

ENNIS, INC.  
Form 10-Q  
December 29, 2011  
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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 November 30, 2011

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)

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**Texas**  
(State or Other Jurisdiction of Incorporation or Organization)

**75-0256410**  
(I.R.S. Employer Identification No.)

**2441 Presidential Pkwy., Midlothian, Texas**  
(Address of Principal Executive Offices)

**76065**  
(Zip code)

**(972) 775-9801**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of December 16, 2011, there were 26,056,450 shares of the Registrant's common stock outstanding.

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**ENNIS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE PERIOD ENDED NOVEMBER 30, 2011**

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	November 30, 2011 <i>(unaudited)</i>	February 28, 2011
<b>Assets</b>		
Current assets		
Cash	\$ 16,761	\$ 12,305
Accounts receivable, net of allowance for doubtful receivables of \$4,333 at November 30, 2011 and \$4,814 at February 28, 2011	47,224	58,359
Prepaid expenses	6,004	5,335
Inventories	121,554	100,363
Deferred income taxes	6,036	6,036
Total current assets	197,579	182,398
Property, plant and equipment, at cost		
Plant, machinery and equipment	159,437	156,356
Land and buildings	72,403	73,482
Other	22,955	22,646
Total property, plant and equipment	254,795	252,484
Less accumulated depreciation	163,475	158,823
Net property, plant and equipment	91,320	93,661
Goodwill	117,341	117,341
Trademarks and tradenames, net	58,666	58,765
Customer lists, net	15,853	17,547
Deferred finance charges, net	324	648
Other assets	3,448	3,368
Total assets	\$ 484,531	\$ 473,728

*See accompanying notes to consolidated financial statements.*

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

	November 30, 2011 <i>(unaudited)</i>	February 28, 2011
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Accounts payable	\$ 21,845	\$ 18,868
Accrued expenses		
Employee compensation and benefits	15,876	16,503
Taxes other than income	359	585
Federal and state income taxes payable	1,003	2,935
Other	4,964	7,621
Current installments of long-term debt	50,000	586
Total current liabilities	94,047	47,098
Long-term debt		50,000
Liability for pension benefits	3,278	2,048
Deferred income taxes	24,122	25,379
Other liabilities	793	1,520
Total liabilities	122,240	126,045
Commitments and contingencies		
Shareholders' equity		
Preferred stock \$10 par value, authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at November 30 and February 28, 2011	75,134	75,134
Additional paid in capital	121,123	121,306
Retained earnings	250,571	234,636
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	(932)	1,727
Unrealized loss on derivative instruments, net of taxes		(372)
Minimum pension liability, net of taxes	(9,803)	(9,803)
Total accumulated other comprehensive income (loss)	(10,735)	(8,448)
Treasury stock		
Cost of 4,133,518 shares at November 30, 2011 and 4,197,567 shares at February 28, 2011	(73,802)	(74,945)
Total shareholders' equity	362,291	347,683
Total liabilities and shareholders' equity	\$ 484,531	\$ 473,728

*See accompanying notes to consolidated financial statements.*



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

	Three months ended November 30,		Nine months ended November 30,	
	2011	2010	2011	2010
Net sales	\$ 121,846	\$ 134,817	\$ 395,488	\$ 418,592
Cost of goods sold	91,663	98,298	291,510	300,185
Gross profit margin	30,183	36,519	103,978	118,407
Selling, general and administrative	19,094	20,971	58,398	62,494
Gain from disposal of assets	(8)		(133)	
Income from operations	11,097	15,548	45,713	55,913
Other income (expense)				
Interest expense	(405)	(214)	(1,887)	(972)
Other, net	318	(148)	313	(119)
	(87)	(362)	(1,574)	(1,091)
Earnings before income taxes	11,010	15,186	44,139	54,822
Provision for income taxes	4,118	5,543	16,111	20,010
Net earnings	\$ 6,892	\$ 9,643	\$ 28,028	\$ 34,812
Weighted average common shares outstanding				
Basic	25,934,972	25,857,544	25,930,484	25,839,289
Diluted	25,954,399	25,907,168	25,955,104	25,884,606
Per share amounts				
Net earnings basic	\$ 0.27	\$ 0.37	\$ 1.08	\$ 1.35
Net earnings diluted	\$ 0.27	\$ 0.37	\$ 1.08	\$ 1.34
Cash dividends per share	\$ 0.155	\$ 0.155	\$ 0.465	\$ 0.465

*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>Nine months ended November 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 28,028	\$ 34,812
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>		
Depreciation	7,174	6,175
Amortization of deferred finance charges	324	323
Amortization of tradenames and customer lists	1,797	1,800
Gain from disposal of assets	(133)	
Bad debt expense	69	1,367
Stock based compensation	762	794
Deferred income taxes	(11)	
<b>Changes in operating assets and liabilities, net of the effects of acquisitions:</b>		
Accounts receivable	12,798	2,895
Prepaid expenses	(1,121)	2,478
Inventories	(20,375)	(22,641)
Other current assets	21	
Other assets	(84)	107
Accounts payable and accrued expenses	(2,788)	1,807
Other liabilities	(727)	(752)
Prepaid pension asset	1,230	1,477
Net cash provided by operating activities	26,964	30,642
<b>Cash flows from investing activities:</b>		
Capital expenditures	(5,304)	(28,914)
Purchase of businesses, net of cash acquired	(5,986)	(2,237)
Proceeds from disposal of plant and property	229	4
Net cash used in investing activities	(11,061)	(31,147)
<b>Cash flows from financing activities:</b>		
Borrowings on debt		10,000
Dividends	(12,093)	(12,040)
Purchase of treasury stock	(2)	(2)
Proceeds from exercise of stock options	200	24
Net cash used in financing activities	(11,895)	(2,018)
Effect of exchange rate changes on cash	448	(232)

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Net change in cash	4,456	(2,755)
Cash at beginning of period	12,305	21,063
Cash at end of period	\$ 16,761	\$ 18,308

*See accompanying notes to consolidated financial statements.*

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**ENNIS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED NOVEMBER 30, 2011**

**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 November 30, 2011 have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2011, from which the accompanying consolidated balance sheet at February 28, 2011 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included and are of a normal recurring nature. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued further additional authoritative guidance related to fair value measurements and disclosures. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between accounting principles generally accepted in the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS). The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. The Company is currently assessing the impact of the guidance.

In June 2011, the FASB issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. The Company will be required to incorporate the provisions of this new standard effective with its first quarter filing for fiscal year 2013.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. The new guidance will be effective for annual goodwill impairment tests performed for fiscal years beginning after December 31, 2011 which will be the Company's fiscal year beginning March 1, 2012.

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

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

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

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

	<b>Three months ended November 30,</b>		<b>Nine months ended November 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Balance at beginning of period	\$ 4,833	\$ 4,900	\$ 4,814	\$ 4,446
Bad debt expense	(473)	63	69	1,367
Recoveries	12	11	184	46
Accounts written off	(36)	(380)	(731)	(1,265)
Foreign currency translation	(3)		(3)	
Balance at end of period	\$ 4,333	\$ 4,594	\$ 4,333	\$ 4,594

**3. Inventories**

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

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

	<b>November 30, 2011</b>	<b>February 28, 2011</b>
Raw material	\$ 11,985	\$ 11,237
Work-in-process	9,627	13,453
Finished goods	99,942	75,673
	\$ 121,554	\$ 100,363

**4. Goodwill and Other Intangible Assets**

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

the future.

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The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives and a net book value of \$58.5 million at November 30, 2011 are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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

	\$000,000 Gross Carrying Amount	\$000,000 Accumulated Amortization	\$000,000 Net
<b>As of November 30, 2011</b>			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 1,106	\$ 128
Customer lists	29,957	14,104	15,853
Noncompete	500	499	1
	\$ 31,691	\$ 15,709	\$ 15,982

<b>As of February 28, 2011</b>			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 1,007	\$ 227
Customer lists	29,957	12,410	17,547
Noncompete	500	495	5
	\$ 31,691	\$ 13,912	\$ 17,779

	\$000,000 November 30, 2011	\$000,000 February 28, 2011
Non-amortizing intangible assets (in thousands)		
Trademarks	\$ 58,538	\$ 58,538

Aggregate amortization expense for the nine months ended November 30, 2011 and 2010 was \$1.8 million.

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

2012	\$ 2,396
2013	2,352

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2014	2,259
2015	2,141
2016	2,083
2017	2,083

There have been no changes to the amount of the Company's goodwill during the reporting periods covered. The balance of goodwill was \$117,341 (\$42,792 Print Segment and \$74,549 Apparel Segment) as of November 30, 2011 and February 28, 2011.



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

	November 30, 2011	February 28, 2011
Accrued taxes	\$ 272	\$ 229
Accrued legal and professional fees	860	499
Accrued interest	95	158
Accrued utilities	45	1,038
Accrued repairs and maintenance	775	684
Accrued construction retainage	1,811	2,020
Accrued phantom stock obligation	437	452
Accrued acquisition related obligations	230	243
Other accrued expenses	439	2,298
	\$ 4,964	\$ 7,621

**6. Derivative Instruments and Hedging Activities**

The Company used derivative financial instruments to manage its exposure to interest rate fluctuations on its floating rate \$150.0 million revolving credit facility maturing August 18, 2012. On July 7, 2008, the Company entered into a three-year Interest Rate Swap Agreement ( Swap ) for a notional amount of \$40.0 million which expired on July 22, 2011. The Swap effectively fixed the LIBOR rate at 3.79%.

The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was \$(586,000), \$(372,000), net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet as of February 28, 2011 as current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During the three and nine months ended November 30, 2011, the Company incurred an additional \$0 and \$571,000, respectively, in interest expense related to the Swap.

**7. Fair Value of Financial Instruments**

The carrying amounts of cash, accounts receivable, accounts payable and long-term debt approximate fair value because of the short maturity and/or variable rates associated with these instruments. Derivative financial instruments are recorded at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves

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Level 3 Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes valuation models with observable market data inputs to estimate the fair value of its Swap.

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The following table summarizes financial liabilities measured at fair value on a recurring basis as of February 28, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands). There were no financial assets or liabilities measured at fair value at November 30, 2011.

Description	\$000,000	\$000,000	\$000,000	\$000,000
	February 28, 2011	(Level 1)	Fair Value Measurements (Level 2)	(Level 3)
Derivative liability ( Swap )	\$ (586)	\$	\$ (586)	\$
	\$ (586)	\$	\$ (586)	\$

**8. Long-Term Debt**

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

	November 30, 2011	February 28, 2011
Revolving credit facility	\$ 50,000	\$ 50,000
Interest rate swap		586
	50,000	50,586
Less current installments	50,000	
Long-term debt	\$	\$ 50,586

On August 18, 2009, the Company entered into a Second Amended and Restated Credit Agreement (the "Facility") with a group of lenders led by Bank of America, N.A. (the "Lenders"). The Facility provides the Company access to \$150.0 million in revolving credit, which the Company may increase to \$200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.0% to 3.5% (LIBOR + 2.25% or 2.52% at November 30, 2011 and 2.51% at November 30, 2010), depending on the Company's total funded debt to EBITDA ratio, as defined. As of November 30, 2011, the Company had \$50.0 million of borrowings under the revolving credit line and \$3.5 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately \$96.5 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as the total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of November 30, 2011. The Facility is secured by substantially all of the Company's domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

During the first quarter of this fiscal year, the Company reclassified its obligations due under the Facility from a long-term obligation to a short-term obligation as the maturity of the current Facility is within one year. The Company intends to renew this Facility and extend the maturity date before its expiration. The Company capitalized \$0.5 million and \$1.2 million of interest expense for the three and nine months ended November 30, 2010 relating to the construction of its apparel manufacturing facility in Agua Prieta, Mexico. There was no interest expense capitalized for the three and nine months ended November 30, 2011 as construction was substantially complete at the beginning of

fiscal year 2012.

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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):

	Three months ended November 30,		Nine months ended November 30,	
	2011	2010	2011	2010
Net earnings	\$ 6,892	\$ 9,643	\$ 28,028	\$ 34,812
Foreign currency translation adjustment, net of deferred taxes	(2,790)	774	(2,659)	260
Unrealized gain on derivative instruments, net of deferred taxes		232	372	578
Comprehensive income	\$ 4,102	\$ 10,649	\$ 25,741	\$ 35,650

Changes in shareholders' equity accounts for the nine months ended November 30, 2011 are as follows (in thousands):

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	
<b>Balance February 28, 2011</b>	30,053,443	\$ 75,134	\$ 121,306	\$ 234,636	\$ (8,448)	(4,197,567)	\$ (74,945)	\$ 347,683
Net earnings				28,028				28,028
Foreign currency translation, net of deferred tax of \$(1,528)					(2,659)			(2,659)
Unrealized gain on derivative instruments, net of deferred tax benefit of \$214					372			372
Comprehensive income								25,741
Dividends declared (\$ .465 per share)				(12,093)				(12,093)
Stock based compensation			762					762
Exercise of stock options and restricted stock grants			(945)			64,149	1,145	200
Stock repurchases						(100)	(2)	(2)
<b>Balance November 30, 2011</b>	30,053,443	\$ 75,134	\$ 121,123	\$ 250,571	\$ (10,735)	(4,133,518)	\$ (73,802)	\$ 362,291

On October 20, 2008, the Board of Directors authorized the repurchase of up to \$5.0 million of the common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been repurchased during the last fiscal year or during the current fiscal year under the program, there have been a total of 96,000 shares of common stock that have been purchased under the repurchase program since its inception at an average price per share of \$10.45. Unrelated to the stock repurchase program, the Company purchased 100

shares of common stock during the nine months ended November 30, 2011.

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

The Company grants stock options and restricted stock to key executives and managerial employees and non-employee directors. At November 30, 2011, the Company has one stock option plan: the 2004 Long-Term Incentive Plan of Ennis, Inc., as amended and restated as of June 30, 2011, formerly the 1998 Option and Restricted Stock Plan amended and restated as of May 14, 2008 ( Plan ). The Company has 1,097,854 shares of unissued common stock reserved under the plan for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each stock 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. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from grant date up to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED NOVEMBER 30, 2011**

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

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the three months ended November 30, 2011 and 2010, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$263,000 (\$166,000 net of tax), and \$187,000 (\$119,000 net of tax), respectively. For the nine months ended November 30, 2011 and 2010, the Company had compensation expenses related to share based compensation of \$762,000 (\$484,000 net of tax), and \$794,000 (\$504,000 net of tax), respectively.

Stock Options

The Company had the following stock option activity for the nine months ended November 30, 2011:

	Number of Shares <i>(exact quantity)</i>	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life <i>(in years)</i>	Aggregate Intrinsic Value(a) <i>(in thousands)</i>
Outstanding at February 28, 2011	261,900	\$ 14.31	6.5	\$ 757
Granted	82,743	17.57		
Terminated				
Exercised	(20,700)	9.66		
Outstanding at November 30, 2011	323,943	\$ 15.44	6.6	\$ 479
Exercisable at November 30, 2011	154,532	\$ 15.38	4.5	\$ 213

(a) Intrinsic value is measured as the excess fair market value of the Company's Common Stock as reported on the New York Stock Exchange over the applicable exercise price.

The following is a summary of the assumptions used and the weighted average grant-date fair value of the stock options granted during the nine months ended November 30, 2011 and 2010:

	November 30,	
	2011	2010
Expected volatility	43.76%	34.63%
Expected term (years)	3	3
Risk free interest rate	1.16%	1.58%
Dividend yield	3.66%	4.24%

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Weighted average grant-date fair value \$ 4.24 \$ 3.35

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

	\$0000000	\$0000000	\$0000000	\$0000000
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Total cash received	\$	\$ 24	\$ 200	\$ 24
Income tax benefits				
Total grant-date fair value		3	35	3
Intrinsic value		28	156	28



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

A summary of the status of the Company's unvested stock options at February 28, 2011, and changes during the nine months ended November 30, 2011 is presented below:

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at February 28, 2011	133,750	\$ 2.41
New grants	82,743	4.24
Vested	(47,082)	2.36
Forfeited		
Unvested at November 30, 2011	169,411	\$ 3.31

As of November 30, 2011, there was \$414,000 of unrecognized compensation cost related to unvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 1.9 years. The total fair value of shares underlying the options vested during the nine months ended November 30, 2011 was \$699,000.

**Restricted Stock**

The Company had the following restricted stock grant activity for the nine months ended November 30, 2011:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at February 28, 2011	80,823	\$ 15.59
Granted	93,959	17.57
Terminated		
Vested	(43,449)	15.34
Outstanding at November 30, 2011	131,333	\$ 17.09

As of November 30, 2011, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately \$1.7 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.1 years.

**11. Employee Benefit Plans**

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The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 11% 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 ).

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

	Three months ended November 30,		Nine months ended November 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost				
Service cost	\$ 304	\$ 304	\$ 911	\$ 911
Interest cost	631	654	1,892	1,963
Expected return on plan assets	(804)	(765)	(2,411)	(2,296)
Amortization of:				
Prior service cost	(36)	(37)	(108)	(109)
Unrecognized net loss	315	336	946	1,008
Net periodic benefit cost	\$ 410	\$ 492	\$ 1,230	\$ 1,477

The Company is required to make contributions to its defined benefit pension plan. These contributions are required under the minimum funding requirements of ERISA. For the current fiscal year ending February 29, 2012, the minimum required contribution to the plan is approximately \$1.4 million. The Company has satisfied the first three quarterly installments towards the minimum required contribution by electing to apply a portion of its available Funding Standard Carryover Balance; thus, no cash contributions have been made to the plan during the first three quarters of the fiscal year. However, the Company does expect to make a cash contribution to the plan of between \$2.0 million and \$3.0 million during the fourth quarter of fiscal year 2012, which will be more than sufficient to meet the minimum funding requirement for the year. The Company contributed \$3.0 million to its pension plan during fiscal year 2011.

**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.

For the three and nine months ended November 30, 2011, 232,443 and 196,443 shares, respectively, related to stock options were not included in the diluted earnings per share computation because their exercise price exceeded the average fair market value of the Company's stock. For the three and nine months ended November 30, 2010, 93,700 shares related to stock options were not included in the diluted earnings per share computation because their exercise price exceeded the average fair market value of the Company's stock for the period. The following table sets forth the computation for basic and diluted earnings per share for the periods indicated:

Three months ended November 30,		Nine months ended November 30,	
2011	2010	2011	2010

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Basic weighted average common shares outstanding	25,934,972	25,857,544	25,930,484	25,839,289
Effect of dilutive options	19,427	49,624	24,620	45,317
Diluted weighted average common shares outstanding	25,954,399	25,907,168	25,955,104	25,884,606
Per share amounts:				
Net earnings basic	\$ 0.27	\$ 0.37	\$ 1.08	\$ 1.35
Net earnings diluted	\$ 0.27	\$ 0.37	\$ 1.08	\$ 1.34
Cash dividends	\$ 0.155	\$ 0.155	\$ 0.465	\$ 0.465

**Table of Contents****ENNIS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED NOVEMBER 30, 2011****13. Segment Information and Geographic Information**

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

The Print Segment, which represented 57% and 52% of the Company's consolidated net sales for the three and nine months ended November 30, 2011, 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 17 strategically located domestic states. Approximately 97% 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<sup>SM</sup>, Enfusion®, Uncompromised Check Solutions®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphics<sup>SM</sup> 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<sup>SM</sup> (which provides tags and labels, promotional products and advertising concept products); Atlas Tag & Label® (which provides tags and labels); Trade Envelopes® and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

The Print Segment sells predominantly through private printers and independent distributors. Northstar and General Financial Supply 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 provided through advertising agencies.

The Apparel Segment, which accounted for 43% and 48% of the Company's consolidated net sales for the three and nine months ended November 30, 2011, consists of Alstyle Apparel. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

Corporate information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses related to the Company's corporate headquarters and other administrative costs.

Segment data for the three and nine months ended November 30, 2011 and 2010 were as follows (in thousands):

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended November 30, 2011:</b>				
Net sales	\$ 69,216	\$ 52,630	\$	\$ 121,846
Depreciation	1,286	944	98	2,328
Amortization of identifiable intangibles	232	367		599
Segment earnings (loss) before income tax	11,027	4,098	(4,115)	11,010
Segment assets	136,757	326,982	20,792	484,531
Capital expenditures	487	634	14	1,135



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	Print Segment	Apparel Segment	Corporate	Consolidated Totals
<b>Three months ended November 30, 2010:</b>				
Net sales	\$ 69,516	\$ 65,301	\$	\$ 134,817
Depreciation	1,356	480	187	2,023
Amortization of identifiable intangibles	232	367		599
Segment earnings (loss) before income tax	11,342	8,240	(4,396)	15,186
Segment assets	139,228	311,284	19,270	469,782
Capital expenditures	476	5,189	7	5,672
<b>Nine months ended November 30, 2011:</b>				
Net sales	\$ 205,542	\$ 189,946	\$	\$ 395,488
Depreciation	3,740	3,110	324	7,174
Amortization of identifiable intangibles	697	1,100		1,797
Segment earnings (loss) before income tax	33,970	21,728	(11,559)	44,139
Segment assets	136,757	326,982	20,792	484,531
Capital expenditures	1,958	3,319	27	5,304
<b>Nine months ended November 30, 2010:</b>				
Net sales	\$ 206,452	\$ 212,140	\$	\$ 418,592
Depreciation	4,144	1,467	564	6,175
Amortization of identifiable intangibles	700	1,100		1,800
Segment earnings (loss) before income tax	35,705	32,363	(13,246)	54,822
Segment assets	139,228	311,284	19,270	469,782
Capital expenditures	1,859	27,035	20	28,914

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 and nine months ended is as follows (in thousands):

	\$000000 United States	\$000000 Canada	\$000000 Mexico	\$000000 Total
<b>Three months ended November 30, 2011:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 69,216	\$	\$	\$ 69,216
Apparel Segment	47,876	4,474	280	52,630
	\$ 117,092	\$ 4,474	\$ 280	\$ 121,846
Identifiable long-lived assets				
Print Segment	\$ 37,631	\$	\$	\$ 37,631
Apparel Segment	522	29	49,544	50,095

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Corporate	3,594			3,594
	\$ 41,747	\$ 29	\$ 49,544	\$ 91,320



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

	United States	Canada	Mexico	Total
<b>Three months ended November 30, 2010:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 69,516	\$	\$	\$ 69,516
Apparel Segment	58,819	6,067	415	65,301
	\$ 128,335	\$ 6,067	\$ 415	\$ 134,817
Identifiable long-lived assets				
Print Segment	\$ 36,799	\$	\$	\$ 36,799
Apparel Segment	23,664	32	25,520	49,216
Corporate	4,050			4,050
	\$ 64,513	\$ 32	\$ 25,520	\$ 90,065
<b>Nine months ended November 30, 2011:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 205,542	\$	\$	\$ 205,542
Apparel Segment	173,989	15,235	722	189,946
	\$ 379,531	\$ 15,235	\$ 722	\$ 395,488
<b>Nine months ended November 30, 2010:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 206,452	\$	\$	\$ 206,452
Apparel Segment	192,141	18,282	1,717	212,140
	\$ 398,593	\$ 18,282	\$ 1,717	\$ 418,592

**14. Supplemental Cash Flow Information**

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

	Nine months ended November 30,	
	2011	2010
Interest paid	\$ 1,950	\$ 2,156
Income taxes paid	\$ 17,943	\$ 14,578

**15. Concentrations of Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and trade receivables. Cash is placed with high-credit quality financial institutions. The Company's credit risk with respect to trade receivables is limited in management's opinion due to industry and geographic diversification. As disclosed on the Consolidated Balance Sheets, the Company maintains an allowance for doubtful receivables to cover estimated credit losses associated with accounts receivable.

The Company, for quality and pricing reasons, purchases its paper, cotton and yarn products from a limited number of suppliers. To maintain its high standard of color control associated with its apparel products, the Company purchases its dyeing chemicals from limited sources. While other sources may be available to the Company to purchase these products, they may not be available at the cost or at the quality the Company has come to expect.

For the purposes of the consolidated statements of cash flows, the Company considers cash to include cash on hand and in bank accounts. All funds in a Non interest-bearing transaction account are insured in full by the Federal Deposit Insurance Corporation ( FDIC ) from December 31, 2010 through December 31, 2012. This temporary

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**15. Concentrations of Risk-continued**

unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. Currently all of the Company's domestic cash balances meet these criteria. At November 30, 2011, the Company had \$0.3 million in Canadian and \$1.6 million in Mexican bank accounts.

**16. Subsequent Events**

On December 16, 2011, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents a share quarterly dividend to be payable on January 30, 2012 to shareholders of record on January 9, 2012.

**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 (the Print Segment) and also manufacture a line of activewear (the Apparel Segment) for distribution throughout North America. Distribution of business products and forms throughout the United States is primarily through independent dealers. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, and advertising agencies, among others. The Apparel Segment produces and sells activewear, including t-shirts, fleece goods and other wearables. Distribution of our activewear throughout the United States, Canada and Mexico is primarily through sales representatives. The distributor channel encompasses activewear wholesalers and screen printers. We offer a great selection of high-quality activewear apparel and hats with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The apparel line features a wide variety of tees, fleece and shorts.

**Business Segment Overview**

We are one of the largest providers of business forms to independent distributors in the United States and are also one of the largest providers of blank t-shirts in North America to the activewear market. We operate in two reportable segments—Print and Apparel. For additional financial information concerning segment reporting, please see Note 13 of the Notes to the Consolidated Financial Statements beginning on page 16 included elsewhere herein, which information is incorporated herein by reference.

**Print Segment**

The Print Segment, which represented 57% and 52% of our consolidated net sales for the three and nine months ended November 30, 2011, 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 17 strategically located domestic states. Approximately 97% 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<sup>SM</sup>, Enfusion®, Uncompromised Check Solutions®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphics<sup>SM</sup> and Calibrated Forms®. The Print Segment also sells the Adams-McClure® brand (which provides Point of Purchase advertising

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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<sup>SM</sup> (which provides tags and labels, promotional products and advertising concept products); Atlas Tag & Label® (which provides tags and labels);

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Trade Envelopes<sup>®</sup>, and Block Graphics<sup>®</sup> (which provide custom and imprinted envelopes) and Northstar<sup>®</sup> and General Financial Supply<sup>®</sup> (which provide financial and security documents).

The Print Segment sells predominantly through private printers and independent distributors. Northstar and General Financial Supply 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. Donnelley), 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. 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.

***Our Print Business Challenges*** In our Print segment, we are engaged in an industry undergoing significant changes. Technology advances have made electronic distribution of documents, internet hosting, digital printing and print on demand valid, cost-effective alternatives to traditional custom printed documents and customer communications. In addition, the recent downturn in the economy and credit markets which created highly competitive conditions in an already over-supplied, price-competitive industry, continue to present challenges today. Thus, we believe we are facing the following challenges in the Print Segment of our business:

Transformation of our portfolio of products

Excess production capacity and price competition within our industry

Continued economic uncertainties

The following is a discussion of these business challenges and our strategy for managing their effect on our print business.

**Transformation of our portfolio of products** Traditional business documents are essential in order to conduct business. However, many are being replaced or devalued with advances in digital technologies, causing steady declines in demand for a large portion of our current product line. The same digital advances also introduce potential new opportunities for growth for us, such as print-on-demand services and product offerings that assist customers in their transition to digital business environments. We currently have many innovative products, such as our recently introduced healthcare wristbands, secure document solutions, and innovative in-mold label offerings, which address important business needs, and we feel are positioned for growth. In addition, we will continue to look for new market opportunities and niches, such as our addition of our envelope offerings and long run integrated

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products with high color web printing that provide us with an opportunity for growth and differentiate us from our competition. Transforming our product offerings to continue to provide innovative, valuable solutions to our customers on a proactive basis will require us to make investments in new and existing technology and to develop key strategic business relationships.

**Excess production capacity and price competition within our industry** Paper mills continue to adjust production capacity through downtime and closures to attempt to keep supply in line with demand. Due to the limited number of paper mills, paper prices have been and are expected to remain fairly volatile. In 2010, we saw our material prices stabilize due to the depressed economic conditions. However, during fiscal 2011 paper mills have returned to their past practices of increasing paper prices. This trend is expected to continue throughout fiscal year 2012.

Despite a continued competitive marketplace, we have generally been able to pass through increased paper costs, although it can often take several quarters to push these through due to the custom nature of our products and/or contractual relationships with some of our customers. We expect this trend to continue, however, any downturn in the economy or continued protraction of the current recovery may limit our ability to recover all these costs. As such, we will continue to focus our efforts on effectively managing and controlling our product costs to minimize the effects of the foregoing on our operational results, primarily through the use of forecasting models, and production and costing models. However, an inherent risk in this process is that our assumptions are inaccurate, which could have a negative impact on our reported profit margins.

**Continued economic uncertainties** As a result of the past recessionary conditions of 2009 and 2010, the economic climate has been volatile and challenging. Decreased demand and intense price competition resulted in a significant decline in our revenue during those fiscal years as well during most of fiscal year 2011. Although we have seen improvement in some economic indicators, a weak domestic job market, global economic instability and protracted anemic domestic economic recovery will continue to present a challenging environment for revenue growth. As we cannot predict the pace of the economic recovery or its continuance or the affects of global economic instability, we will continue to be focused on customer retention, expanding our growth targeted products and continuing to develop new market niches. In addition, we have a proven history of managing our costs and wouldn't expect this to change in the future.

**Apparel Segment**

The Apparel Segment represented 43% and 48% of our consolidated net sales for the three and nine months ended November 30, 2011, and operates under the name of Alstyle Apparel ( Alstyle ). Alstyle markets high quality knitted activewear (t-shirts, tank tops and fleece) across all market segments. The main products of Alstyle are standardized shirts manufactured in a variety of sizes and colors. Approximately 98% of Alstyle's revenues are derived from t-shirt sales, with 91% domestic sales. Alstyle's branded product lines are sold mainly under the AA<sup>®</sup> and Murina<sup>®</sup> brands.

Effective July 2011, the Apparel Segment operates in one manufacturing facility located in Agua Prieta, Mexico. Previously the Apparel Segment operated in two manufacturing facilities, one in California (leased), and one in Mexico (owned). In addition, the Apparel Segment currently has five cut/sew facilities in Mexico (1 in Agua Prieta, 2 in Ensenada, and 2 in Hermosillo). In addition to its own cut and sew facilities, Alstyle also uses outsourced manufacturers located in El Salvador from time to time to supplement a portion of the cut and sew needs. After sewing and packaging is completed, the product is shipped to one of Alstyle's nine distribution centers located across the United States, Canada, and Mexico.

Alstyle utilizes a customer-focused internal sales team comprised of 20 sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are allocated performance objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend approximately 60% of their time in the field.

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

A majority of Alstyle's sales are branded products, with the remainder customer private label products. Generally, sales to screen printers and mass marketers are driven by price and the availability of products, which directly impact inventory level requirements. Sales in the private label business are characterized by slightly higher customer loyalty.

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

The apparel industry is comprised of numerous companies who manufacture and sell a wide range of products. Alstyle is primarily involved in the activewear market and produces t-shirts and outsources 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. 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. 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.

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 purchased during the current quarter approximately 67% of our cotton and yarn from one supplier.

***Our Apparel Business Challenges*** In our Apparel segment, our market niche is highly competitive, commodity driven and is generally dominated by a limited number of players. The downturn in the economy and turmoil in the credit markets in 2009 and 2010 created an over-supply situation which further increased competitive pressures in this market. While the economic environment had improved some, which led to increased demand for our product during the later part of fiscal year 2011 and the start of fiscal year 2012, we have seen some recent softness in the market due to destocking strategies and current economic uncertainties both domestically and internationally. Whether the current softness in the market is just a temporary situation or one we will have to manage through for an extended period of time is unknown. However, such uncertainty and volatility in the marketplace could have unanticipated adverse effects on our business during the remainder of fiscal 2012 and beyond. In addition, the current spot price of cotton has contributed negatively to an already competitive marketplace and made it even more difficult for large manufacturers to maintain their margins given the high cost of cotton in their finished goods inventory. While current spot prices on various input costs are down somewhat from comparable periods, most larger manufacturers costs in their finished goods inventory are at pricing points considerable higher. These higher input costs will need to be worked through before the current lower costs can start having a positive impact on our operational results. Until then, we will continue to see an increase in these costs in our operational results until we are able to work through the existing inventories, which will continue to present a challenging environment for the remainder of fiscal year 2012 and into the first part of fiscal 2013. The duration of this time period will be impacted by any continued softness in the market. As such, our operational costs are subject to significant swings, which may or may not be passed on to the marketplace due to competitive or current economic conditions, competitors' pricing strategies, etc. Thus, we believe we are facing the following challenges in our Apparel Segment business in fiscal 2012 and 2013:



Cotton prices

New manufacturing facility

Continued economic uncertainties

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**Cotton prices** Cotton, which represents a significant portion of our cost, is a commodity product and subject to volatile fluctuations in price. During calendar year 2010, cotton prices hit their highest levels in 140 years. While there has been some abatement in prices of late, spot and future prices are still at levels significantly higher than historical averages. Whether or not prices will stay at current levels for a sustained period of time, or continue to recede, is unknown. For the current quarter, our effective cost of cotton flowing into our operational results was 100% higher than during the comparable period last year. Costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, commodities market speculation, currency fluctuations, international actions and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can be affected by dramatic movements in cotton prices. Due to the high price of cotton during calendar year 2010, Alstyle, like most large manufacturers, was relatively short with respect to their cotton purchases entering calendar year 2011. However, during the middle part of the calendar year 2011 most large manufacturers locked in cotton contracts in order to guarantee an uninterrupted supply of cotton and price stability. Unfortunately, these locked in prices are now significantly higher than the current spot price of cotton. While we believe we are competitive with other large apparel manufacturers in the United States, with the recent influx of cotton from India and other global markets, many of the smaller manufacturers who didn't have the financial capacity to enter into longer term contracts are now able to compete on a favorable basis due to their lower input cost. We view this as a short-term event, as the costs incurred for materials are capitalized into inventory and impacts a company's operating results as the inventory is sold. As such, Alstyle's and most large manufacturers' peak cotton costs should be flowing into their operational results currently and over the next few quarters depending on their inventory turns. We feel this is a temporary situation, and one that all large manufacturers like Alstyle will need to manage through. Over the past year, while never fully offsetting the input cost increases, the market had absorbed a certain level of price increase. However, recently competitive pressures have started to have a negative impact of selling prices in the market place. In order to protect market share and production levels, some large manufacturers have instituted stock-restock rebate programs and announced price decreases. At the same time, they will have to manage their highest cost of cotton in their finished goods inventory. These factors, along with domestic and international economic uncertainties will make the next several quarters extremely challenging to navigate through, and definite margin compression should be expected until the current spot cotton pricing starts to flow through larger manufacturers cost of sales.

**New manufacturing facility** The new manufacturing facility in Agua Prieta, Mexico ( AP ) is fully operational and all production has now been transitioned from our Anaheim, CA ( Anaheim ) facility to this facility. We began producing fabric from this facility during the first quarter of this fiscal year and current production levels are on target with our original estimates. We estimate the negative impact associated with the start-up/ramp-up of the new facility and the shut-down of the Anaheim facility was in line with our previous estimates of approximately \$7.5 to \$8.5 million (\$3.2 to \$3.9 million impacting the current year's operational results). We believe the negative operational impact of this facility during the current quarter was minimal. While the transition from Anaheim to AP has been completed, much still needs to be accomplished, such as the installation of transitioned equipment and improving the operational efficiency factors, which we believe will continue to occur over the coming quarters as experience and production levels increase.

**Continued economic uncertainties** As a result of the recessionary conditions of 2009 and 2010, the economic climate has been and continues to be volatile and challenging both domestically and internationally. Decreased demand and intense price competition resulted in significant declines in revenues during fiscal year 2009 and 2010. Although we saw an increase in our apparel revenues during fiscal year 2011 due to improving economic conditions, we have of late seen some softness in the market. Whether this is due to the protracted domestic economic recovery, recent international uncertainties or destocking of retailers/distributors and screen-printers in anticipation of lower

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pricing is unknown at this time. International instability and continued domestic economic issues (i.e., high unemployment, housing sector weakness, etc.) continue to take a toll on the already fragile domestic economic environment. In addition to the foregoing, the recent decline in spot pricing of cotton has also given some retailers/distributors and screen-printers reason to pause or be judicious with their replenishment orders. As such, we have seen some softness in the market during the current and previous quarter. Whether this is temporary or one we will have to manage through for sometime is unknown. A prolonged softness in the market could have a negative impact on our revenues, operational results and lengthen the time it takes us to manage through our current inventory position.

**Risk Factors**

In addition to the factors indicated above, 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.

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

Our results of operations are substantially affected not only by global economic conditions, but also by local market conditions, and competitors pricing strategies, which can vary substantially by market. Unfavorable conditions can depress sales in a given market and may prompt promotional or other actions that adversely affect our margins, constrain our operating flexibility or result in charges. Certain macroeconomic events, such as the recent crisis in the financial markets, could have a more wide-ranging and prolonged impact on the general business environment, which could also adversely affect us. Whether we can manage these risks effectively depends mainly on the following:

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

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

***Declining economic conditions could negatively impact our business.***

Our operations are affected by local, national and worldwide economic conditions. Markets in the United States and elsewhere have been experiencing extreme volatility and disruption due in part to the financial stresses affecting the liquidity of the banking system and the financial markets generally. The consequences of a potential or prolonged recession or protracted recovery from an economic recession may include a lower level of economic activity and uncertainty regarding energy prices and the capital and commodity markets, all of what we have seen of late. A lower level of economic activity might result in a decline in demand for our products, which may adversely affect our revenues and future growth. Instability in the financial markets, as a result of recession or otherwise, also may affect our cost of capital and our ability to raise capital.

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

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The terms and conditions of our credit facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions, asset dispositions, as well as other customary covenants, such as minimum equity level and total funded debt to EBITDA, as defined. Our ability to comply with the covenants may be affected

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by events beyond our control, such as distressed and volatile financial markets which could trigger an impairment charge to our recorded intangible assets. A breach of any of these covenants could result in a default under our credit facility. In the event of a default, the bank could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable. As of November 30, 2011, we were in compliance with all terms and conditions of our credit facility, which matures on August 18, 2012.

***Declining financial market conditions could adversely impact the funding status of our pension plan.***

We maintain a defined-benefit pension plan covering approximately 11% of our employees. Included in our financial results are pension costs that are measured using actuarial valuations. The actuarial assumptions used may differ from actual results. In addition, as our pension assets are invested in marketable securities, severe fluctuations in market values could potentially negatively impact our funding status, recorded pension liability, and future required minimum contribution levels.

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. The annual impairment test is based on several factors requiring judgment. A decline in market conditions caused by a recession, protracted recovery there from, or other factors may indicate a potential impairment of goodwill. An impairment test was completed for our fiscal year ended February 28, 2011, and we concluded that no impairment charge was necessary. At November 30, 2011, our goodwill and other intangible assets were approximately \$117.3 million and \$74.5 million, respectively.

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

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

Many of our custom-printed documents help companies control their internal business processes and facilitate the flow of information. These applications will increasingly be conducted over the internet or through other electronic payment systems. The predominant method of our clients' communication to their customers is by printed information. As their customers become more accepting of internet communications, our clients may increasingly opt for the less costly electronic option, which would reduce our revenue. The pace of these trends is difficult to predict. These factors will tend to reduce the industry-wide demand for printed documents and require us to gain market share to maintain or increase our current level of print-based revenue.

In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, and we aren't able to increase our market share, our sales and profits will be affected. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins. 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.

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

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

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

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

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

As of November 30, 2011, approximately 14% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Three unions represent all of our hourly employees in Mexico. While we feel we have a good working relationship with all the unions, there can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

Cotton yarn is the primary raw material used in Alstyle's manufacturing processes. Cotton accounts for approximately 68% of the manufactured product cost at current pricing levels. Alstyle acquires its yarn from three major sources that meet stringent quality and on-time delivery requirements. The largest supplier provided 67% of Alstyle's yarn requirements during the quarter and has an entire yarn mill dedicated to Alstyle's production. To maintain our high standard of color control associated with our apparel products, we purchase our dyeing chemicals from limited sources. 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.

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, unexpected price increases or other factors that relate to our paper products could have a material adverse effect on our operating results.

Both cotton and paper are commodities that are subject to periodic increases or decreases in price, sometimes quite significant. There is no effective market to cost-effectively insulate us against unexpected changes in price of paper, and corporate negotiated purchase contracts provide only limited protection against price increases. We generally acquire our cotton yarn under short-term purchase contracts with our suppliers. While we generally do not use derivative instruments, including cotton option contracts, to manage our exposure to movements in cotton market prices, we believe we are competitive with other companies in the United States apparel industry in negotiating the price of cotton. During fiscal year 2010, spot cotton prices increased significantly, however, manufacturers were able to insulate themselves from some of these increases with forward purchase contracts. However, because spot cotton prices have remained at these levels for a sustained period of time, most of these favorable forward contracts have expired and higher cotton costs are starting to impact all manufacturers' inventory costs. When cotton or paper prices are increased, we attempt to recover the higher costs by raising the prices of our



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products to our customers. In the price-competitive marketplaces in which we operate, we may not always be able to pass through any or all of the higher costs. As such, any significant increase in the price of paper or cotton or shortages in the availability could have a material adverse effect on our results of operations.

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

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 and quality products to its customers. Even if this strategy is successful, its results may be offset by reductions in demand or price declines due to competitors' pricing strategies. Our Print Segment also faces the risk of our competition following a strategy of selling their products at or below cost in order to cover some amount of fixed costs, especially in distressed economic times.

*The apparel industry is heavily influenced by general economic cycles.*

The apparel industry is cyclical and dependent upon the overall level of discretionary consumer spending, which changes as regional, domestic and international economic conditions change. These include, but are not limited to, employment levels, energy costs, interest rates, tax rates, personal debt levels, and uncertainty about the future. Any deterioration in general economic conditions that creates uncertainty or alters discretionary consumer spending habits could reduce our sales, increase our costs of goods sold or require us to significantly modify our current business practices, and consequently negatively impact our results of operations.

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

Alstyle operates manufacturing facilities in Mexico and sources certain product manufacturing and purchases from El Salvador, Thailand, India, Pakistan, China and other foreign sources. Alstyle's foreign operations could be subject to unexpected changes in regulatory requirements, tariffs, and other market barriers, political and economic instability, and social unrest 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.

In addition, all Alstyle's knit and dye operations are now located in one facility in Agua Prieta, Mexico. Any disruptions in operations through any of the above factors, as well as others, could have a material adverse effect on the Company's operational results.

*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 manufactures all of its products in the Agua Prieta manufacturing plant and performs substantially all of its cutting



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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.

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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 are 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 gives duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle did not outsource any of its production to outside contract manufacturers during the quarter, and we do not anticipate that alteration or subsequent repeal of CAFTA would 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 were 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.

***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.

***Our new manufacturing facility in Mexico is subject to certain risks regarding sales growth and cost savings, as well as transition risks associated with moving the current production.***

Our new manufacturing facility was built to capture anticipated future growth and savings in production costs over our cost structure in Anaheim, CA. Should such growth or production savings not materialize, such events may impact our ability to achieve our expected return and/or could negatively impact our operational results and financial condition.

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

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

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***Our business incurs significant freight and transportation costs.***

We incur significant freight costs to transport our goods, especially as it relates to our Apparel Segment where we transport our product from our domestic textile plant to foreign sewing facilities and then to bring our goods back into the United States. In addition, we incur transportation expenses to ship our products to our customers. Significant increases in the costs of freight and transportation could have a material adverse effect on our results of operations, as there can be no assurance that we could pass these increased costs to our customers.

***The price of energy is prone to significant fluctuations and volatility.***

Our apparel manufacturing operations require high inputs of energy, and therefore changes in energy prices directly impact our gross profit margins. We are focusing on manufacturing methods that will reduce the amount of energy used in the production of our apparel products to mitigate the rising costs of energy. Significant increases in energy prices could have a material adverse effect on our results of operations, as there can be no assurance that we could pass these increased costs to our customers given the competitive environment in which our Apparel segment operates.

***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, Vice President of Apparel 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.

***Increases in the cost of employee benefits could impact the Company's financial results and cash flow.***

The Company's expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could impact the Company's financial results and cash flow. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform could result in significant changes to the U.S. healthcare system. The Company is not able at this time to determine the impact that healthcare reform could have on the Company-sponsored medical plans.

**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.



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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.

**Critical Accounting Policies and Estimates**

In preparing our consolidated financial statements, we are required to make estimates and assumptions that affect the disclosures and reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis, including those related to allowance for doubtful receivables, inventory valuations, property, plant and equipment, intangible assets, pension plan obligations, accrued liabilities and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We believe the following accounting policies are the most critical due to their effect on our more significant estimates and judgments used in preparation of our consolidated financial statements.

We maintain 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. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status and associated liability recorded.

Amounts allocated to amortizable intangibles are determined based on valuation analysis for our acquisitions and are amortized over their expected useful lives. We evaluate these amounts periodically (at least once a year) to determine whether a triggering event has occurred during the year that would indicate potential impairment.

We exercise judgment in evaluating our long-lived assets for impairment. We assess the impairment of long-lived assets that include other intangible assets, goodwill, and property, plant, and equipment 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 long lived assets. If these estimates or the related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. At November 30, 2011, our goodwill and other intangible assets were approximately \$117.3 million and \$74.5 million, respectively. 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. However, we cannot predict the occurrence of future impairments or specific triggering events nor the impact such events might have on our reported asset values.

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, we print and store custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately \$2.8 million and \$7.7 million of revenue were recognized under these agreements during the three and nine months ended November 30, 2011 as compared to \$2.7 million and \$8.7 million during the three and nine months ended November 30, 2010.

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.



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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**

The discussion that follows provides information which we believe is relevant to an understanding of our results of operations and financial condition. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto. This analysis is presented in the following sections:

*Consolidated Summary* this section provides an overview of our consolidated results of operations for the three and nine months ended November 30, 2011 and 2010.

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

Consolidated Statements of Earnings Data	Three Months Ended November 30,				Nine Months Ended November 30,			
	2011		2010		2011		2010	
Net sales	\$ 121,846	100.0%	\$ 134,817	100.0%	\$ 395,488	100.0%	\$ 418,592	100.0%
Cost of goods sold	91,663	75.2	98,298	72.9	291,510	73.7	300,185	71.7
Gross profit margin	30,183	24.8	36,519	27.1	103,978	26.3	118,407	28.3
Selling, general and administrative	19,094	15.7	20,971	15.6	58,398	14.7	62,494	14.9
Gain from disposal of assets	(8)				(133)			

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Income from operations	11,097	9.1	15,548	11.5	45,713	11.6	55,913	13.4
Other expense, net	(87)	(0.1)	(362)	(0.2)	(1,574)	(0.4)	(1,091)	(0.3)
Earnings before income taxes	11,010	9.0	15,186	11.3	44,139	11.2	54,822	13.1
Provision for income taxes	4,118	3.3	5,543	4.1	16,111	4.1	20,010	4.8
Net earnings	\$ 6,892	5.7%	\$ 9,643	7.2%	\$ 28,028	7.1%	\$ 34,812	8.3%



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**Three Months ended November 30, 2011 compared to Three Months ended November 30, 2010**

*Net Sales.* Our sales decreased by \$13.0 million, or 9.6% from \$134.8 million for the three months ended November 30, 2010 to \$121.8 million for the current quarter. The drop in our sales during the quarter related to our apparel sales, which were off \$12.7 million. Our apparel sales during the quarter were impacted by economic uncertainties and negative consumer sentiment. This coupled with the current spot price of cotton caused the destocking of inventories at the retail/distributor and screen-printers levels, which had the effect of putting downward pressure on unit selling prices as manufacturers attempted to maintain capacity utilization.

*Cost of Goods Sold.* Our manufacturing costs decreased by \$6.6 million from \$98.3 million for the three months ended November 30, 2010 to \$91.7 million for the current quarter, or 6.7%. Our gross profit margin decreased from 27.1% for the three months ended November 30, 2010 to 24.8% for the three months ended November 30, 2011 due to the decline on our apparel margin during the quarter which decreased from 26.3% to 20.8%. The decline on our apparel margin during the quarter was caused by higher input costs (i.e., mainly cotton) and competitive pressures on selling prices.

*Selling, general and administrative expense.* For the three months ended November 30, 2011, our selling, general and administrative expenses were \$19.1 million, or 15.7% of sales, compared to \$21.0 million, or 15.6% of sales for the three months ended November 30, 2010, or a decrease of approximately \$1.9 million, or 9.0%. We were able to reduce our selling, general and administrative expenses on both a dollar and percent of sales basis during the current quarter through various cost reduction initiatives and a reduction in our bad debt expense, due to increased collection efforts and an overall improved aging of our accounts receivables.

*Gain from disposal of assets.* The gain from disposal of assets of \$8,000 during the quarter related to the sale of unused manufacturing equipment. There was no gain or loss from the disposal of assets for the three months ended November 30, 2010.

*Income from operations.* Our income from operations for the three months ended November 30, 2011 was \$11.1 million or 9.1% of sales, as compared to \$15.5 million, or 11.5% of sales for the three months ended November 30, 2010, a decrease of \$4.4 million, or 28.4%. The decrease in our operational earnings during the current period was primarily related to our decreased apparel revenues and apparel gross profit margin.

*Other income and expense.* Interest expense increased from \$0.2 million for the three months ended November 30, 2010 to \$0.4 million for the three months ended November 30, 2011. The increase in our interest expense on a comparable basis related to the portion of our interest capitalized in connection with the construction of our manufacturing facility. For the quarter ended November 30, 2010, we capitalized \$0.5 million in interest, whereas during the current quarter, as construction was complete, we did not capitalize any of our interest expense.

*Provision for income taxes.* Our effective tax rate was 37.4% for the three months ended November 30, 2011 compared to 36.5% for the three months ended November 30, 2010. The increase in our effective tax rate during the current period related to a reduction in the benefit associated with our Domestic Production Activities Deduction, which was caused by the moving of our apparel manufacturing from the United States to Mexico.

*Net earnings.* Due to the above factors, our net earnings for the three months ended November 30, 2011 was \$6.9 million, or 5.7% of sales, as compared to \$9.6 million, or 7.2% of sales for the three months ended November 30, 2010. Our basic earnings per share were \$0.27 per share for the three months ended November 30, 2011, as compared to \$0.37 per share for the three months ended November 30, 2010. Our diluted earnings per share were \$0.27 per share for the three months ended November 30, 2011, as compared to \$0.37 per share for the three months ended November 30, 2010.

**Nine Months ended November 30, 2011 compared to Nine Months ended November 30, 2010**

*Net Sales.* Net sales for the nine months ended November 30, 2011 were \$395.5 million compared to \$418.6 million for the nine months ended November 30, 2010, a decrease of \$23.1 million, or 5.5%. Our sales decline for the period related primarily to the decline in our apparel sales

which was off \$22.2 million, or 10.5% due to factors previously discussed.

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*Cost of Goods Sold.* Our manufacturing costs decreased by \$8.7 million from \$300.2 million, or 71.7% of sales for the nine months ended November 30, 2010 to \$291.5 million, or 73.7% of sales for the comparable period this year. Our gross margins, as a percentage of sales, decreased from 28.3% for the nine months ended November 30, 2010 to 26.3% for the nine months ended November 30, 2011 due to continued higher input costs and competitive pressures on selling prices associated with our Apparel Segment.

*Selling, general and administrative expense.* For the nine months ended November 30, 2011, our selling, general and administrative expenses were \$58.4 million compared to \$62.5 million for the nine months ended November 30, 2010, or a decrease of approximately \$4.1 million or 6.6% due to various cost control initiatives and lower bad debt expense, which is the result of increased collection efforts and improved accounts receivable aging. As such, as a percentage of sales, selling, general and administrative expenses decreased from 14.9% to 14.7% for the periods ended November 30, 2010 and 2011, respectively.

*Gain from disposal of assets.* The gain from disposal of assets of \$133,000 for the nine months ended November 30, 2011 resulted primarily from the sale of unused manufacturing equipment during the period. There was no gain or loss from the disposal of assets for the nine months ended November 30, 2010.

*Income from operations.* Our income from operations for the nine months ended November 30, 2011 was \$45.7 million, or 11.6% of sales compared to \$55.9 million, or 13.4% of sales for the same period last year, or a decrease of \$10.2 million, or 18.2%. The decrease in our operational earnings during the current period was primarily related to our decreased apparel sales and apparel gross profit margin.

*Other income and expense.* Our interest expense increased from \$1.0 million for the nine months ended November 30, 2010 to \$1.9 million for the nine months ended November 30, 2011. For the period ended November 30, 2010, we capitalized \$1.2 million in interest expense relating to our Agua Prieta, Mexico construction project, whereas during the current period, as construction was complete, we did not capitalize any of our interest expense.

*Provision for income taxes.* Our effective tax rate was 36.5% for the nine months ended November 30, 2010 and 2011.

*Net earnings.* Due to the above factors, our net earnings for the nine months ended November 30, 2011 was \$28.0 million, or 7.1% of sales, compared to \$34.8 million, or 8.3% of sales for the nine months ended November 30, 2010. Our basic earnings per share for the nine months ended November 30, 2011 was \$1.08 per share compared to \$1.35 per share for the nine months ended November 30, 2010. Our diluted earnings per share for the nine months ended November 30, 2011 was \$1.08 per share compared to \$1.34 for the nine months ended November 30, 2010.

**Segment Operating Results**

Net Sales by Segment (in thousands)	Three months ended		Nine months ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
Print	\$ 69,216	\$ 69,516	\$ 205,542	\$ 206,452
Apparel	52,630	65,301	189,946	212,140
Total	\$ 121,846	\$ 134,817	\$ 395,488	\$ 418,592

*Print Segment.* Our net print sales, which represented 57% and 52% of our consolidated sales during the three and nine months ended November 30, 2011, were approximately \$69.2 million and \$205.5 million, respectively, compared to \$69.5 million and \$206.5 million for the three and nine months ended November 30, 2010, a decrease of \$0.3 million for the quarter and a decrease of \$1.0 million for the period. While our print sales continue to be challenged by technological and economic factors, we did see revenue growth in this segment on a sequential

basis, which related principally to our acquisition and relative stability on a comparable quarter/period basis.

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**Apparel Segment.** Our net apparel sales, which represented 43% and 48% of our consolidated sales for the three and nine months ended November 30, 2011, were approximately \$52.6 million and \$189.9 million compared to approximately \$65.3 million and \$212.1 million for the three and nine months ended November 30, 2010, or a decrease of \$12.7 million and \$22.2 million, or 19.4% and 10.5%, respectively. Our apparel sales decreased during the current quarter due to decreased unit sales resulting from soft market conditions associated with reduced retail and consumer sentiment attributed to the protracted and volatile economic recovery. In addition, we feel short term sales are being impacted by unrealistic retail and consumer expectations regarding selling prices due to the recent drop in commodity prices, which has caused the destocking of inventories at the retail/distributor and screen-print levels and added to competitive pressures in the marketplace as manufacturers try to maintain capacity utilization.

Gross Profit by Segment (in thousands)	Three months ended		Nine months ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
Print	\$ 19,239	\$ 19,375	\$ 58,340	\$ 59,386
Apparel	10,944	17,144	45,638	59,021
Total	\$ 30,183	\$ 36,519	\$ 103,978	\$ 118,407

**Print Segment.** Our print gross profit margin ( margin ) as a percentage of sales decreased slightly from 27.9% to 27.8% for the three months ended November 30, 2010 and November 30, 2011, respectively. For the period our print margins declined from 28.8% to 28.4% for the nine months ended November 30, 2010 and November 30, 2011, respectively, due to product mix changes and higher raw material prices, which have not been fully passed along to our customers due to timing and market conditions, nor fully offset through continued operational improvements.

**Apparel Segment.** Our apparel gross profit margin ( margin ), as a percentage of sales, was 20.8% and 24.0% for the three and nine months ended November 30, 2011, respectively, as compared to 26.3% and 27.8% for the three and nine months ended November 30, 2010, respectively. Our apparel margin, as expected and as previously discussed, continues to be compressed through higher input costs and competitive pressures in the marketplace. While in previous quarters our apparel margins were also impacted by inefficiencies associated with the start-up of our new manufacturing facility in Agua Prieta, Mexico, we feel this had a minimal impact on our reported margins during the current quarter. Cotton, our largest input cost, during the quarter increased 100% over the comparable quarter in fiscal 2011. In addition, due to the current spot price of cotton the market saw inventory levels being adjusted down at the retail/distributor and screen-print levels which placed additional sell-side pressures on the marketplace as some manufacturers attempted to maintain their capacity utilization all of this at a time when the cost of cotton sitting in their finished goods inventory was at its highest level. As we have previously discussed, we anticipate margins will continue to be challenged in quarters to come as Alstyle and other large manufacturers manage their way through their current high cotton costs finished goods inventory level. The length of time it takes to manage through this higher cost position will be dependent upon how quickly these manufacturers can turn their finished goods inventory and start to recognize the current costing of cotton through their cost of sales.

Profit by Segment (in thousands)	Three months ended		Nine months ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
Print	\$ 11,027	\$ 11,342	\$ 33,970	\$ 35,705
Apparel	4,098	8,240	21,728	32,363
Total	15,125	19,582	55,698	68,068
Less corporate expenses	4,115	4,396	11,559	13,246

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<b>Earnings before income taxes</b>	\$ 11,010	\$ 15,186	\$ 44,139	\$ 54,822
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**Print Segment.** Our print profit for the three and nine months ended November 30, 2011 was \$11.0 million and \$34.0 million, respectively, compared to \$11.3 million and \$35.7 million for the three and nine months ended November 30, 2010, respectively. As a percent of sales, our print profits decreased from 16.3% to 15.9% for the three months ended November 30, 2010 and 2011, respectively. Our Print profit decreased approximately \$1.7

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million, or 4.8%, from \$35.7 million for the nine months ended November 30, 2010, to \$34.0 million for the nine months ended November 30, 2011. As a percentage of sales, our print profits were 16.5% for the nine months ended November 30, 2011, as compared to 17.3% for the nine months ended November 30, 2010 due to our slightly lower print margin during the period.

**Apparel Segment.** As a result of the decrease in our apparel sales and margin, our apparel profit decreased approximately \$4.1 million, from \$8.2 million for the three months ended November 30, 2010 to \$4.1 million for the three months ended November 30, 2011. As a percent of sales, our apparel profits were 7.8% for the three months ended November 30, 2011, compared to 12.6% for the comparable quarter last year. Our apparel profit decreased approximately \$10.7 million, from \$32.4 million for the nine months ended November 30, 2010 to \$21.7 million for the nine months ended November 30, 2011 due to the same factors impacting our quarter. As a percent of sales, our apparel profits were 11.4% for the nine months ended November 30, 2011, compared to 15.3% for the nine months ended November 30, 2010.

Liquidity and Capital Resources

<i>(Dollars in thousands)</i>	November 30, November 30, 2011	November 30, February 28, 2011	November 30, Change
Working Capital	\$ 103,532	\$ 135,300	-23.5%
Cash	\$ 16,761	\$ 12,305	36.2%

**Working Capital.** Our working capital decreased by approximately \$31.8 million, or 23.5% from \$135.3 million at February 28, 2011 to \$103.5 million at November 30, 2011. Our current ratio, calculated by dividing our current assets by our current liabilities, decreased from 3.9 to 1.0 at February 28, 2011 to 2.1 to 1.0 at November 30, 2011. Both of these are related to the reclassification of our outstanding borrowings under our line of credit facility from long-term to short-term. We consider this to be a temporary situation and one that will be cured once we either renew our borrowing arrangement with our current lender or obtain financing from a new lender.

<i>(Dollars in thousands)</i>	November 30, 2011	November 30, 2010	November 30, Change
Net Cash provided by operating activities	\$ 26,964	\$ 30,642	-12.0%
Net Cash used in investing activities	\$ (11,061)	\$ (31,147)	-64.5%
Net Cash used in financing activities	\$ (11,895)	\$ (2,018)	489.4%

**Cash flows from operating activities.** Cash provided by operating activities decreased by \$3.7 million from \$30.6 million for the nine months ended November 30, 2010 to \$27.0 million for the nine months ended November 30, 2011. Besides the negative impact of our lower earnings on our operational cash flow during the period, we used working capital during the period to increase our apparel inventory which was caused primarily by higher raw material costs. We were able to offset this use of cash through improved management of our receivables and payables. We expect these higher input costs are now behind us and our operational cash should improve as we sell through the higher priced cotton now residing in our apparel inventory and replace it with lower priced cotton.

**Cash flows from investing activities.** Cash used for investing activities, which related to capital expenditures and the purchase of a certain business operations for \$6.0 million, decreased by \$20.1 million, from \$31.1 million for the nine months ended November 30, 2010 to \$11.1 million for the nine months ended November 30, 2011. The decrease in our capital expenditures relates primarily to the fact that our new Apparel manufacturing facility located in Agua Prieta, Mexico was substantially complete at the beginning of this fiscal year.

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***Cash flows from financing activities.*** We used \$11.9 million in cash for financing activities this period, compared to \$2.0 million for the same period last year. This related primarily to the payment of dividends of \$12.1 million and \$12.0 million for the nine months ending November 30, 2011 and 2010, respectively. In addition, we borrowed (provided) \$10.0 million against our revolving credit line during the nine months ended November 30, 2010 which related to our inventory build of finished goods at our Apparel Segment.



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**Credit Facility.** On August 18, 2009, we entered into a Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides us access to \$150.0 million in revolving credit, which we may increase to \$200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.0% to 3.5% (LIBOR + 2.25% or 2.52% at November 30, 2011 and 2.51% at November 30, 2010), depending on our total funded debt to EBITDA ratio, as defined. As of November 30, 2011, we had \$50.0 million of borrowings under the revolving credit line and \$3.5 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$96.5 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 all these covenants as of November 30, 2011. The Facility is secured by substantially all of our domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

We did not pay any additional amounts on the revolver for the nine months ended November 30, 2011. It is anticipated that the available line of credit is sufficient to cover working capital requirements for the foreseeable future should it be required.

We used derivative financial instruments to manage our exposure to interest rate fluctuations on our floating rate \$150.0 million revolving credit maturing August 18, 2012. We account for our derivatives as cash flow hedges and record them as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures, at which time the changes in fair value would be recorded in Accumulated Other Comprehensive Income.

On July 7, 2008, we entered into a three-year Interest Rate Swap Agreement (Swap) for a notional amount of \$40.0 million which matured on July 22, 2011. The Swap effectively fixed the LIBOR rate at 3.79%. The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was \$(586,000), \$(372,000), net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet in current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income.

**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 of 1974 (ERISA). For the current fiscal year ending February 29, 2012, the minimum required contribution to the plan is approximately \$1.4 million. We have satisfied the first three quarterly installments towards the minimum required contribution by electing to apply a portion of our available Funding Standard Carryover Balance: thus, no cash contributions have been made to the plan during the first three quarters of the fiscal year. However, we do expect to make a cash contribution to the plan of between \$2.0 million and \$3.0 million during the fourth quarter of fiscal year 2012, which will be more than sufficient to meet the minimum funding requirement for the year. We made contributions of \$3.0 million to our pension plan during fiscal year 2011. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status, associated liabilities recorded and future required minimum contributions. At November 30, 2011, we had an unfunded pension liability recorded on our balance sheet of \$3.3 million.

**Inventories** We believe our current inventory levels are sufficient to satisfy our customer demands and we anticipate having adequate sources of raw materials to meet future business requirements. We have long-term contracts in effect (that govern prices, but do not require minimum volume) with paper and yarn suppliers. 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 the remainder of fiscal 2012, exclusive of capital required for possible acquisitions will be in-line with historical levels and will be funded through existing cash flows. We would expect our capital requirement for fiscal 2013, exclusive of capital required for possible acquisitions to also be in-line with our historical levels of between \$4.0 million and \$5.0 million, which we would also expect to fund through existing cash flows.



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We rely on our cash flows generated from operations and the borrowing capacity under our Facility to meet cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, debt repayments and related interest payments, contributions to our pension plan, and the payment of dividends to our shareholders. While we expected, the higher input costs associated with our apparel inventory to have a negative impact on our cash flows during the period, we expect to be able to continue to manage our working capital levels and capital expenditure amounts to maintain sufficient levels of liquidity and expect to generate sufficient cash flows from operations supplemented by our Facility as required to cover our operating and capital requirements for the foreseeable future.

***Contractual Obligations & Off-Balance Sheet Arrangements*** There have been no significant changes in our contractual obligations since February 28, 2011 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 November 30, 2011.

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

**Market Risk**

***Interest Rates***

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. Our variable rate financial instruments, including the outstanding credit facility, totaled \$50.0 million at November 30, 2011. We had entered into a \$40.0 million interest rate swap designated as a cash flow hedge related to this debt, but this arrangement expired July 22, 2011, as such the entire balance of our line of credit is subject to fluctuations in the LIBOR rate. The impact on our results of operations of a one-point interest rate change on the outstanding balance of the variable rate financial instruments as of November 30, 2011 would be approximately \$0.5 million.

***Foreign Exchange***

We have global operations and thus make investments and enter into transactions in various foreign currencies. The value of our consolidated assets and liabilities located outside the United States (translated at period end exchange rates) and income and expenses (translated using average rates prevailing during the period), generally denominated in Pesos and Canadian Dollars, are affected by the translation into our reporting currency (the U.S. Dollar). Such translation adjustments are reported as a separate component of shareholders' equity. In future periods, foreign exchange rate fluctuations could have an increased impact on our reported results of operations.

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 November 30, 2011 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

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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

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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**

There are no material pending proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

**Item 1A. Risk Factors**

Reference is made to page 24 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 28, 2011.

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

Under the stock repurchase plan which was approved by the Board in October 20, 2008, the Company was authorized to repurchase up to \$5.0 million of the common stock. As of December 29, 2011, the Company repurchased 96,000 shares for an aggregate consideration of approximately \$1.0 million. There is a maximum amount of approximately \$4.0 million that may yet be used to purchase shares under the program. Unrelated to the stock repurchase program, the Company purchased 100 shares of common stock during the nine months ended November 30, 2011.

**Items 3, 4 and 5 are not applicable and have been omitted**

**Item 6. Exhibits**

The following exhibits are filed as part of this report.

Exhibit Number	Description
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.

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- 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 10.1 Employee Agreement between Ennis, Inc. and Keith S. Walters dated December 19, 2008 incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.

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Exhibit Number	Description
Exhibit 10.2	Employee Agreement between Ennis, Inc. and Michael D. Magill dated December 19, 2008 incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.
Exhibit 10.3	Employee Agreement between Ennis, Inc. and Ronald M. Graham dated December 19, 2008 incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.
Exhibit 10.4	Employee Agreement between Ennis, Inc. and Richard L. Travis, Jr. dated December 19, 2008 incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.
Exhibit 10.5	Employee Agreement between Ennis, Inc. and Irshad Ahmad, Vice President-Apparel Group and CTO dated December 19, 2008 incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.
Exhibit 10.6	2004 Long-Term Incentive Plan as amended and restated effective June 30, 2011 incorporated herein by reference to Appendix A of the Registrant's Form DEF 14A filed on May 26, 2011.
Exhibit 10.7	Second Amended and Restated Credit Agreement between Ennis, Inc., each of the other co-borrowers who are parties, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Compass Bank, as Syndication Agent, Wells Fargo Bank, N.A., as Documentation Agent, the other lenders who are parties and Banc of America Securities, LLC, as Sole Lead Arranger and Sole Book Manager, dated as of August 18, 2009 herein incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 20, 2009.
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.**
Exhibit 101	The following information from Ennis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2011, filed on December 29, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.***

\* Filed herewith

\*\* Furnished herewith

\*\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED NOVEMBER 30, 2011**

**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: December 29, 2011

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

Date: December 29, 2011

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



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

Exhibit Number	Description
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 10.1	Employee Agreement between Ennis, Inc. and Keith S. Walters dated December 19, 2008 incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 20, 2009.
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