments and hedging activities. FAS 161 is effective for fiscal years and interim periods beginning on or after November 15, 2008. The Company does not expect the adoption of FAS 161 to have a material impact on its consolidated financial position, results of operations or cash flows.

**FAS 162.** In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ( FAS 162 ). FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section, 411 *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). The Company has not completed its evaluation of the effects, if any, that FAS 162 may have on its consolidated financial position, results of operations and cash flows.

**2. Due From Factors**

Pursuant to terms of an agreement between the Company and various factors, the Company sold approximately 4% of its trade accounts receivable of Alstyle Apparel ( Alstyle ) to the factors on a non-recourse basis during the three months ended May 31, 2008 (43% for the quarter ended May 31, 2007). The price at which the accounts are sold is the invoice amount reduced by the factor commission of between 0.25% and 1.50%. Additionally, some trade accounts receivable are sold to the factors on a recourse basis.

Trade accounts receivable not sold to the factor remain in the custody and control of the Company and the Company maintains all credit risk on those accounts as well as accounts which are sold to the factor with recourse. The Company accounts for receivables sold to factors with recourse as secured borrowings.

The Company may request payment from the factor in advance of the collection date or maturity. Any such advance payments are assessed interest charges through the collection date or maturity at the JP Morgan Chase Prime Rate.

The Company's obligations with respect to advances from the factor are limited to the interest charges thereon.

Advance payments are limited to a maximum of 90% (ninety percent) of eligible accounts receivable.



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

**2. Due From Factors-continued**

The following table represents amounts due from factors included in accounts receivable for the periods ended (in thousands):

	<b>May 31, 2008</b>	<b>February 29, 2008</b>
Outstanding factored receivables without recourse	\$ 817	\$ 2,315
Advances from factors	(8)	(1,467)
Due from factors	\$ 809	\$ 848

**3. Accounts Receivable and Allowance for Doubtful Receivables**

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 96% of the Company's receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers' receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

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

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

	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 3,954	\$ 2,698
Bad debt expense		373
Recoveries	4	1
Accounts written off	(237)	(99)
Balance at end of period	\$ 3,721	\$ 2,973

**4. Inventories**

The Company uses the lower of last-in, first-out (LIFO) cost or market to value certain of its business forms inventories and the lower of first-in, first-out (FIFO) cost or market to value its remaining forms and apparel inventories. The Company regularly reviews inventories on hand, using specific aging categories, and writes down the carrying value of its inventories for excess and potentially obsolete inventories based on historical usage and estimated future usage. In assessing the ultimate realization of its inventories, the Company is required to make judgments as to future demand requirements. As actual future demand or market conditions may vary from those

projected by the Company, adjustments to inventories may be required.



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

The following table summarizes the components of inventories at the different stages of production as of the dates indicated (in thousands):

	<b>May 31, 2008</b>	<b>February 29, 2008</b>
Raw material	\$ 14,933	\$ 14,711
Work-in-process	17,254	15,467
Finished goods	59,078	68,392
	<b>\$ 91,265</b>	<b>\$ 98,570</b>

**5. Acquisitions**

On October 5, 2007, the Company acquired certain assets of B & D Litho, Inc. ( B & D ) headquartered in Phoenix, Arizona, and certain assets and related real estate of Skyline Business Forms ( Skyline ), operating in Denver, Colorado through its wholly owned subsidiaries for \$12.5 million in cash. The acquisition of B&D Litho, Inc. did not include the acquisition of B&D Litho California, Inc., which is primarily a commercial printing operation located in Ontario, California. No significant liabilities were assumed in the transactions. Acquired customer lists are being amortized over a 10 year period. The combined sales of the purchased operations were \$25.0 million during the most recent twelve month period. The acquisition will add additional medium and long run multi-part forms, laser cut sheets, jumbo rolls and mailer products sold through the indirect sales (distributorship) marketplace.

The following is a summary of the purchase price allocation for B & D and Skyline (in thousands):

Accounts receivable	\$ 2,713
Inventories	1,711
Other assets	66
Property, plant & equipment	2,662
Customer lists	5,084
Trademarks	671
Noncompete	18
Accounts payable and accrued liabilities	(443)
	<b>\$ 12,482</b>

On September 17, 2007, the Company acquired certain assets of Trade Envelope, Inc. ( Trade ) for \$2.7 million. Under the terms of the purchase agreement, the Company has agreed to pay the former owners of Trade under a contingent earn-out arrangement over three years for intangibles, subject to certain set-offs. Trade is an envelope manufacturer (converter) and printer, offering high quality, 1-4 color process with lithograph and flexography capabilities with locations in Tullahoma, Tennessee and Carol Stream, Illinois. The combined sales for the most recent twelve month period were \$11.4 million. The acquisition expanded and strengthened the envelope product line for the Company. The following is a summary of the purchase price allocation for Trade (in thousands):

Accounts receivable	\$ 974
Inventories	346
Property, plant & equipment	419

Customer lists	767
Trademarks	306
Noncompete	15
Accounts payable and accrued liabilities	(171)
	\$ 2,656

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

**5. Acquisitions-continued**

The results of operations for Trade and B & D are included in the Company's consolidated financial statements from the dates of acquisition. The following table represents certain operating information on a pro forma basis as though both companies had been acquired as of March 1, 2007, after the estimated impact of adjustments such as amortization of intangible assets, interest expense, interest income and related tax effects (in thousands except per share amounts):

	<b>Three months ended May 31, 2007</b>
Pro forma net sales	\$ 161,900
Pro forma net earnings	10,962
Pro forma earnings per share - diluted	0.42

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

**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 indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. Based on this evaluation, no impairment was recorded. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future. The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives and a net book value of \$63.2 million at May 31, 2008 are evaluated for impairment on an annual basis. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>As of May 31, 2008</b>			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 630	\$ 604
Customer lists	29,908	6,211	23,697
Noncompete	500	455	45
	<b>\$ 31,642</b>	<b>\$ 7,296</b>	<b>\$ 24,346</b>

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

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

<b>As of February 29, 2008</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 592	\$ 642
Customer lists	29,908	5,648	24,260
Noncompete	500	451	49
	<b>\$ 31,642</b>	<b>\$ 6,691</b>	<b>\$ 24,951</b>
		<b>May 31, 2008</b>	<b>February 29, 2008</b>
Non-amortizing intangible assets (in thousands)			
Trademarks		\$ 63,238	\$ 63,238

Aggregate amortization expense for the three months ended May 31, 2008 and May 31, 2007 was \$605,000 and \$466,000, respectively.

The Company's estimated amortization expense for the current and next five years is as follows:

2009	\$2,419,000
2010	2,403,000
2011	2,397,000
2012	2,391,000
2013	2,347,000
2014	2,254,000

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

	<b>Print Segment Total</b>	<b>Apparel Segment Total</b>	<b>Total</b>
Balance as of March 1, 2007	\$ 40,614	\$ 137,700	\$ 178,314
Goodwill	74		74
Balance as of March 1, 2008	40,688	137,700	178,388
Goodwill			
Balance as of May 31, 2008	\$ 40,688	\$ 137,700	\$ 178,388

During the three months ended May 31, 2008, there was no adjustment added to goodwill. For the fiscal year ended February 29, 2008, an adjustment of \$74,000 was added to goodwill due to revised estimates in accrued expenses acquired from the previous acquisition of Tennessee Business Forms.



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MAY 31, 2008**

**7. Other Accrued Expenses**

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

	<b>May 31, 2008</b>	<b>February 29, 2008</b>
Accrued interest	\$ 359	\$ 604
Accrued taxes	413	405
Accrued legal and professional fees	131	244
Accrued utilities	1,548	1,358
Accrued repairs and maintenance	308	274
Accrued contract labor	427	280
Factored receivables with recourse	320	539
Other accrued expenses	2,110	1,879
	<b>\$ 5,616</b>	<b>\$ 5,583</b>

**8. Long-Term Debt**

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

	<b>May 31, 2008</b>	<b>February 29, 2008</b>
Revolving credit facility	\$ 78,500	\$ 90,500
Capital lease obligations	381	452
Other		13
	78,881	90,965
Less current installments	227	255
Long-term debt	<b>\$ 78,654</b>	<b>\$ 90,710</b>

On March 31, 2006, the Company entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides the Company access to \$150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .75% 3.55% at May 31, 2008), depending on the Company's total funded debt to EBITDA ratio, as defined. As of May 31, 2008, the Company had \$78.5 million of borrowings under the revolving credit line and \$6.0 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately \$65.5 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of May 31, 2008. The Facility is secured by substantially all of the Company's assets.

Assets under capital leases with a total gross book value of \$1,154,000 for both May 31, 2008 and February 29, 2008 and accumulated amortization of \$477,000 and \$407,000 as of May 31, 2008 and February 29, 2008, respectively, are included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense.

Capital lease obligations have interest due monthly at 4.82% to 4.96% and principal paid in equal monthly installments. The notes mature at dates ranging from July 2008 through January 2010.



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**9. Shareholders' Equity**

Comprehensive income is defined as all changes in equity during a period, except for those resulting from investments by owners and distributions to owners. The components of comprehensive income were as follows (in thousands):

	<b>Three months ended May</b>	
	<b>31,</b>	
	<b>2008</b>	<b>2007</b>
Net earnings	\$ 10,936	\$ 10,796
Foreign currency translation adjustment, net of deferred taxes	(20)	434
Comprehensive income	\$ 10,916	\$ 11,230

Changes in shareholders' equity accounts for the three months ended May 31, 2008 are as follows (in thousands):

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>		<b>Treasury Stock</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Retained</b>	<b>Other</b>	<b>Shares</b>	<b>Amount</b>
<b>May 29, 2008</b>			<b>Capital</b>	<b>Earnings</b>	<b>(Loss)</b>		
	30,053,443	\$ 75,134	\$ 122,566	\$ 235,624	\$ (5,521)	(4,391,193)	\$ (79,134)
Foreign currency translation, net of deferred tax of \$32				10,936	(20)		
Comprehensive income					(3,987)		
Redeemed (\$.155 per share)							
Profit of stock option exercises and restricted stock grants			84				
Compensation			236				
Stock options and restricted stock grants			(244)			13,532	
<b>May 31, 2008</b>	<b>30,053,443</b>	<b>\$ 75,134</b>	<b>\$ 122,642</b>	<b>\$ 242,573</b>	<b>\$ (5,541)</b>	<b>(4,377,661)</b>	<b>\$ (79,134)</b>

**10. Stock Option Plans and Stock Based Compensation**

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) effective July 1, 2005. SFAS 123R requires the recognition of the fair value of stock-based compensation in earnings.

The Company has stock options granted to key executives and managerial employees and non-employee directors. At May 31, 2008, the Company has two stock option plans: the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 and the 1991 Incentive Stock Option Plan. The Company has 312,144 shares of unissued common stock reserved under the stock option plans for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each option granted equals the quoted market price of the Company's common stock on the date of grant, and an option's maximum term is ten years. Options may be granted at different times during the year and vest ratably over various periods, from upon grant to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

For the three months ended May 31, 2008 and 2007, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$236,000 (\$150,000 net of tax), and \$124,000 (\$78,000 net of tax), respectively.





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**10. Stock Option Plans and Stock Based Compensation-continued**

The Company had the following stock option activity for the three months ended May 31, 2008:

	<b>Number of Shares (exact quantity)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value(a) (in thousands)</b>
Outstanding at February 29, 2008	469,513	\$10.97	2.9	
Granted				
Terminated				
Exercised				
Outstanding at May 31, 2008	469,513	\$10.97	2.7	\$ 3,751
Exercisable at May 31, 2008	441,413	\$10.64	2.4	\$ 3,671

(a) Value is calculated on the basis of the difference between the market value of the Company's Common Stock as reported on the New York Stock Exchange on May 31, 2008 (\$18.89) and the weighted average exercise price, multiplied by the number of shares indicated.

The Company did not grant any stock options during the three months ended May 31, 2008 and 2007. A summary of the stock options exercised and tax benefits realized from stock based compensation is presented below (in thousands):

**Three months ended May  
31,**

	<b>2008</b>	<b>2007</b>
Total cash received	\$	\$ 3
Income tax benefits	84	
Total grant-date fair value		
Intrinsic value		4

A summary of the status of the Company's unvested stock options at May 31, 2008, and changes during the three months ended May 31, 2008 is presented below:

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at February 29, 2008	45,600	\$ 2.64
New grants		
Vested	(17,500)	2.45
Forfeited		
Unvested at May 31, 2008	28,100	2.75

As of May 31, 2008, there was \$65,000 of unrecognized compensation cost related to nonvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 1.3 years. The total fair value of shares underlying the options vested during the three months ended May 31, 2008 was \$331,000.

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**10. Stock Option Plans and Stock Based Compensation-continued**

The Company had the following restricted stock grants activity for the three months ended May 31, 2008:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at February 29, 2008	73,916	\$25.12
Granted	56,680	15.49
Terminated		
Exercised	(13,532)	27.71
Outstanding at May 31, 2008	117,064	\$20.16
Exercisable at May 31, 2008		\$

As of May 31, 2008, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately \$2.1 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.3 years.

**11. Employee Benefit Plans**

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 14% of their employees. Benefits are based on years of service and the employee's average compensation for the highest five compensation years preceding retirement or termination. The Company's funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Pension expense is composed of the following components included in cost of good sold and selling, general and administrative expenses in the Company's consolidated statements of earnings (in thousands):

	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Components of net periodic benefit cost		
Service cost	\$ 335	\$ 358
Interest cost	656	626
Expected return on plan assets	(812)	(770)
Amortization of:		
Prior service cost	(36)	(36)
Unrecognized net loss	192	226
Net periodic benefit cost	\$ 335	\$ 404

The Company is required to make contributions to its defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Pension Plan Income Security Act (ERISA). For the current fiscal year ending February 28, 2009, there is not a minimum contribution requirement and no pension payments have been made so far this fiscal year; however, the Company expects to contribute from \$2.0 million to

\$3.0 million in the fourth quarter of fiscal year 2009. The Company contributed \$3.0 million to its pension plan during fiscal year 2008.

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**12. Earnings per share**

Basic earnings per share have been computed by dividing net earnings by the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share reflect the potential dilution that could occur if stock options or other contracts to issue common shares were exercised or converted into common stock. The following table sets forth the computation for basic and diluted earnings per share for the periods indicated:

	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Basic weighted average common shares outstanding	25,668,361	25,585,449
Effect of dilutive options	228,621	289,340
Diluted weighted average common shares outstanding	25,896,982	25,874,789
Per share amounts:		
Net earnings basic	\$ 0.43	\$ 0.42
Net earnings diluted	\$ 0.42	\$ 0.42
Cash dividends	\$ 0.155	\$ 0.155

**13. Segment Information and Geographic Information**

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

The Print Segment, which represented 52% of the Company's consolidated net sales for the three months ended May 31, 2008, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 40 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom, constructed in a wide variety of sizes, colors, number of parts and quantities on an individual job basis depending upon the customers' specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal Business Forms®, Block Graphics®, Specialized Printed Forms®, 360° Custom Labels®, Enfusion®, Witt Printing®, B&D Litho of Arizona™, Genforms™ and Calibrated Forms®. The Print Segment also sells the Adams-McClure brand (which provides Point of Purchase advertising for large franchise and fast food chains as well as kitting and fulfillment); the Admore brand (which provides presentation folders and document folders); Ennis Tag & Label (which provides tags and labels, promotional products and advertising concept products); Trade Envelopes™ and Block Graphics™ (which provide custom and imprinted envelopes) and Northstar® and GFS (which provide financial and security documents).

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

The second segment, the Apparel Segment, which accounted for 48% of the Company's consolidated net sales for the three months ended May 31, 2008, consists of Alstyle Apparel, which was acquired in November 2004. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables.

Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of

the Apparel Segment sales are to customers in the United States.

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

Corporate information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses related to the Company's corporate headquarters and other administrative costs. Segment data for the three months ended May 31, 2008 and 2007 were as follows (in thousands):

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended May 31, 2008:</b>				
Net sales	\$ 85,297	\$ 77,903	\$	\$163,200
Depreciation	1,822	630	231	2,683
Amortization of identifiable intangibles	238	367		605
Segment earnings (loss) before income tax	14,447	6,793	(4,017)	17,223
Segment assets	158,317	349,131	6,330	513,778
Capital expenditures	1,834	12	19	1,865
<b>Three months ended May 31, 2007:</b>				
Net sales	\$ 85,135	\$ 67,639	\$	\$152,774
Depreciation	2,069	1,008	224	3,301
Amortization of identifiable intangibles	99	367		466
Segment earnings (loss) before income tax	13,037	8,385	(4,285)	17,137
Segment assets	148,027	324,197	10,526	482,750
Capital expenditures	602	409	7	1,018

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

	<b>United States</b>	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>Three months ended May 31, 2008:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 85,297	\$	\$	\$ 85,297
Apparel Segment	72,600	4,908	395	77,903
	\$ 157,897	\$ 4,908	\$ 395	\$ 163,200
Identifiable long-lived assets				
Print Segment	\$ 42,945	\$	\$	42,945
Apparel Segment	7,232	64	2,013	9,309
Corporate	5,949			5,949
	\$ 56,126	\$ 64	\$ 2,013	\$ 58,203



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

	<b>United States</b>	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>Three months ended May 31, 2007:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 85,135	\$	\$	\$ 85,135
Apparel Segment	63,017	4,622		67,639
	\$ 148,152	\$ 4,622	\$	\$ 152,774
Identifiable long-lived assets				
Print Segment	\$ 42,789	\$	\$	42,789
Apparel Segment	8,612	101	2,572	11,285
Corporate	6,725			6,725
	\$ 58,126	\$ 101	\$ 2,572	\$ 60,799

**14. Supplemental Cash Flow Information**

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

	<b>Three months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
Interest paid	\$ 1,278	\$ 1,594
Income taxes paid	\$ 1,841	\$ 1,315

**15. Assets Held for Sale**

As of May 31, 2008 and February 29, 2008, the Company had land and building of approximately \$0.3 million classified as assets held for sale on the consolidated balance sheet. This balance reflects the net book value of a vacant facility and the associated land under contract for sale which is the lower of carrying amount or fair value less cost to sell.

**16. Subsequent Events**

On June 27, 2008, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents a share quarterly dividend to be payable on August 1, 2008 to shareholders of record on July 14, 2008.

On June 26, 2008, the Company announced their plans, subject to Bank and Board approval, to build a new manufacturing facility in the town of Agua Prieta in the state of Sonora, Mexico. The facility is expected to be operational by the fall of 2009.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

Ennis, Inc. (formerly Ennis Business Forms, Inc.) was organized under the laws of Texas in 1909. Ennis, Inc. and its subsidiaries (collectively known as the Company, Registrant, Ennis, or we, us, or our) print and manufacture a broad line of business forms and other business products and also manufacture a line of activewear for distribution throughout North America. Distribution of business products and forms throughout the United States, Canada, and Mexico is primarily through independent dealers, and with respect to our activewear products, through sales representatives. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, activewear wholesalers, screen printers and advertising agencies, among others. The Company's apparel business was acquired on November 19, 2004. Apparel Segment produces and sells activewear, including t-shirts, fleece goods and other wearables. With apparel being the hottest product on the market, we are growing in every way to help our distributors' profits continue to rise. We now offer a great selection of high-quality activewear apparel and hats with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The new apparel line features a wide variety of tees, fleece, shorts and yoga pants, and two headwear brands.

On October 5, 2007, we acquired certain assets of B & D Litho, Inc. (B & D) headquartered in Phoenix, Arizona, and certain assets and related real estate of Skyline Business Forms, operating in Denver, Colorado for \$12.5 million. The acquisition of B&D Litho, Inc. did not include the acquisition of B&D Litho California, Inc., which is mainly a commercial printing operation located in Ontario, California. No significant liabilities were assumed in the transactions. The combined sales of the purchased operations were \$25.0 million during the most recent twelve month period. The acquisition will add additional medium and long run multi-part forms, laser cut sheets, jumbo rolls and mailer products sold through the indirect sales (distributorship) marketplace.

On September 17, 2007, we acquired certain assets of Trade Envelope, Inc. (Trade) for \$2.7 million. Under the terms of the purchase agreement, we have agreed to pay the former owners of Trade under a contingent earn-out arrangement over three years for intangibles, subject to certain set-offs. Trade is an envelope manufacturer (converter) and printer, offering high quality, 1-4 color process with lithograph and flexography capabilities with locations in Tullahoma, Tennessee and Carol Stream, Illinois. The combined sales of Trade during the most recent twelve month period were \$11.4 million. The acquisition expanded and strengthened the envelope line of products currently being offered by the Company.

**Business Segment Overview**

We operate in two business segments, the Print Segment and the Apparel Segment. For additional financial information concerning segment reporting, please see note 13 of the notes to our consolidated financial statements beginning on page 17 included elsewhere herein, which information is incorporated herein by reference.

**Print Segment**

The Print Segment, which represented 52% of our consolidated net sales for the three months ended May 31, 2008, is in the business of manufacturing, designing and selling of business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 40 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, and quantities on an individual job basis depending upon the customers' specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal Business Forms®, Block Graphics®, Specialized Printed Forms®, 360° Custom Labels®, Enfusion®, Witt Printing®, B&D Litho of Arizona™, Genforms™ and Calibrated Forms®. The Print Segment also sells the Adams-McClure® brand (which provides Point of Purchase advertising for large franchise and fast



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food chains as well as kitting and fulfillment); the Admore brand (which provides presentation folders and document folders); Ennis Tag & Label (which provides tags and labels, promotional products and advertising concept products); Trade Envelopes™ and Block Graphics™ (which provide custom and imprinted envelopes) and Northstar® and GFS (which provide financial and security documents).

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

The printing industry generally sells its products in two ways. One market direction is to sell predominately to end users, and is dominated by a few large manufacturers, such as Moore Wallace (a subsidiary of R.R. Donnelly), Standard Register, and Cenveo. The other market direction, which the Company primarily serves, sells forms and other business products through a variety of independent distributors and distributor groups. While it is not possible, because of the lack of adequate statistical information, to determine Ennis' share of the total business products market, management believes Ennis is one of the largest producers of business forms in the United States distributing primarily through independent dealers, and that its business forms offering is more diversified than that of most companies in the business forms industry.

There are a number of competitors that operate in this segment, ranging in size from single employee-owner operations to multi-plant organizations, such as Cenveo and their resale brand known as: PrintXcel, Discount Label, and Printegra. We believe our strategic locations and buying power permit us to compete on a favorable basis within the distributor market on competitive factors, such as service, quality, and price.

Distribution of business forms and other business products throughout the United States is primarily done through independent dealers; including business forms distributors, stationers, printers, computer software developers, and advertising agencies.

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

Business products usage in the printing industry is generally not seasonal. General economic conditions and contraction of the traditional business forms industry are the predominant factor in quarterly volume fluctuations.

**Apparel Segment**

The Apparel Segment represented 48% of our consolidated net sales for the three months ended May 31, 2008, and operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knit basic activewear (t-shirts, tank tops, and fleece) across all market segments. Over 95% of Alstyle's revenues are derived from t-shirt sales, and more than 90% of those are domestic sales. Alstyle's branded product lines are AAA Alstyle Apparel & Activewear®, Gaziani®, Diamond Star®, Murina®, A Classic, Tennessee River®, D Drive, and Hylan® Headware.

Alstyle is headquartered in Anaheim, California, where it knits domestic cotton yarn and some polyester fibers into tubular material. The material is dyed at that facility and then shipped to its plants in Ensenada or Hermosillo, Mexico, where it is cut and sewn into finished goods. Alstyle also ships their dyed and cut product to outsourced manufacturers in El Salvador and Nicaragua for sewing. After sewing and packaging is completed, product is shipped to one of Alstyle's eight distribution centers located across the United States, Canada, and Mexico. The products of the Apparel Segment are standardized shirts manufactured in a variety of sizes and colors. The Apparel Segment operates six manufacturing facilities, one in California, and five in Mexico.

Alstyle utilizes a customer-focused internal sales team comprised of 21 sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are allocated performance

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objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend approximately half their time in the field.

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

A majority of Alstyle's sales are to direct customer branded products, and the remainder relates to private label and re-labels programs. Generally, sales to screen printers and mass marketers are driven by the availability of competitive products and price considerations, which drive our requirements for inventory levels of our various products, while sales in the private label business are characterized by slightly higher customer loyalty.

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

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

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

Distribution of the Apparel Segment's products is through Alstyle's own staff of sales representatives and regional distribution centers selling to local distributors who resell to retailers, or directly to screen printers, embellishers, retailers and mass marketers.

Raw materials of the Apparel Segment principally consist of cotton and polyester yarn purchased from a number of major suppliers at prevailing market prices, although we purchase more than 70% of our cotton and yarn from one supplier. Reference is made to Risk Factors of this Report.

**Risk Factors**

You should carefully consider the risks described below, as well as the other information included or incorporated by reference in the 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.

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***We may be required to write down goodwill and other intangible assets in the future, 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. At May 31, 2008, our goodwill and other intangible assets were approximately \$178.4 million and \$87.6 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets. Annually, we have conducted a review of our goodwill and other identifiable intangible assets to determine whether there has been impairment. Such a review was completed for our fiscal year ended February 29, 2008, and we concluded that no impairment charge was necessary. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results and may cause a decline in our stock price.

***Printed business forms may be superceded over time by paperless business forms or otherwise affected by technological obsolescence and changing customer preferences, which could reduce our sales and profits.***

Printed business forms and checks may eventually be superceded by paperless business forms, which could have a material adverse effect on our business over time. The price and performance capabilities of personal computers and related printers now provide a cost-competitive means to print low-quality versions of many of our business forms on plain paper. In addition, electronic transaction systems and off-the-shelf business software applications have been designed to automate several of the functions performed by our business form and check products. 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, there is a risk that the number of new customers we attract and existing customers we retain may diminish, which could reduce our sales and profits. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins. 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 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.

***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 May 31, 2008, approximately 12% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Two unions represent all of our hourly employees in Mexico. There can be no assurance that any future labor negotiations will prove successful,

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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, material shortages, or an increase in transportation costs, could have a material adverse effect on us.***

Cotton yarn is the primary raw material used in Alstyle's manufacturing processes. Cotton accounts for approximately 40% of the manufactured product cost. Alstyle acquires its yarn from five major sources that meet stringent quality and on-time delivery requirements. The largest supplier provides over 70% of Alstyle's yarn requirements and has an entire yarn mill dedicated to Alstyle's production. If Alstyle's relations with its suppliers are disrupted, Alstyle may not be able to enter into arrangements with substitute suppliers on terms as favorable as its current terms and our results of operations could be materially adversely affected.

Alstyle generally acquires its cotton yarn under short-term purchase orders with its suppliers, and has exposure to swings in cotton market prices. Alstyle does not use derivative instruments, including cotton option contracts, to manage its exposure to movements in cotton market prices. Alstyle may use such derivative instruments in the future. We believe we are competitive with other companies in the United States apparel industry in negotiating the price of cotton. However, any significant increase in the price of cotton or shortages in the availability of cotton as the result of farmers switching to alternative crops, such as corn, could have a material adverse effect on our results of operations.

Freight costs also represent a significant cost to our apparel company. We incur freight costs associated with the delivery of yarn to our manufacturing facility in Anaheim, CA. We also incur freight costs associated with transporting our knit and dyed products to Mexico and our final sewn products from Mexico to our various distribution centers. Any significant increase in transportation costs due to increased fuel costs could have a material impact on our reported apparel margins.

We also 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 price increases could have a material adverse effect on our operating results.

Current pressures on commodity prices are significant, particularly in our Apparel Segment. These can be no assurance that we can increase selling prices to fully offset commodity price increases in the future. Pressures on commodity prices could materially affect our operating results.

***Alstyle faces 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.***

Demand for Alstyle's products is dependent on the general demand for shirts and the availability of alternative sources of supply. Alstyle's strategy in this market environment is to be a low cost producer and to differentiate itself by providing quality service to its customers. Even if this strategy is successful, its results may be offset by reductions in demand or price declines.

***Apparel business is subject to cyclical trends.***

The United States apparel industry is sensitive to the business cycle of the national economy. Moreover, the popularity, supply and demand for particular apparel products can change significantly from year to year. Alstyle may be unable to compete successfully in any industry downturn due to excess capacity.

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***Our apparel foreign operations could be subject to unexpected changes in regulatory requirements, tariffs and other market barriers and political and economic instability in the countries where it operates, which could negatively impact our operating results.***

Alstyle operates cutting and sewing facilities in Mexico, and sources certain product manufacturing and purchases in El Salvador, Nicaragua, Honduras, Pakistan, China, and Southeast Asia. Alstyle's foreign operations could be subject to unexpected changes in regulatory requirements, tariffs, and other market barriers and political and economic instability in the countries where it operates. The impact of any such events that may occur in the future could subject Alstyle to additional costs or loss of sales, which could adversely affect our operating results. In particular, Alstyle operates its facilities in Mexico pursuant to the maquiladora duty-free program established by the Mexican and United States governments. This program enables Alstyle to take advantage of generally lower costs in Mexico, without paying duty on inventory shipped into or out of Mexico. There can be no assurance that the governments of Mexico and the United States will continue the program currently in place or that Alstyle will continue to be able to benefit from this program. The loss of these benefits could have an adverse effect on our business.

***Our apparel products are subject to foreign competition, which in the past have been faced with significant U.S. government import restrictions.***

Foreign producers of apparel often have significant labor cost advantages. Given the number of these foreign producers, the substantial elimination of import protections that protect domestic apparel producers could materially adversely affect Alstyle's business. The extent of import protection afforded to domestic apparel producers has been, and is likely to remain, subject to considerable political considerations.

The North American Free Trade Agreement (NAFTA) became effective on January 1, 1994 and has created a free-trade zone among Canada, Mexico, and the United States. NAFTA contains a rule of origin requirement that products be produced in one of the three countries in order to benefit from the agreement. NAFTA has phased out all trade restrictions and tariffs among the three countries on apparel products competitive with those of Alstyle. Alstyle performs substantially all of its cutting and sewing in five plants located in Mexico in order to take advantage of the NAFTA benefits. Subsequent repeal or alteration of NAFTA could adversely affect our business.

The Central American Free Trade Agreement (CAFTA) became effective May 28, 2004 and retroactive to January 1, 2004 for textiles and apparel. It creates a free trade zone similar to NAFTA by and between the United States and Central American countries (El Salvador, Honduras, Costa Rica, Nicaragua, and Dominican Republic.) Textiles and apparel will be duty-free and quota-free immediately if they meet the agreement's rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement will also give duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle sources approximately 16% of its sewing to a contract manufacturer in El Salvador, and we do not anticipate that this will have a material effect on our operations.

The World Trade Organization (WTO), a multilateral trade organization, was formed in January 1995 and is the successor to the General Agreement on Tariffs and Trade (GATT). This multilateral trade organization has set forth mechanisms by which world trade in clothing is being progressively liberalized by phasing-out quotas and reducing duties over a period of time that began in January of 1995. As it implements the WTO mechanisms, the United States government is negotiating bilateral trade agreements with developing countries, which are generally exporters of textile and apparel products, that are members of the WTO to get them to reduce their tariffs on imports of textiles and apparel in exchange for reductions by the United States in tariffs on imports of textiles and apparel.

In January 2005, United States import quotas have been removed on knitted shirts from China. The elimination of quotas and the reduction of tariffs under the WTO may result in increased imports of certain apparel products into North America. In May 2005, quotas on three categories of clothing imports, including knitted shirts, from China were re-imposed. A reduction of import quotas and tariffs could make Alstyle's products less competitive against low cost imports from developing countries.





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***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, 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 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.

**Cautionary Statements**

You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. In addition, certain statements in this report, and in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We believe these forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of Ennis. 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; the ability to implement our strategic initiatives; the ability to be profitable on a consistent basis; dependence on sales that are not subject to long-term contracts; dependence on suppliers; the ability to recover the rising cost of key raw materials in markets that are highly price competitive; the ability to meet customer demand for additional value-added products and services; the 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; postage rates; the ability to manage operating expenses; the ability to manage financing costs and interest rate risk; a decline in business volume and profitability could result in an impairment of goodwill; the ability to retain key management personnel; the ability to identify, manage or integrate future acquisitions; the costs associated with and the outcome of outstanding and future litigation; and changes in government regulations.

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.

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**Result of Operations**

<b>Consolidated Statements of Earnings - Data</b>	<b>Three Months Ended May 31,</b>			
	<b>2008</b>		<b>2007</b>	
Net sales	\$ 163,200	100.0%	\$ 152,774	100.0%
Cost of goods sold	122,748	75.2	111,416	72.9
Gross profit	40,452	24.8	41,358	27.1
Selling, general and administrative	22,189	13.6	22,636	14.8
(Gain) loss from disposal of assets	(54)	0.0	12	0.0
Income from operations	18,317	11.2	18,710	12.3
Other expense	(1,094)	(0.6)	(1,573)	(1.0)
Earnings before income taxes	17,223	10.6	17,137	11.3
Provision for income taxes	6,287	3.9	6,341	4.2
Net earnings	\$ 10,936	6.7%	\$ 10,796	7.1%

**Critical Accounting Policies and Judgments**

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, 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 affect on our more significant estimates and judgments used in preparation of our consolidated financial statements.

We maintain a defined-benefit pension plan for employees. Included in our financial results are pension costs that are measured using actuarial valuations. The actuarial assumptions used may differ from actual results.

Amounts allocated to intangibles are determined based on independent valuations for our acquisitions and are amortized over their expected useful lives. We evaluate these amounts periodically (at least once a year) to determine whether the value has been impaired by events occurring during the fiscal year.

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

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, Ennis prints and stores 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 \$4.6 million of revenue were recognized under these

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agreements during the three months ended May 31, 2008 as compared to \$5.1 million during the three months ended May 31, 2007.

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

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

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

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 – Consolidated**

*Net Sales.* Net sales for the three months ended May 31, 2008 were \$163.2 million compared to \$152.8 million for the three months ended May 31, 2007, an increase of \$10.4 million, or 6.8%. The increase in our sales for the quarter related primarily to an increase in our Apparel Segment sales which increased \$10.3 million during the quarter, or 15.2%. Our Print Segment sales for the quarter remained relatively flat at \$85.3 million for the three months ended May 31, 2008 and \$85.1 million for the three months ended May 31, 2007. See Results of Operation Segments of this Report for further discussion on our Segment sales.

*Gross profit.* Our gross profit ( margin ) for the three months ended May 31, 2008 was \$40.5 million, or 24.8% of sales, compared to \$41.4 million, or 27.1% of sales for the three months ended May 31, 2007. Our Print margin increased from 26.5% to 27.8%, while our Apparel margin decreased from 27.8% to 21.5% for the three months ended May 31, 2007 and 2008, respectively. See Results of Operations Segments of this Report for further discussion on the fluctuations in our Segment margins.

*Selling, general and administrative expense.* For the three months ended May 31, 2008, our selling, general and administrative expenses were \$22.2 million compared to \$22.6 million for the three months ended May 31, 2007, or a decrease of approximately \$0.4 million. This decrease related principally to less factoring expenses during the period due to less receivables being factored (4% versus 43%). As a percentage of sales, these expenses, due to our increased sales volume during the current quarter, decreased from 14.8% to 13.6%.



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*Gain from disposal of assets.* The gain from disposal of assets of \$54,000 for the three months ended May 31, 2008 and loss from disposal of assets of \$12,000 for the three months ended May 31, 2007 resulted primarily from the sale of manufacturing equipment.

*Income from operations.* As a result of the above factors, our income from operations was \$18.3 million, or 11.2% of sales, compared to \$18.7 million, or 12.3% of sales for the three months ended May 31, 2008 and 2007, respectively. While our margins, as a percent of sales, decreased during the quarter, we were able to effectively offset, for the most part, the impact of this decrease, on a dollar basis, through increased sales volume and the impact such has on fixed expenses.

*Other income and expense.* Our interest expense decreased from \$1.5 million for the three months ended May 31, 2007 to \$1.0 million for the three months ended May 31, 2008 due to less debt on average being outstanding and a lower effective borrowing rate during the quarter.

*Provision for income taxes.* Our effective tax rate was 36.5% for the three months ended May 31, 2008 compared to 37.0% for the three months ended May 31, 2007. The decrease was attributable to an increased Domestic Production Activities Deduction.

*Net earnings.* Our net earnings for the three months ended May 31, 2008 was \$10.9 million, or 6.7% of sales, compared to \$10.8 million, or 7.1% of sales for the three months ended May 31, 2007. Our basic earnings per share were \$0.43 per share for the three months ended May 31, 2008 compared to \$0.42 per share for the three months ended May 31, 2007. Our diluted earnings per share were \$0.42 per share for both the three months ended May 31, 2008 and 2007. This increase related primarily to the reduction in our interest expense and a slight decrease in effective tax rate during the period.

**Results of Operations Segments**

Net Sales by Segment (in thousands)	Three months ended May 31,	
	2008	2007
Print	\$ 85,297	\$ 85,135
Apparel	77,903	67,639
Total	\$ 163,200	\$ 152,774

*Print Segment.* Our net sales for our Print Segment, which represented 52.3% of our consolidated sales during the three months ended May 31, 2008, were approximately \$85.3 million for the same period, compared to approximately \$85.1 million for the three months ended May 31, 2007, an increase of \$0.2 million, or 0.2%. The increase in the Print Segment's net sales for the three months ended May 31, 2008 related to our acquisition of B&D and Trade which were acquired October 5, 2007 and September 17, 2007, respectively. Net sales for the acquired entities were \$8.3 million for the period ended May 31, 2008. Sales from our traditional print plants declined by approximately \$8.1 million due to general economic conditions and the continued contraction of traditional business forms which occurs as customers continue to migrate away from printed products.

*Apparel Segment.* Our net sales for the Apparel Segment, which represented 47.7% of our consolidated sales for the three months ended May 31, 2008, were approximately \$77.9 million for the current period, as compared to approximately \$67.6 million for the three months ended May 31, 2007, or an increase of \$10.3 million, or 15.2%. The increase in the Apparel Segment's sales was a result of increased volume associated with new customers, increased sales to existing customers and a selling price increase of approximately 3%. While we experienced a greater than 3% increase in our commodity prices during the quarter (see Gross Profit by Segment Apparel Segment below for further discussion), we elected not to pass on the entire extent of these increases during the quarter and use the volatility of the market and our current inventory position as the opportunity to gain some additional market-share.





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<b>Gross Profit by Segment (in thousands)</b>	<b>May 31,</b>	
	<b>2008</b>	<b>2007</b>
Print	\$ 23,732	\$ 22,529
Apparel	16,720	18,829
Total	\$ 40,452	\$ 41,358

**Print Segment.** Our Print gross profit margin ( margin ) increased approximately \$1.2 million, or 5.3% from \$22.5 million for the three months ended May 31, 2007 to \$23.7 million for the three months ended May 31, 2008. As a percentage of sales, our Print margin was 27.8% for the three months ended May 31, 2008, as compared to 26.5% for the three months ended May 31, 2007. Our Print margin, as a percentage of sales, increased primarily as a result of improved operational efficiencies achieved by continuing to flex our labor to fit our sales demand, and by our ability to continue to lower our fixed costs through consolidations in certain areas of the country.

**Apparel Segment.** Our Apparel gross profit margin ( margin ) decreased approximately \$2.1 million, or 11.2% from \$18.8 million for the three months ended May 31, 2007 to \$16.7 million for the three months ended May 31, 2008. As a percentage of sales, our Apparel margins were 21.5%, compared to 27.8% for the same quarter last year. Our Apparel margins during the quarter were impacted primarily by commodity price increases, principally cotton, which increased by approximately 20% during the quarter. While our Apparel Segment increased their selling prices to offset some of these commodity price increases, the increase taken during the quarter did not fully absorb the entire extent of the commodity price increases. Our decision not to pass on the entire increase was a short-term strategic decision to try to gain some additional market-share and fully leverage our inventory position, which given our sales growth during the quarter, we feel was quite successful. We have however recently announced an additional price increase, which we feel this, with the increased volume being realized, should enable our margins to improve in quarters to come.

<b>Profit by Segment (in thousands)</b>	<b>Three months ended</b>	
	<b>May 31,</b>	
	<b>2008</b>	<b>2007</b>
Print	\$ 14,447	\$ 13,037
Apparel	6,793	8,385
Total	21,240	21,422
Less corporate expenses	4,017	4,285
<b>Earnings before income taxes</b>	<b>\$ 17,223</b>	<b>\$ 17,137</b>

**Print Segment.** Our Print profit increased approximately \$1.4 million, or 10.8%, from \$13.0 million for the three months ended May 31, 2007, to \$14.4 million for the three months ended May 31, 2008. As a percent of sales, our Print profits were 16.9% for the three months ended May 31, 2008, as compared to 15.3% for the three months ended May 31, 2007. The increase in our Print profit, as a percent of sales, is directly related to their improved gross profit margins, as discussed above.

**Apparel Segment.** Our Apparel profit decreased approximately \$1.6 million, or 19.0%, from \$8.4 million for the three months ended May 31, 2007, to \$6.8 million for the three months ended May 31, 2008. As a percent of sales, our Apparel profit decreased from 12.4% for the three months ended May 31, 2007 to 8.7% for the three months ended May 31, 2008. The decrease in our Apparel profit during the current period is directly related to the decrease in their

gross profit margins, as discussed above.

**Liquidity and Capital Resources**

<i>(Dollars in thousands)</i>	<b>May 31, 2008</b>	<b>February 29, 2008</b>	<b>Change</b>
Working Capital	\$ 130,563	\$ 133,993	-2.6%
Cash and cash equivalents	\$ 2,294	\$ 3,393	-32.4%

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**Working Capital.** Our working capital decreased by approximately \$3.4 million, or 2.6% from \$134.0 million at February 29, 2008 to \$130.6 million at May 31, 2008. The decrease in our working capital during the period related primarily to our Apparel segment: a decrease of inventories partially offset by an increase in our receivables. The reduction in inventory was a result of increased Apparel sales. The increase in our receivables related primarily to the continued phase out of Alstyle's factoring arrangements and the significant increase in our Apparel sales during the last two months of the quarter (approximately 25%). Our current ratio, calculated by dividing our current assets by our current liabilities was 3.3-to-1.0 at May 31, 2008 compared to 3.6-to-1.0 at February 29, 2008.

**Cash and cash equivalent.** Cash and cash equivalents consists of highly liquid investments, such as time deposits held at major banks, commercial paper, United States government agency discounts notes, money market mutual funds and other money market securities with original maturities of 90 days or less. We used cash during the period to pay down our debt and finance the phase-out of Alstyle's factoring arrangements.

<i>(Dollars in thousands)</i>	<b>Three months ended May 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
Net Cash provided by operating activities	\$ 16,654	\$ 9,484	75.6%
Net Cash used in investing activities	\$ (1,860)	\$ (995)	86.9%
Net Cash used in financing activities	\$(15,987)	\$(9,669)	65.3%

**Cash flows from operating activities.** Cash provided by our operating activities increased by \$7.2 million, or 75.6% to \$16.7 million for the three months ending May 31, 2008, compared to \$9.5 million for the three months ended May 31, 2007. During the current period, approximately 4% of our Apparel sales were factored compared to 43% for the same quarter last year. In addition, apparel sales increased by approximately 25% during the last two months of the quarter. As a result, we used approximately \$10.4 million of our operational cash to fund these activities. In turn, we were able to generate cash by reducing our inventories by approximately \$7.2 million and increasing our payables by \$5.8 million.

**Cash flows from investing activities.** Cash used for our investing activities, which related to capital expenditures, increased by \$0.9 million, or 86.9% from \$1.0 million for the three months ended May 31, 2007 to \$1.9 million for the three months ended May 31, 2008. The increase related to additional capital expenditures relating to our print plants during the quarter.

**Cash flows from financing activities.** We used \$6.3 million more in cash associated with our financing activities this period when compared to the same period last year. We repaid debt in the amount of \$12.1 million during the three months ended May 31, 2008, compared to \$5.7 million during the same period of 2007.

**Credit Facility** On March 31, 2006, we entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides us access to \$150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .75% = 3.55% at May 31, 2008), depending on our total funded debt to EBITDA ratio, as defined. As of May 31, 2008, we had \$78.5 million of borrowings under the revolving credit line and \$6.0 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$65.5 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. We are in compliance with these covenants as of May 31, 2008. The Facility is secured by substantially all of our assets.

During the three months ended in May 31, 2008, we repaid \$12.0 million on the revolver and \$0.1 million on other debt. It is anticipated that the available line of credit is sufficient to cover, should it be required, working capital requirements for the foreseeable future.

Our Apparel group continues to sell a portion of their accounts receivable to factors (for the three months ended May 31, 2008 = 4% versus 43% for the three months ended May 31, 2007) based upon agreements in place with



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these factors. We are continuing with our plans to reduce the amount of receivables we factor each year through the utilization of our existing bank line or from working capital generated by our Apparel Group. We do not anticipate that the phase-out of this program will have a significant impact on our operational cash during the year.

**Pension** We are required to make contributions to our defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Pension Plan Income Security Act (ERISA). We anticipate that we will contribute from \$2.0 million to \$3.0 million during our current fiscal year. We made contributions of \$3 million to our pension plan during fiscal year 2008.

**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. The previously reported long-term contracts (that govern prices, but do not require minimum volume) with paper and yarn suppliers continue to be in effect. Certain of our rebate programs, do however, require minimum purchase volumes. Management anticipates meeting the required volumes.

**Capital Expenditures** We expect our capital requirements for 2009, exclusive of capital required for possible acquisitions, will be in-line with our historical levels of between \$4.0 million and \$8.0 million. We would expect to fund these expenditures through existing cash flows. We would expect to generate sufficient cash flows from our operating activities in order to cover our operating and other capital requirements for our foreseeable future.

**Contractual Obligations & Off-Balance Sheet Arrangements** With the exception below, there have been no significant changes in our contractual obligations since February 29, 2008 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of May 31, 2008.

**Recent Accounting Pronouncements**

**FAS 157.** In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The adoption of SFAS 157 on March 1, 2008 did not have a significant effect on our consolidated financial position, results of operations, or cash flows.

**FAS 157-2.** In February 2008, the FASB issued FASB Staff Position 157-2 which defers the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). We will be required to adopt SFAS 157 for these nonfinancial assets and nonfinancial liabilities as of March 1, 2009. The adoption of FAS 157 deferral provisions is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

**FAS 159.** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159, also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes we elect for similar types of assets and liabilities. At the adoption of FAS 159 on March 1, 2008, we did not elect the fair value option under this standard; therefore the adoption of this standard did not have any effect on our consolidated financial position, results of operations, or cash flows.

**FAS 141R.** In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business combinations ( FAS 141R ), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what



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information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (our fiscal year ended February 28, 2009). The adoption of FAS 141R is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

**FAS 160.** In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51 ( FAS 160 ). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008 (our fiscal year ended February 28, 2009). We have not completed our evaluation of the potential impact, if any, of the adoption of FAS 160 on our consolidated financial position, results of operations and cash flows.

**FAS 161.** In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 requires entities to provide enhanced disclosures about derivative instruments and hedging activities. FAS 161 is effective for fiscal years and interim periods beginning on or after November 15, 2008. The adoption of FAS 161 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

**FAS 162.** In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ( FAS 162 ). FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section, 411 *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). We have not completed our evaluation of the effects, if any, that FAS 162 may have on our consolidated financial position, results of operations and cash flows.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

***Interest Rates***

We are exposed to market risk from changes in interest rates on debt. 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. We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. Our variable rate financial instruments, including the outstanding credit facilities, totaled \$78.5 million at May 31, 2008. 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 May 31, 2008 would be approximately \$0.8 million.

***Foreign Exchange***

We have global operations and thus make investments and enter into transactions in various foreign currencies. The value of our consolidated assets and liabilities located outside the United States (translated at period end exchange rates) and income and expenses (translated using average rates prevailing during the period), generally denominated in Pesos and Canadian Dollars, are affected by the translation into our reporting currency (the U.S.

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Dollar). Such translation adjustments are reported as a separate component of shareholders' equity. In future periods, foreign exchange rate fluctuations could have an increased impact on our reported results of operations. However, due to the self-sustaining nature of our foreign operations, we believe we can effectively manage the effect of these currency fluctuations.

This market risk discussion contains forward-looking statements. Actual results may differ materially from this discussion based upon general market conditions and changes in domestic and global financial markets.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.** An 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 of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of May 31, 2008 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act 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.

**PART II. OTHER INFORMATION**

**Item 1. 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 our results of operations.

**Item 1A. Risk Factors**

Reference is made to page 22 of this Report on Form 10-Q. There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 29, 2008.

**Items 2, 3 and 5 are not applicable and have been omitted**

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to security holders for a vote during the quarter.



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**Item 6. Exhibits**

The following exhibits are filed as part of this report.

- Exhibit 3.1(a) Restated Articles of Incorporation as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988 incorporated herein by reference to Exhibit 5 to the Registrant's Form 10-K Annual Report for the fiscal year ended February 28, 1993.
- Exhibit 3.1(b) Amendment to Articles of Incorporation dated June 17, 2004 incorporated herein by reference to Exhibit 3.1(b) to the Registrant's Form 10-K Annual Report for the fiscal year ended February 28, 2007.
- Exhibit 3.2(a) Bylaws of the Registrant as amended through October 15, 1997 incorporated herein by reference to Exhibit 3(ii) to the registrant's Form 10-Q Quarterly Report for the quarter ended November 30, 1997.
- Exhibit 3.2(b) First amendment to Bylaws of the Registrant dated December 20, 2007 incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 8-K Current Report filed on December 20, 2007.
- Exhibit 31.1 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Executive Officer.\*
- Exhibit 31.2 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Financial Officer.\*
- Exhibit 32.1 Section 1350 Certification of Chief Executive Officer.\*\*
- Exhibit 32.2 Section 1350 Certification of Chief Financial Officer.\*\*

\* Filed herewith

\*\* Furnished  
herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENNIS, INC.

Date: June 30, 2008

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

Date: June 30, 2008

/s/ Richard L. Travis, Jr.  
Richard L. Travis, Jr.  
V.P. Finance and CFO, Secretary and  
Principal Financial and Accounting Officer  
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**INDEX TO EXHIBITS**

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