

ENNIS, INC.  
Form 10-Q  
September 28, 2007

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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 August 31, 2007**

**OR**

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

**Commission File Number 1-5807**

**ENNIS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Texas**

**75-0256410**

(State or Other Jurisdiction of Incorporation or  
Organization)

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

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

**76065**

(Address of Principal Executive Offices)

(Zip code)

**(972) 775-9801**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer  Accelerated filer  Non-accelerated filer

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 September 26, 2007, there were 25,653,030 shares of the Registrant's common stock outstanding.

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**  
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**ENNIS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*(Dollars in thousands)*

	<b>August 31, 2007</b>	<b>February 28, 2007</b>
	<i>(unaudited)</i>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,530	\$ 3,582
Accounts receivable, net of allowance for doubtful receivables of \$3,376 at August 31, 2007 and \$2,698 at February 28, 2007	54,723	47,285
Prepaid expenses	4,174	5,628
Inventories	95,096	85,696
Deferred income taxes	7,780	7,444
Assets held for sale	833	1,881
 Total current assets	 166,136	 151,516
Property, plant and equipment, at cost		
Plant, machinery and equipment	128,944	127,521
Land and buildings	40,873	40,680
Other	22,364	22,506
 Total property, plant and equipment	 192,181	 190,707
Less accumulated depreciation	132,758	127,650
 Net property, plant and equipment	 59,423	 63,057
 Goodwill	 178,388	 178,314
Trademarks and tradenames, net	62,977	63,052
Customer lists, net	19,450	20,287
Deferred finance charges, net	1,158	1,382
Other assets	637	620
 Total assets	 \$ 488,169	 \$ 478,228

*See accompanying notes to consolidated financial statements.*

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

	<b>August 31, 2007</b>	<b>February 28, 2007</b>
	<i>(unaudited)</i>	
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Accounts payable	\$ 30,135	\$ 25,597
Accrued expenses		
Employee compensation and benefits	13,092	15,799
Taxes other than income	821	611
Federal and state income taxes payable		973
Other	7,576	5,615
Current installments of long-term debt	425	652
 Total current liabilities	 52,049	 49,247
 Long-term debt, less current installments	 80,302	 88,971
Liability for pension benefits	3,510	2,702
Deferred income taxes	19,878	19,603
Other liabilities	483	1,302
 Total liabilities	 156,222	 161,825
 Commitments and contingencies		
 Shareholders equity		
Series A junior participating preferred stock of \$10 par value, Authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at August 31 and February 28, 2007	75,134	75,134
Additional paid in capital	122,257	122,305
Retained earnings	220,941	207,190
Accumulated other comprehensive income (loss):		
Foreign currency translation	502	25
Minimum pension liability	(7,396)	(7,396)
	(6,894)	(7,371)
	411,438	397,258
Treasury stock		
Cost of 4,400,413 shares at August 31, 2007 and 4,475,962 shares at February 28, 2007	(79,491)	(80,855)

Total shareholders' equity	331,947	316,403
Total liabilities and shareholders' equity	\$ 488,169	\$ 478,228

*See accompanying notes to consolidated financial statements.*

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$ 150,086	\$ 151,718	\$ 302,860	\$ 296,831
Cost of goods sold	111,466	113,477	225,673	220,775
Gross profit	38,620	38,241	77,187	76,056
Selling, general and administrative	18,744	18,322	37,731	36,400
Income from operations	19,876	19,919	39,456	39,656
Other income (expense)				
Interest expense	(1,393)	(1,718)	(2,885)	(3,510)
Other income (expense), net	(803)	281	(1,754)	319
	(2,196)	(1,437)	(4,639)	(3,191)
Earnings before income taxes	17,680	18,482	34,817	36,465
Provision for income taxes	6,542	6,839	12,883	13,492
Net earnings	\$ 11,138	\$ 11,643	\$ 21,934	\$ 22,973
Weighted average common shares outstanding				
Basic	25,601,683	25,519,344	25,593,522	25,499,426
Diluted	25,855,156	25,736,132	25,857,065	25,715,959
Per share amounts				
Net earnings basic	\$ 0.44	\$ 0.46	\$ 0.86	\$ 0.90
Net earnings diluted	\$ 0.43	\$ 0.45	\$ 0.85	\$ 0.89
Cash dividends per share	\$ 0.155	\$ 0.155	\$ 0.310	\$ 0.310

*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>Six months ended</b>	
	<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net earnings	\$ 21,934	\$ 22,973
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	6,430	7,560
Amortization of deferred finance charges	224	222
Amortization of trademarks and customer lists	929	1,000
Loss (Gain) on the sale of equipment	9	(251)
Bad debt expense	896	455
Stock based compensation	321	125
Excess tax benefit of stock option exercises	(337)	(54)
Deferred income taxes	(254)	
Changes in operating assets and liabilities, net of the effects of acquisition:		
Accounts receivable	(8,043)	(3,690)
Prepaid expenses	1,462	(1,710)
Inventories	(9,036)	2,414
Other current assets	1	(1)
Other assets	(34)	(640)
Accounts payable and accrued expenses	2,998	(3,809)
Other liabilities	(819)	(1,001)
Liability for pension benefits	808	920
Net cash provided by operating activities	17,489	24,513
Cash flows from investing activities:		
Capital expenditures	(1,777)	(1,811)
Purchase of business, net of cash acquired		(17,613)
Proceeds from disposal of plant and property	27	2,781
Net cash used in investing activities	(1,750)	(16,643)
Cash flows from financing activities:		
Borrowings on debt		15,000
Repayment of debt	(8,896)	(15,453)
Dividends	(7,943)	(7,908)
Proceeds from exercise of stock options	658	440
Excess tax benefit of stock option exercises	337	54
Net cash used in financing activities	(15,844)	(7,867)

Effect of exchange rate changes on cash	53	9
Net change in cash and cash equivalents	(52)	12
Cash and cash equivalents at beginning of period	3,582	13,860
Cash and cash equivalents at end of period	\$ 3,530	\$ 13,872

*See accompanying notes to consolidated financial statements.*

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**

**1. Basis of Presentation**

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis ), for the quarter and the six months ended August 31, 2007, 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, 2007, from which the accompanying consolidated balance sheet at February 28, 2007 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

**Recent Accounting Pronouncements**

**FIN 48.** The Company adopted the provisions of Financial Accounting Standards Board Interpretation 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, on March 1, 2007. As a part of the implementation of FIN 48, the Company made a comprehensive review of its uncertain tax positions and recorded \$240,000 of unrecognized tax benefits in connection with certain state tax positions, as non-current other liabilities on the consolidated balance sheet, with no net impact to the consolidated statement of earnings. This amount, was accounted for as a reduction to the March 1, 2007 balance of retained earnings, in accordance with the adoption of FIN 48. These unrecognized tax benefits related to uncertain tax positions would impact the effective tax rate if recognized. Approximately \$81,000 of unrecognized tax benefits relate to items that are affected by expiring statute of limitations within the next 12 months.

The unrecognized tax benefits mentioned above includes an aggregate \$38,000 of interest expense. Upon adoption of FIN 48, the Company has elected an accounting policy to classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, the Company's policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

The Company and its subsidiaries are subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The Company has concluded all U.S. federal income tax matters for years through 2005. All material state and local income tax matters have been concluded for years through 2002 and foreign tax jurisdictions through 2000.

**FAS 157.** In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of FAS 157 on its consolidated financial position, results of operations, and cash flows.

**FAS 159.** In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 , ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses

on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**

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

establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted. The Company is currently assessing the impact of FAS 159 on its consolidated financial statements.

**2. Due From Factors**

Pursuant to terms of an agreement between the Company and various factors, the Company sold approximately 42% of its trade accounts receivable of Alstyle Apparel ( Alstyle ) to the factors on a non-recourse basis during the six months ended August 31, 2007 (66% for the six months ended August 31, 2006). The price at which the accounts are sold is the invoice amount reduced by the factor commission of between 0.25% and 1.50%. Additionally, some trade accounts receivable are sold to the factors on a recourse basis.

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

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

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

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

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

	<b>August 31, 2007</b>	<b>February 28, 2007</b>
Outstanding factored receivables		
Without recourse	\$ 11,256	\$ 18,766
With recourse	581	405
Advances from factors	(9,313)	(16,088)
Due from factors	\$ 2,524	\$ 3,083

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

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 97% 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 reserve is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

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

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31</b>		<b>August 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 2,973	\$ 2,957	\$ 2,698	\$ 3,001
Bad debt expense	523	455	896	455
Recoveries	2	8	3	99
Accounts written off	(122)	(194)	(221)	(329)
Balance at end of period	\$ 3,376	\$ 3,226	\$ 3,376	\$ 3,226

**4. Inventories**

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

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

	<b>August 31,</b>	<b>February</b>
	<b>2007</b>	<b>28,</b>
		<b>2007</b>
Raw material	\$ 14,200	\$ 11,074
Work-in-process	18,506	16,694
Finished goods	62,390	57,928
	\$ 95,096	\$ 85,696

**5. Acquisitions**

The Company purchased all of the outstanding stock of Block Graphics, Inc. ( Block ), a privately held company headquartered in Portland, Oregon for \$14.8 million in cash on August 8, 2006. Block Graphics had sales of approximately \$38.6 million for the year ended December 31, 2005. The acquisition of Block continues the strategy of growth through related manufactured products to further service the Company's existing customer base. The acquisition added additional short-run print products (snaps, continuous forms, and cut-sheet forms) as well as the production of envelopes, a new product for the Company.

The following is a summary of the purchase price allocation for Block, net of cash acquired (in thousands):

Accounts receivable	\$ 2,492
Inventories	1,864
Property, plant & equipment	7,398

Other assets	152
Deferred income taxes	2,166
Trademarks	1,260
Accounts payable and accrued liabilities	(2,292)
	\$ 13,040



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**

**5. Acquisitions-continued**

The Company purchased all of the outstanding stock of Specialized Printed Forms, Inc. ( SPF ), a privately held company headquartered in Caledonia, New York and the associated land and buildings for \$4.6 million in cash on March 31, 2006. SPF had sales of \$9.2 million for the twelve month period ended July 31, 2005. The acquisition of SPF continues the strategy of growth through related manufactured products to further service the Company's existing customer base. The acquisition added additional short-run print products, long-run (jumbo rolls) products and solutions as well as integrated labels and form/label combinations sold through the indirect sales (distributorship) marketplace.

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

Accounts receivable	\$ 826
Inventories	579
Property, plant & equipment	3,689
Other assets	5
Deferred income taxes	1,780
Noncompete	25
Accounts payable and accrued liabilities	(2,316)
	<b>\$ 4,588</b>

The results of operations for Block and SPF are included in the Company's consolidated financial statements from the dates of acquisition. The following table represents certain operating information on a pro forma basis as though both companies had been acquired as of March 1, 2006, after the estimated impact of adjustments such as amortization of intangible assets, interest expense, interest income and related tax effects (in thousands except per share amounts):

	<b>Three months ended August 31, 2006</b>	<b>Six months ended August 31, 2006</b>
Pro forma net sales	\$ 158,468	\$ 314,503
Pro forma net earnings	11,539	22,786
Pro forma earnings per share - diluted	0.45	0.88

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

**6. Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. Based on this evaluation, no impairment was recorded. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future. The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives, with a net book value of \$62.3 million at August 31, 2007, are evaluated for impairment on an annual

basis. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**

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

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

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>As of August 31, 2007</b>			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 517	\$ 717
Purchased customer lists	24,057	4,607	19,450
Noncompete	467	434	33
	<b>\$ 25,758</b>	<b>\$ 5,558</b>	<b>\$ 20,200</b>
<b>As of February 28, 2007</b>			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 442	\$ 792
Purchased customer lists	24,057	3,770	20,287
Noncompete	467	417	50
	<b>\$ 25,758</b>	<b>\$ 4,629</b>	<b>\$ 21,129</b>
	<b>August 31, 2007</b>	<b>February 28, 2007</b>	
Unamortized intangible assets (in thousands)			
Trademarks	\$ 62,260	\$ 62,260	

Aggregate amortization expense for the six months ended August 31, 2007 and August 31, 2006 was \$929,000 and \$1,000,000, respectively.

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

2008	\$1,852,000
2009	1,827,000
2010	1,811,000
2011	1,810,000
2012	1,810,000
2013	1,766,000

During the six months ended August 31, 2007 and fiscal year ended February 28, 2007, adjustments of \$74,000 and \$34,000, respectively, were added to goodwill due to revised estimates in accrued expenses acquired. Changes in the net carrying amount of goodwill are as follows (in thousands):

<b>Print Segment</b>	<b>Apparel Segment</b>
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	<b>Total</b>	<b>Total</b>	<b>Total</b>
Balance as of March 1, 2006	\$ 40,580	\$ 137,700	\$ 178,280
Goodwill adjusted during year	34		34
Impairment losses			
Balance as of March 1, 2007	40,614	137,700	178,314
Goodwill adjusted during period	74		74
Impairment losses			
Balance as of August 31, 2007	\$ 40,688	\$ 137,700	\$ 178,388

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED AUGUST 31, 2007**

**7. Other Accrued Expenses**

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

	<b>August 31, 2007</b>	<b>February 28, 2007</b>
Accrued interest	\$ 874	\$ 975
Accrued taxes	363	424
Accrued legal and professional fees	278	267
Accrued utilities	825	786
Accrued imports	1,523	
Factored receivables with recourse	1,128	772
Other accrued expenses	2,585	2,391
	<b>\$ 7,576</b>	<b>\$ 5,615</b>

**8. Long-Term Debt**

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

	<b>August 31, 2007</b>	<b>February 28, 2007</b>
Revolving credit facility	\$ 80,000	\$ 88,500
Capital lease obligations	581	784
Note payable to finance company	133	314
Other	13	25
	<b>80,727</b>	<b>89,623</b>
Less current installments	425	652
Long-term debt	<b>\$ 80,302</b>	<b>\$ 88,971</b>

On March 31, 2006, the Company entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides the Company access to \$150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .50% = 5.86%), depending on the Company's total funded debt to EBITDA ratio, as defined. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Facility is secured by substantially all of the Company's assets.

Assets under capital leases have a total gross book value of \$1,154,000 and \$1,092,000 and related accumulated amortization of \$266,000 and \$240,000 as of August 31, 2007 and February 28, 2007, respectively, and are included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense. Capital lease obligations have interest due monthly at 4.82% to 4.96% and principal paid in equal monthly installments. The notes mature at dates ranging from July 2008 through January 2010.

Note payable to finance company has interest due monthly at 8.41% and principal paid in equal monthly installments. The note matures December 2007 and is collateralized by certain equipment.

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**9. Shareholders' Equity**

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

	Three months ended August		Six months ended August	
	31,		31,	
	2007	2006	2007	2006
Net earnings	\$ 11,138	\$ 11,643	\$ 21,934	\$ 22,973
Foreign currency translation adjustment, net of deferred taxes	43	(43)	477	(31)
Comprehensive income	\$ 11,181	\$ 11,600	\$ 22,411	\$ 22,942

Changes in our shareholders' equity accounts for the six months ended August 31, 2007 are as follows (in thousands):

	Common Stock		Additional	Accumulated		Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Shares	Amount	
<b>Balance February 28, 2007</b>	30,053,443	75,134	122,305	207,190	(7,371)	(4,475,962)	(80,855)	316,403
Net earnings				21,934				21,934
Foreign currency translation					477			477
Comprehensive income								22,411
Cumulative impact of a change in accounting for income tax uncertainties pursuant to FIN 48				(240)				(240)
Dividends declared (\$.31 per share)				(7,943)				(7,943)
Excess tax benefit of stock option exercises and restricted stock grants			337					337
			321					321

Stock based  
 compensation  
 Exercise of stock  
 options and  
 restricted stock  
 grants

(706)

75,549

1,364

658

**Balance**

**August 31, 2007** 30,053,443 \$ 75,134 \$ 122,257 \$ 220,941 \$ (6,894) (4,400,413) \$(79,491) \$ 331,947

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

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

The Company has stock options granted to key executives and managerial employees and non-employee directors. At August 31, 2007, the Company has two stock option plans: the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 and the 1991 Incentive Stock Option Plan. The Company has 802,955 shares of unissued common stock reserved under the stock option plans for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each option granted equals the quoted market price of the Company's common stock on the date of grant, and an option's maximum term is ten years. Options may be granted at different times during the year and vest ratably over various periods, from upon grant to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

For the six months ended August 31, 2007 and 2006, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$321,000 (\$202,000 net of tax), and \$125,000 (\$79,000 net of tax), respectively.

The Company had the following stock option activity for the six months ended August 31, 2007:

	<b>Number of Shares (exact quantity)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life(in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding at February 28, 2007	553,513	\$11.08		
Granted				
Terminated	(20,500)	15.15		
Exercised	(62,250)	10.58		
Outstanding at August 31, 2007	470,763	\$10.97	3.4	\$ 5,076
Exercisable at August 31, 2007	425,163	\$10.47	3.0	\$ 4,797

The Company did not grant any stock options during the six months ended August 31, 2007 and 2006. A summary of the stock options exercised is presented below (in thousands):

	<b>Three months ended August 31,</b>		<b>Six months ended August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Total cash received	\$655	\$ 425	\$658	\$ 440
Income tax benefits	337	51	337	54
Total grant-date fair value	81	76	81	78
Intrinsic value	601	1,013	605	1,027

A summary of the status of the Company's unvested stock options at February 28, 2007, and changes during the six months ended August 31, 2007 is presented below:



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

	<b>Number of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at February 28, 2007	99,025	\$ 2.52
New grants		
Vested	(33,425)	2.35
Forfeited	(20,000)	2.53
Unvested at August 31, 2007	45,600	2.64

As of August 31, 2007, there was \$108,000 of unrecognized compensation cost related to nonvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 1.9 years. The total fair value of shares underlying the options vested during the six months ended August 31, 2007 was \$727,000.

The Company had the following restricted stock awards activity for the six months ended August 31, 2007:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at February 28, 2007	39,919	\$19.67
Granted	56,600	26.79
Terminated	(1,334)	19.64
Exercised	(13,299)	19.67
Outstanding at August 31, 2007	81,886	\$24.59
Exercisable at August 31, 2007		\$

As of August 31, 2007, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately \$1.8 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.4 years.

**11. Employee Benefit Plans**

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 15% 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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**11. Employee Benefit Plans-continued**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Components of net periodic benefit cost				
Service cost	\$ 357	\$ 358	\$ 715	\$ 718
Interest cost	627	610	1,253	1,220
Expected return on plan assets	(770)	(712)	(1,540)	(1,424)
Amortization of:				
Prior service cost	(36)	(36)	(72)	(72)
Unrecognized net loss	226	239	452	478
Net periodic benefit cost	\$ 404	\$ 459	\$ 808	\$ 920

The Company is required to make contributions to its defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA). For the current fiscal year ending February 28, 2008, there is not a minimum contribution requirement and no pension payments have been made so far this fiscal year; however, the Company expects to contribute from \$2.0 million to \$3.0 million in the fourth quarter of fiscal year 2008. The Company contributed \$3 million to its pension plan during fiscal year 2007.

**12. Earnings per share**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Basic weighted average common shares outstanding	25,601,683	25,519,344	25,593,522	25,499,426
Effect of dilutive options	253,473	216,788	263,543	216,533
Diluted weighted average common shares outstanding	25,855,156	25,736,132	25,857,065	25,715,959
Per share amounts:				
Net earnings basic	\$ 0.44	\$ 0.46	\$ 0.86	\$ 0.90
Net earnings diluted	\$ 0.43	\$ 0.45	\$ 0.85	\$ 0.89
Cash dividends	\$ 0.155	\$ 0.155	\$ 0.310	\$ 0.310

**13. Segment Information and Geographic Information**

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

The Print Segment, which represented 56% of the Company's consolidated net sales for the three and six months ended August 31, 2007, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States.

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

The Print Segment operates 38 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom, constructed in a wide variety of sizes, colors, number of parts and quantities on an individual job basis depending upon the customers' specifications.

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

The Print Segment sells predominantly through private printers and independent distributors. Northstar and GFS also sell to a small number of direct customers. Northstar has continued its focus with large banking organizations on a direct basis (where a distributor is not acceptable or available to the end-user) and has acquired several of the top 100 banks in the United States as customers and is actively working on other large banks within the top 100 tier of banks in the United States. Adams-McClure sales are generally provided through advertising agencies.

The second segment, the Apparel Segment, which accounted for 44% of the Company's consolidated net sales for the three and six months ended August 31, 2007, consists of Alstyle Apparel, which was acquired in November 2004.

This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest.

Substantially all of the Apparel Segment sales are to customers in the United States.

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 six months ended August 31, 2007 and 2006 were as follows (in thousands):

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Three months ended August 31, 2007:</b>				
Net sales	\$ 83,563	\$ 66,523	\$	\$150,086
Depreciation	2,025	880	224	3,129
Amortization of identifiable intangibles	96	367		463
Segment earnings (loss) before income tax	13,959	7,589	(3,868)	17,680
Segment assets	147,170	330,161	10,838	488,169
Capital expenditures	321	417	21	759
<b>Three months ended August 31, 2006:</b>				
Net sales	\$ 82,255	\$ 69,463	\$	\$151,718
Depreciation	2,041	1,475	150	3,666
Amortization of identifiable intangibles	99	404		503
Segment earnings (loss) before income tax	11,384	10,288	(3,190)	18,482
Segment assets	169,573	323,260	16,771	509,604
Capital expenditures	640	465	70	1,175

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

	<b>Print Segment</b>	<b>Apparel Segment</b>	<b>Corporate</b>	<b>Consolidated Totals</b>
<b>Six months ended August 31, 2007:</b>				
Net sales	\$ 168,698	\$ 134,162	\$	\$ 302,860
Depreciation	4,094	1,888	448	6,430
Amortization of identifiable intangibles	195	734		929
Segment earnings (loss) before income tax	26,996	15,974	(8,153)	34,817
Segment assets	147,170	330,161	10,838	488,169
Capital expenditures	923	826	28	1,777

**Six months ended August 31, 2006:**

Net sales	\$ 159,351	\$ 137,480	\$	\$ 296,831
Depreciation	4,065	3,194	301	7,560
Amortization of identifiable intangibles	192	808		1,000
Segment earnings (loss) before income tax	22,655	20,330	(6,520)	36,465
Segment assets	169,573	323,260	16,771	509,604
Capital expenditures	1,011	652	148	1,811

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

	<b>United States</b>	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>Three months ended August 31, 2007:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 83,563	\$	\$	\$ 83,563
Apparel Segment	61,777	4,746		66,523
	\$ 145,340	\$ 4,746	\$	\$ 150,086
Identifiable long-lived assets				
Print Segment	\$ 42,131	\$	\$	\$ 42,131
Apparel Segment	8,341	91	2,338	10,770
Corporate	6,522			6,522
	\$ 56,994	\$ 91	\$ 2,338	\$ 59,423

**Three months ended August 31, 2006:**

Net sales to unaffiliated customers				
Print Segment	\$ 82,255	\$	\$	\$ 82,255
Apparel Segment	64,327	5,136		69,463

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	\$ 146,582	\$ 5,136	\$	\$ 151,718
Identifiable long-lived assets				
Print Segment	\$ 49,909	\$	\$	\$ 49,909
Apparel Segment	10,697	120	3,189	14,006
Corporate	6,116			6,116
	\$ 66,722	\$ 120	\$ 3,189	\$ 70,031

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

	<b>United States</b>	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>Six months ended August 31, 2007:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 168,698	\$	\$	\$ 168,698
Apparel Segment	124,794	9,368		134,162
	\$ 293,492	\$ 9,368	\$	\$ 302,860
Identifiable long-lived assets				
Print Segment	\$ 42,131	\$	\$	\$ 42,131
Apparel Segment	8,341	91	2,338	10,770
Corporate	6,522			6,522
	\$ 56,994	\$ 91	\$ 2,338	\$ 59,423
<b>Six months ended August 31, 2006:</b>				
Net sales to unaffiliated customers				
Print Segment	\$ 159,351	\$	\$	\$ 159,351
Apparel Segment	126,592	10,888		137,480
	\$ 285,943	\$ 10,888	\$	\$ 296,831
Identifiable long-lived assets				
Print Segment	\$ 49,909	\$	\$	\$ 49,909
Apparel Segment	10,697	120	3,189	14,006
Corporate	6,116			6,116
	\$ 66,722	\$ 120	\$ 3,189	\$ 70,031

**14. Supplemental Cash Flow Information**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31, 2007</b>	<b>August 31, 2006</b>	<b>August 31, 2007</b>	<b>August 31, 2006</b>
Interest paid	\$ 1,392	\$ 1,867	\$ 2,986	\$ 3,167
Income taxes paid	\$ 12,414	\$ 13,158	\$ 13,729	\$ 14,599

**15. Assets Held for Sale**

In September 2006, the Board of Directors authorized management of the Company to sell the Company's print manufacturing facilities located in Dallas, Texas. In conjunction therewith, land and building with a net book value of \$0.6 million and equipment with a net book value of \$1.3 million is classified as held for sale at February 28, 2007. In August 2007, management elected to reinstate the equipment into operations and initiated plans to ready the

equipment for use. The equipment was reclassified to plant, machinery and equipment at August 31, 2007.



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**16. Subsequent Events**

On September 17, 2007, the Company acquired certain assets of Trade Envelope, Inc. ( Trade ) for approximately \$1.7 million. In addition, under the terms of the purchase agreement, the Company has agreed to pay the former owners of Trade under a contingent earn-out arrangement over three years for intangibles, subject to certain set-offs. Trade is an envelope manufacturer (converter) and printer, offering high quality, 1-4 color process with lithograph and flexography capabilities with locations in Tullahoma, TN and Carol Stream, IL.

On September 21, 2007, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents a share quarterly dividend to be payable on November 1, 2007 to shareholders of record of October 15, 2007.

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

**Overview**

Ennis, Inc. (formerly Ennis Business Forms, Inc.) was organized under the laws of Texas in 1909. Ennis, Inc. and its subsidiaries (collectively known as the Company, Registrant, Ennis, or we, us, or our ) print and manufacture a broad line of business forms and other business products and also manufacture a line of activewear for distribution throughout North America. Distribution of business products and forms throughout the United States and Canada is primarily through independent dealers, and with respect to our activewear products, through sales representatives. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, activewear wholesalers, screen printers and advertising agencies, among others. The Company's apparel business was acquired on November 19, 2004.

On August 8, 2006, we purchased the outstanding stock of Block Graphics, Inc., ( Block ) a privately held company headquartered in Portland, Oregon for \$14.8 million in cash. Block had sales of approximately \$38.6 million for the year ended December 31, 2005. The acquisition of Block continues the strategy of growth in our print segment through related manufactured products to further service our existing customer base. The acquisition added additional short-run print products (snaps, continuous forms and cut-sheet forms) as well as the production of envelopes, a new product for the Company. During the fiscal year ended February 28, 2007, we had one other small acquisition with a total purchase price of \$4.6 million in cash.

**Business Segment Overview**

We operate in two business segments, the Print Segment and the Apparel Segment. For additional financial information concerning segment reporting, please see note 13 of the notes to our consolidated financial statements beginning on page 16 included elsewhere herein, which information is incorporated herein by reference.

**Print Segment**

The Print Segment, which represented 56% of our consolidated net sales for the three and six months ended August 31, 2007, is in the business of manufacturing, designing and selling of business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 38 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, and quantities on an individual job basis depending upon the customers' specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal , Block , Specialized Printed Forms , TBF/Avant-Garde , 360° Custom Labels , Enfusion , Witt Printing and Calibrated Forms . The Print Segment also sells the Adams-McClure brand (which provides

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Point of Purchase advertising for large franchise and fast food chains as well as kitting and fulfillment); the Admore® brand (which provides presentation folders and document folders); Ennis Tag & Label (which provides tags and labels, promotional products and advertising concept products); GenForms (which provides short-run and long-run label production) and Northstar® and GFS (which provide financial and security documents).

The Print Segment sells predominantly through private printers and independent distributors. Northstar and GFS also sell to a small number of direct customers. Northstar has continued its focus with large banking organizations on a direct basis (where a distributor is not acceptable or available to the end-user) and has acquired several of the top 100 banks in the United States as customers and is actively working on other large banks within the top 100 tier of banks in the United States. Adams-McClure sales are generally provided through advertising agencies.

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

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

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

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

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

**Apparel Segment**

The Apparel Segment represented 44% of our consolidated net sales for the three and six months ended August 31, 2007. This segment operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knit basic activewear (t-shirts, tank tops and fleece) across all market segments. Approximately 95% of Alstyle's revenues are derived from t-shirt sales, and 93% of those are domestic sales. Alstyle's branded product lines are AAA Alstyle Apparel & Activewear®, Gaziani®, Diamond Star®, Murina®, A Classic, Tennessee River®, D Drive, and Hyland® Headware.

Alstyle is headquartered in Anaheim, California, where it knits domestic cotton yarn and some polyester fibers into tubular material. The material is dyed at that facility and then shipped to its plants in Ensenada or Hermosillo, Mexico, where it is cut and sewn into finished goods. Alstyle also ships a small amount of their dyed and cut product to El Salvador for sewing. After sewing and packaging is completed, product is shipped to one of Alstyle's seven distribution centers located across the United States and in Canada.

Alstyle utilizes a customer-focused internal sales team comprised of 20 sales representatives assigned to specific geographic territories in the United States and Canada. 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 half 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 to direct customer branded products, and the remainder relates to private label and re-label programs. Generally, sales to screen printers and mass marketers are driven by the availability of competitive products and price considerations, which drive our requirements for inventory levels of our various products, while sales in the private label business are characterized by slightly higher customer loyalty.

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

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

The products of the Apparel Segment are standardized shirts manufactured in a variety of sizes and colors. The Apparel Segment operates six manufacturing facilities, one in California and five in Mexico.

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

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

Raw materials of the Apparel Segment principally consist of cotton and polyester yarn purchased from a number of major suppliers at prevailing market prices, although we purchase approximately 67% of our cotton and yarn from one supplier. Reference is made to Risk Factors of this Report.

**Risk Factors**

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

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. At August 31, 2007, our goodwill and other intangible assets were approximately \$178.4 million and \$82.4 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets. Annually, we have conducted a review of our goodwill and other identifiable intangible assets to determine whether there has been impairment. Such a review was completed for our fiscal year ended February 28, 2007, and we concluded that no impairment charge was necessary. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results and may cause a decline in our stock price.

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

Printed business forms and checks may eventually be superseded by paperless business forms, which could have a material adverse effect on our business over time. The price and performance capabilities of personal computers and related printers now provide a cost-competitive means to print low-quality versions of many of our business forms on plain paper. In addition, electronic transaction systems and off-the-shelf business software applications have been designed to automate several of the functions performed by our business form and check products. In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, there is a risk that the number of new customers we attract and existing customers we retain may diminish, which could reduce our sales and profits. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins. This reduction could in turn adversely impact our profits, unless we are able to offset the reduction through the introduction of new high margin products and services or realize cost savings in other areas.

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

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

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

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

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

As of August 31, 2007, approximately 14% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Two unions represent all of our hourly employees in Mexico. There can be no assurance that any future labor negotiations will prove successful,

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which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

Cotton yarn is the primary raw material used in Alstyle's manufacturing processes. Cotton accounts for approximately 40% of the manufactured product cost. Alstyle acquires its yarn from five major sources that meet stringent quality and on-time delivery requirements. The largest supplier provides approximately 67% of Alstyle's yarn requirements and has an entire yarn mill dedicated to Alstyle's production. If Alstyle's relations with its suppliers are disrupted, Alstyle may not be able to enter into arrangements with substitute suppliers on terms as favorable as its current terms and our results of operations could be materially adversely affected.

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

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

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

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

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

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

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

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

Alstyle operates cutting and sewing facilities in Mexico, and sources certain product manufacturing and purchases in El Salvador, Pakistan, China and Southeast Asia. Alstyle's foreign operations could be subject to unexpected changes in regulatory requirements, tariffs and other market barriers and political and economic

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instability in the countries where it operates. The impact of any such events that may occur in the future could subject Alstyle to additional costs or loss of sales, which could adversely affect our operating results. In particular, Alstyle operates its facilities in Mexico pursuant to the maquiladora duty-free program established by the Mexican and United States governments. This program enables Alstyle to take advantage of generally lower costs in Mexico, without paying duty on inventory shipped into or out of Mexico. There can be no assurance that the governments of Mexico and the United States will continue the program currently in place or that Alstyle will continue to be able to benefit from this program. The loss of these benefits could have an adverse effect on our business.

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

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

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

The Central American Free Trade Agreement (CAFTA) became effective May 28, 2004 and retroactive to January 1, 2004 for textiles and apparel. It creates a free trade zone similar to NAFTA by and between the United States and Central American countries (El Salvador, Honduras, Costa Rica, Nicaragua and Dominican Republic). Textiles and apparel will be duty-free and quota-free immediately if they meet the agreement's rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement will also give duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle sources approximately 20% of its sewing to a contract manufacturer in El Salvador, Nicaragua, and Honduras and we do not anticipate that challenges to 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 have been removed on knitted shirts from China. The elimination of quotas and the reduction of tariffs under the WTO may result in increased imports of certain apparel products into North America. In May 2005, quotas on three categories of clothing imports, including knitted shirts, from China were re-imposed. A reduction of import quotas and tariffs could make Alstyle's products less competitive against low cost imports from developing countries.

***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





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existing laws and regulations. In addition, we may have liabilities or obligations in the future if we discover any environmental contamination or liability at any of our facilities, or at facilities we may acquire.

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

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

**Cautionary Statements**

You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. In addition, certain statements in this report, and in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We believe these forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of Ennis. All such statements involve risks and uncertainties, and as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including but not limited to, general economic, business and labor conditions; the ability to implement our strategic initiatives; the ability to be profitable on a consistent basis; dependence on sales that are not subject to long-term contracts; dependence on suppliers; the ability to recover the rising cost of key raw materials in markets that are highly price competitive; the ability to meet customer demand for additional value-added products and services; the ability to timely or adequately respond to technological changes in the industry; the impact of the Internet and other electronic media on the demand for forms and printed materials; postage rates; the ability to manage operating expenses; the ability to manage financing costs and interest rate risk; a decline in business volume and profitability could result in an impairment of goodwill; the ability to retain key management personnel; the ability to identify, manage or integrate future acquisitions; the costs associated with and the outcome of outstanding and future litigation; and changes in government regulations.

In view of such uncertainties, investors should not place undue reliance on our forward-looking statements since such statements may prove to be inaccurate and speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Result of Operations**

	<b>Three Months Ended August 31,</b>				<b>Six Months Ended August 31,</b>			
	<b>2007</b>		<b>2006</b>		<b>2007</b>		<b>2006</b>	
Net sales	\$ 150,086	100.0%	\$ 151,718	100.0%	\$ 302,860	100.0%	\$ 296,831	100.0%
Cost of goods sold	111,466	74.3	113,477	74.8	225,673	74.5	220,775	74.4
Gross profit	38,620	25.7	38,241	25.2	77,187	25.5	76,056	25.6
Selling, general and administrative	18,744	12.5	18,322	12.1	37,731	12.5	36,400	12.3
Income from operations	19,876	13.2	19,919	13.1	39,456	13.0	39,656	13.3
Other income (expense)	(2,196)	(1.4)	(1,437)	(0.9)	(4,639)	(1.5)	(3,191)	(1.1)

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Earnings before income taxes	17,680	11.8	18,482	12.2	34,817	11.5	36,465	12.2
Provision for income taxes	6,542	4.4	6,839	4.5	12,883	4.3	13,492	4.5
Net earnings	\$ 11,138	7.4%	\$ 11,643	7.7%	\$ 21,934	7.2%	\$ 22,973	7.7%

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**Critical Accounting Policies and Judgments**

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

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

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

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

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, Ennis prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately \$4.6 million and \$9.7 million of revenue were recognized under these agreements during the three and six months ended August 31, 2007 as compared to \$4.5 million and \$10.2 million during the three and six months ended August 31, 2006. Sales in foreign countries were not significant for either the three and six months ended August 31, 2007 or August 31, 2006.

Derivative instruments are recognized on the balance sheet at fair value. Changes in fair values of derivatives are accounted for based upon their intended use and designation. When utilized, interest rate swaps are held for purposes other than trading. In the past, the Company utilized swap agreements related to its term and revolving loans to effectively fix the interest rate for a specified principal amount. The swaps were designated as cash flow hedges, and the after-tax effect of the mark-to-market valuation that relates to the effective amount of derivative financial instrument was recorded as an adjustment to accumulated other comprehensive income with the offset included in accrued expenses. There were no derivatives, swaps or deferred gains or losses at the end of or for the period ended August 31, 2007 or February 28, 2007.

We maintain an allowance for doubtful receivables to reflect estimated losses resulting from the inability of customers to make required payments. On an on-going basis, we evaluate the collectability of accounts receivable based upon historical collection trends, current economic factors, and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts using a combination of factors, including the age of the



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outstanding balances, evaluation of customers' current and past financial condition and credit scores, recent payment history, current economic environment, discussions with our project managers, and discussions with the customers directly.

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

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

In addition to the above, we also have to make assessments as to the adequacy of our accrued liabilities, more specifically our liabilities recorded in connection with our workers compensation and health insurance, as these plans are self funded. To help us in this evaluation process, we routinely get outside third party assessments of our potential liabilities under each plan.

In view of such uncertainties, investors should not place undue reliance on our forward-looking statements since such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Results of Operations - Consolidated****Three Months ended August 31, 2007 compared to Three Months ended August 31, 2006**

*Net Sales.* Net sales for the three months ended August 31, 2007 were \$150.1 million compared to \$151.7 million for the three months ended August 31, 2006, a decrease of \$1.6 million, or 1.1%. The decrease in our sales for the quarter related primarily to a decrease in our Apparel Segment sales which decreased \$2.9 million during the quarter, or 4.2%. Our Print Segment sales for the quarter increased \$1.3 million or 1.6%. See Results of Operation - Segments of this Report for further discussion on our Segment sales.

*Gross profit.* Our gross profit for the three months ended August 31, 2007 was \$38.6 million, or 25.7% of sales, compared to \$38.2 million, or 25.2% of sales for the three months ended August 31, 2006. Our gross margins increased in our Print Segment from 24.9% to 27.8% for the three months ended August 31, 2006 and 2007, respectively. Our Apparel Segment margin decreased from 25.6% to 23.1% for the three months ended August 31, 2006 and 2007, respectively. See Results of Operations - Segments of this Report for further discussion on the fluctuations in our Segment margins.

*Selling, general and administrative expenses.* For the three months ended August 31, 2007, our selling, general and administrative expenses were \$18.7 million, or 12.5% of sales, compared to \$18.3 million, or 12.1% of sales, for the three months ended August 31, 2006. The dollar increase in our selling, general and administrative expenses during the period related primarily to our acquisition of Block which was acquired on August 8, 2006 and accounted for \$.5 million of the increase.

*Income from operations.* Our income from operations remained relatively flat at \$19.9 million, or 13.2% of sales for the three months ended August 31, 2007 and \$19.9 million, or 13.1% of sales for the three months ended August 31, 2006.

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*Other income and expense.* For the three months ended August 31, 2007, our interest expense decreased from \$1.7 million for the three months ended August 31, 2006 to \$1.4 million, due to less debt on average being outstanding. Our other income (expense) items increased from income of \$281,000 to expense of \$803,000 for the three months ended August 31, 2006 and 2007, respectively. During the current period we had less interest income and incurred more foreign currency exchange losses and more miscellaneous other expenses when compared to the same quarter last year. In addition, during the same quarter last year there was a gain of \$272,000 from the sale of certain assets.

*Earnings before income taxes.* As a result of the above, our earnings before incomes taxes for the three months ended August 31, 2007 was \$17.7 million, or 11.8% of sales, compared to \$18.5 million, or 12.2% of sales for the three months ended August 31, 2006. See Results of Operation Segments of this Report for further discussion.

*Provision for income taxes.* Our effective tax rate was 37.0% for both the three months ended August 31, 2007 and 2006.

*Net earnings.* Our net earnings for the three months ended August 31, 2007 was \$11.1 million, or 7.4% of sales, compared to \$11.6 million, or 7.7% of sales for the three months ended August 31, 2006. Our basic earnings per share for the three months ended August 31, 2007 was \$0.44 per share compared to \$0.46 per share for the three months ended August 31, 2006. Our diluted earnings per share was \$0.43 per share for the three months ended August 31, 2007 compared to \$0.45 per share for the three months ended August 31, 2006.

**Six Months ended August 31, 2007 compared to Six Months ended August 31, 2006.**

*Net Sales.* Net sales for the six months ended August 31, 2007 were \$302.9 million compared to \$296.8 million for the six months ended August 31, 2006, an increase of \$6.1 million, or 2.0%. The increase in our sales for the period related to an increase in our Print Segment sales of \$9.3 million, or 5.9% which was offset by a decrease in our Apparel Segment sales of \$3.3 million, or 2.4%. See Results of Operations Segments of this Report for further discussion.

*Gross profit.* Our gross profit margin for the six months ended August 31, 2007 was \$77.2 million, or 25.5% of sales, compared to \$76.1 million, or 25.6% of sales for the six months ended August 31, 2006. Our gross margins increased in our Print Segment from 25.0% to 27.1% for the six months ended August 31, 2006 and 2007, respectively. Our Apparel Segment margins decreased from 26.4% to 23.4% for the six months ended August 31, 2006 and 2007, respectively. See Results of Operations Segments of this Report for further discussion.

*Selling, general and administrative expenses.* For the six months ended August 31, 2007, our selling, general and administrative expenses were \$37.7 million, or 12.5% of sales, compared to \$36.4 million, or 12.3% of sales, for the six months ended August 31, 2006. The dollar increase in our selling, general and expenses during the period related primarily to our acquisition of Block which was acquired on August 8, 2006 and accounted for \$1.3 million of the increase.

*Income from operations.* Our income from operations remained relatively flat at \$39.5 million, or 13.0% for the six months ended August 31, 2007 and \$39.7 million, or 13.3% of sales for the six months ended August 31, 2006.

*Other income and expense.* For the six months ended August 31, 2007, our interest expense decreased from \$3.5 million for the six months ended August 31, 2006 to \$2.9 million for the six months ended August 31, 2007 due to less debt on average being outstanding. Our other income (expense) items increased from income of \$319,000 to expense of \$1.7 million for the six months ended August 31, 2006 and 2007, respectively. During the current period we had less interest income and incurred more foreign currency exchange losses and more miscellaneous other expenses when compared to the same period last year. In addition, during the same quarter last year there was a gain of \$272,000 from the sale of certain assets.

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*Earnings before income taxes.* As a result of the above, our earnings before incomes taxes for the six months ended August 31, 2007 was \$34.8 million, or 11.5% of sales, compared to \$36.5 million, or 12.2% of sales for the six months ended August 31, 2006. See Results of Operation Segments of this Report for further discussion.

*Provision for income taxes.* Our effective tax rate was 37.0% for both the six months ended August 31, 2007 and 2006.

*Net earnings.* Our net earnings for the six months ended August 31, 2007 was \$21.9 million, or 7.2% of sales compared to \$23.0 million, or 7.7% of sales for the six months ended August 31, 2006. Our basic earnings per share for the six months ended August 31, 2007 was \$0.86 per share compared to \$0.90 per share for the six months ended August 31, 2006. Our diluted earnings per share \$0.85 for the six months ended August 31, 2007 compared to \$0.89 per share for the six months ended August 31, 2006.

**Results of Operations Segments**

Net Sales by Segment (in thousands)	Three months ended August 31,		Six months ended August 31,	
	2007	2006	2007	2006
Print	\$ 83,563	\$ 82,255	\$ 168,698	\$ 159,351
Apparel	66,523	69,463	134,162	137,480
Total	\$ 150,086	\$ 151,718	\$ 302,860	\$ 296,831

*Print Segment.* Our net sales for our Print Segment, which represented 55.7% of our consolidated net sales during the three and six months ended August 31, 2007, were approximately \$83.6 million and \$168.7 million for the same period, compared to approximately \$82.3 million and \$159.4 million for the three and six months ended August 31, 2006, an increase of \$1.3 million and \$9.3 million, or 1.6% and 5.9%, respectively. The increase in the Print Segment net sales for the three and six months ended August 31, 2007 related primarily to our acquisition of Block, which was acquired August 8, 2006. Net sales for Block, which also includes the results of our Ennis Portland facility this year, were \$9.7 million and \$19.7 million for the three and six months ended August 31, 2007 as compared to \$2.9 million for the three and six months ended August 31, 2006. For the three and six months ended August 31, 2006, our Ennis Portland's sales were \$0.9 million and \$1.6 million, respectively. The impact of the increase in sales from our Block acquisition was offset by the planned attrition of low margin print sales and the continued decline in our commercial print operations over comparable periods last year due to the impact of the loss of 2 large promotional customers. While this has impacted our sales to date, we now feel the impact associated with these accounts has matured and would expect sales in our commercial operations to be at or above comparable periods on a go-forward basis.

*Apparel Segment.* Our net sales for the Apparel Segment, which represented 44.3% of our consolidated net sales for both the three and six months ended August 31, 2007, were approximately \$66.5 million and \$134.2 million for the current period, as compared to approximately \$69.5 million and \$137.5 million for the three and six months ended August 31, 2006, or a decrease of \$2.9 million and \$3.3 million, or 4.2% and 2.4%, respectively. Management believes that the Apparel sales during the three and six months were negatively impacted by inventory levels in the beginning of the fiscal year, which hindered the Apparel Segment's ability to capture certain opportunity sales during the fiscal year. Traditionally, the Apparel Segment rebuilds its inventory levels in the last half of the fiscal year for the upcoming summer buying season due to the normal falloff of demand during the winter season. However, during the second half of last fiscal year demand was at or above forecasted sales levels. As a result, production levels were only able to stay abreast of then current sales levels, which resulted in inventory levels not being as robust in the fourth quarter of fiscal year 2007 as it was during the same period last fiscal year. Consequently, several initiatives were implemented during the first quarter of fiscal year 2008 to improve the Apparel Segment's inventory levels and to meet their forecasted demand. Significant progress has been made on these initiatives during the second quarter of this

fiscal year and the Apparel Segment's inventory levels at the end of this quarter were significantly improved. As such, while this impacted our sales to date, management believes the current inventory levels will allow apparel sales to return to more expected levels over the remainder of this fiscal year.



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<b>Gross Profit by Segment (in thousands)</b>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Print	\$ 23,264	\$ 20,446	\$ 45,793	\$ 39,812
Apparel	15,356	17,795	31,394	36,244
Total	\$ 38,620	\$ 38,241	\$ 77,187	\$ 76,056

**Print Segment.** Our Print gross profit margin increased approximately \$2.9 million and \$6.0 million, or 13.8% and 15.0%, from \$20.4 million and \$39.8 million for the three and six months ended August 31, 2006 to \$23.3 million and \$45.8 million for the three and six months ended August 31, 2007, respectively. As a percentage of sales, our Print margin was 27.8% and 27.1% for the three and six months ended August 31, 2007, as compared to 24.9% and 25.0% for the three and six months ended August 31, 2006, respectively. Our Print margin, as a percentage of sales, increased primarily as a result of improved operational efficiencies and planned attrition of low margin sales.

**Apparel Segment.** Our Apparel gross profit margin decreased approximately \$2.4 million and \$4.8 million, or 13.7% and 13.4% from \$17.8 million and \$36.2 million for the three and six months ended August 31, 2006 to \$15.4 million and \$31.4 million for the three and six months ended August 31, 2007. As a percent of sales, our Apparel margin was 23.1% and 23.4% for the three and six months ended August 31, 2007, as compared to 25.6% and 26.4% for the three and six months ended August 31, 2006, respectively. During this fiscal year our apparel margins have been impacted by increased yarn and cut/sew costs and reduced selling margins on certain products due to competitive pressures. However, the main contributor to our decreased margins this fiscal year is the impact associated with our increased production capacity initiatives related to adding second shift cut/sew production capacity. During the first quarter of this fiscal year we started a second shift at both our cut/sew facilities in Mexico. As discussed in our previous quarterly filing, the training costs associated with this initiative was significant and continued into the second quarter, due to production inefficiency and turn-over of trainees. As a result, we are looking at ways to reduce the cost of the initiative going forward, including full-service subcontracting. During the end of our second quarter of this fiscal year, we entered into two subcontracting arrangements which will provide us the additional capacity needed at competitive prices. Both arrangements started shipping product to us during August 2007. At the same time, we decided to reduce employment levels in our Mexican cut/sew facilities back to pre-initiative levels, which was fully completed by the first of August 2007. We now feel that we have appropriate inventory levels and our production requirements covered, and therefore would expect our apparel margins to return to normalized levels. We feel the impact of the Mexican cut/sew initiative had a negative impact on the current quarter of approximately \$600,000 and approximately \$1.8 million on the current period. In addition, during the quarter we had inventory adjustments that affected the margins. Without these impacts, our apparel margins for the three and six months ended August 31, 2007 would have been approximately 24.7% and 25.1%, respectively.

<b>Profit by Segment (in thousands)</b>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Print	\$ 13,959	\$ 11,384	\$ 26,996	\$ 22,655
Apparel	7,589	10,288	15,974	20,330
Total	21,548	21,672	42,970	42,985
Less corporate expenses	3,868	3,190	8,153	6,520

<b>Earnings before income taxes</b>	\$ 17,680	\$ 18,482	\$ 34,817	\$ 36,465
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*Print Segment.* Our Print profit increased approximately \$2.6 million and \$4.3 million, or 22.8% and 18.9%, from \$11.4 million and \$22.7 million for the three and six months ended August 31, 2006, to \$14.0 million and \$27.0 million for the three and six months ended August 31, 2007, respectively. As a percent of sales, our Print profits were 16.7% and 16.0% for the three and six months ended August 31, 2007, as compared to 13.8% and

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14.2% for the three and six months ended August 31, 2006, respectively. The increase in our Print profit, as a percent of sales is related to the increase in their sales and gross profit margin as previously discussed.

**Apparel Segment.** Our Apparel profit decreased approximately \$2.7 million and \$4.3 million, or 26.2% and 21.4%, from \$10.3 million and \$20.3 for the three and six months ended August 31, 2006, to \$7.6 million and \$16.0 million for the three and six months ended August 31, 2007. As a percent of sales, our Apparel profit decreased from 14.8% for both the three and six months ended August 31, 2006 to 11.4% and 11.9% for the three and six months ended August 31, 2007. The decrease in our Apparel profit during the current period is primarily due to the decrease in their sales and gross profit margin as previously discussed.

**Liquidity and Capital Resources**

<i>(Dollars in thousands)</i>	<b>August 31, 2007</b>	<b>February 28, 2007</b>	<b>Change</b>
Working Capital	\$ 114,087	\$ 102,269	11.6%
Cash and cash equivalents	\$ 3,530	\$ 3,582	-1.5%

**Working Capital.** Our working capital increased by approximately \$11.8 million, or 11.6% from \$102.3 million at February 28, 2007 to \$114.1 million at August 31, 2007. The increase in our working capital during the period related primarily to an increase in our receivables and inventories. Our current ratio, calculated by dividing our current assets by our current liabilities was 3.2-to-1.0 at August 31, 2007 and 3.1-to-1.0 at February 28, 2007.

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

<i>(Dollars in thousands)</i>	<b>Six months ended August 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Net Cash provided by operating activities	\$ 17,489	\$ 24,513	-28.7%
Net Cash used in investing activities	\$ (1,750)	\$ (16,643)	-89.5%
Net Cash used in financing activities	\$ (15,844)	\$ (7,867)	101.4%

**Cash flows from operating activities.** Cash provided by our operating activities decreased by \$7.0 million, or 28.7% to \$17.5 million for the six months ending August 31, 2007 as compared to \$24.5 million for the six months ended August 31, 2006. During the six months, approximately 42% of our Apparel sales were factored compared to 66% for the same period last year. As a result, approximately \$10.0 million of operational cash during the period was used to fund the transition of these previously factored sales to in-house credit (see Credit Facility following for further discussion). In addition, we used operational cash during the period to increase our apparel inventory levels by approximately \$10.0 million, see Results of Operations Segments for further discussion. We were able to offset these uses of our operational cash during the period by increased management of our print inventory levels, accounts receivable and payables.

**Cash flows from investing activities.** Cash used for our investing activities decreased by \$14.9 million, or 89.5% to \$1.8 million for the six months ended August 31, 2007 as compared to \$16.6 million for the six months ended August 31, 2006. During the six months ended August 31, 2006 we acquired two businesses, Specialized Printed Forms and Block Graphics for \$17.6 million.

**Cash flows from financing activities.** We used \$8.0 million more in cash associated with our financing activities this period when compared to the same period last year. We repaid debt in the amount of \$8.9 million during the six months ended August 31, 2007 as compared to \$15.5 million during the same period of 2006 which was offset by the addition of \$15.0 million in debt to finance the acquisition of Block on August, 8, 2006.



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**Credit Facility** On March 31, 2006, we entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides us access to \$150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .50% 5.86%), depending on our total funded debt to EBITDA ratio, as defined. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants. As of August 31, 2007, we had \$80.0 million of borrowings under the revolver and \$5.1 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$64.9 million. The Facility is secured by substantially all of our personal and investment property.

During the six months ended in August 31, 2007, we repaid \$8.5 million on the revolver and \$0.4 million on other debt. It is anticipated that the available line of credit is sufficient to cover, should it be required, working capital requirements for the foreseeable future.

Our Apparel group continues to sell a portion of their accounts receivable to factors (for the six months ended August 31, 2006 and 2007 66% and 42%, respectively; current month average to date 35%) based upon agreements in place with these factors. As previous discussed, due to potential cost savings, we are continuing with our plans to reduce the amount of receivables we factor each year through the utilization of our existing bank line or from working capital generated by our Apparel Segment over the next couple of years.

**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 Income Security Act (ERISA). We anticipate that we will contribute from \$2.0 million to \$3.0 million during our current fiscal year. We made contributions of \$3 million to our pension plan during fiscal year 2007.

**Inventories** We believe our current inventory levels are sufficient to satisfy our customer demands and we anticipate having adequate sources of raw materials to meet future business requirements. The previously reported long-term contracts (that govern prices, but do not require minimum volume) with paper and yarn suppliers continue to be in effect.

**Capital Expenditures** We expect our capital requirements for the fiscal year, exclusive of capital required for possible acquisitions, will be in-line with our historical levels of between \$5.0 million and \$7.0 million. We would expect to fund these expenditures through existing cash flows. We would expect to generate sufficient cash flows from our operating activities in order to cover our operating and other capital requirements for our foreseeable future.

**Contractual Obligations & Off-Balance Sheet Arrangements** There have been no significant changes in our contractual obligations since February 28, 2007 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 August 31, 2007.

**Recent Accounting Pronouncements**

**FIN 48.** We adopted the provisions of Financial Accounting Standards Board Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, on March 1, 2007. As a part of the implementation of FIN 48, we made a comprehensive review of our uncertain tax positions and recorded \$240,000 of unrecognized tax benefits in connection with certain state tax positions, as non-current other liabilities on the consolidated balance sheet, with no net impact to the consolidated statement of earnings. This amount was accounted for as a reduction to the March 1, 2007 balance of retained earnings, in accordance with the adoption of FIN 48. These unrecognized tax benefits related to uncertain tax positions would impact the effective tax rate if recognized. Approximately \$81,000 of unrecognized tax benefits relate to items that are affected by expiring statute of limitations within the next 12 months.

The unrecognized tax benefits mentioned above includes an aggregate \$38,000 of interest expense. Upon adoption of FIN 48, we elected an accounting policy to classify interest expense on underpayments of income

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taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, our policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

We are subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. We have concluded all U.S. federal income tax matters for years through 2005. All material state and local income tax matters have been concluded for years through 2002 and foreign tax jurisdictions through 2000.

**FAS 157.** In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of FAS 157 on our consolidated financial position, results of operations, and cash flows.

**FAS 159.** In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 , ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurements attributes the company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted. We are currently assessing the impact of FAS 159 on our consolidated financial statements.

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

**Market Risk**

***Interest Rates***

We are exposed to market risk from changes in interest rates on debt. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. Our variable rate financial instruments, including the outstanding credit facilities, totaled \$83.0 million at August 31, 2007. 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 August 31, 2007 would be approximately \$0.8 million.

***Foreign Exchange***

We have global operations and thus make investments and enter into transactions in various foreign currencies. The value of our consolidated assets and liabilities located outside the United States (translated at period end exchange rates) and income and expenses (translated using average rates prevailing during the period), generally denominated in Mexican 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. However, due to the self-sustaining nature of our foreign operations, we believe we can effectively manage the effect of these currency fluctuations.

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

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**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 August 31, 2007 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

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

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Reference is made to page 22 of this Report on Form 10-Q. There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 28, 2007.

**Items 2, 3 and 5 are not applicable and have been omitted****Item 4. Submission of Matters to a Vote of Security Holders**

(a) The Company held its Annual Meeting of Shareholders on June 28, 2007.

(b) Proxies for the meeting were solicited pursuant to Regulation 14A; there was no solicitation in opposition to management's nominees for directors listed in the Proxy Statement and all such nominees were elected. There were no abstentions or broker non-votes.

Directors elected were:

<b>Nominees for Director</b>	<b>Vote Cast for</b>	<b>Votes Withheld</b>
Kenneth G. Pritchett	22,959,508	519,413
Michael J. Schaefer	23,216,614	262,307
James C. Taylor	22,311,028	1,167,893

**Item 6. Exhibits**

The following exhibits are filed as part of this report.

- Exhibit 3.1 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 3.2 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 3.3 Articles of Amendment to the Articles of Incorporation of Ennis Business Forms, Inc. filed on June 17, 2004 incorporated herein by reference to Exhibit 3.3 to the registrant's Form 10-Q Quarterly Report for the quarter ended November 30, 2004.
- Exhibit 31.1 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Executive Officer.\*
- Exhibit 31.2 Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Financial Officer.\*
- Exhibit 32.1 Section 1350 Certification of Chief Executive Officer.\*\*
- Exhibit 32.2 Section 1350 Certification of Chief Financial Officer.\*\*

\* Filed herewith



\*\* Furnished  
herewith

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**SIGNATURES**

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

ENNIS, INC.

Date: September 28, 2007

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

Date: September 28, 2007

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

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