ENNIS, INC.
Form 10-Q
December 23, 2009

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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended November 30, 2009

OR

o **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 þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of December 18, 2009, there were 25,821,412 shares of the Registrant s common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
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FOR THE PERIOD ENDED NOVEMBER 30, 2009
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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	November 30, 2009 *(unaudited)*	February 28, 2009
Assets		
Current assets		
Cash	$ 22,594	$ 9,286
Accounts receivable, net of allowance for doubtful receivables of $4,463 at November 30, 2009 and $3,561 at February 28, 2009	57,726	57,467
Prepaid expenses	4,270	3,780
Prepaid income taxes		4,826
Inventories	76,048	101,167
Deferred income taxes	5,728	5,728
Assets held for sale	804	
Total current assets	167,170	182,254
Property, plant and equipment, at cost		
Plant, machinery and equipment	134,696	133,300
Land and buildings	51,129	43,150
Other	22,349	22,679
Total property, plant and equipment	208,174	199,129
Less accumulated depreciation	148,934	144,457
Net property, plant and equipment	59,240	54,672
Goodwill	117,341	117,341
Trademarks and tradenames, net	58,930	59,030
Customer lists, net	20,316	22,007
Deferred finance charges, net	1,163	486
Other assets	636	590
Total assets	$ 424,796	$ 436,380

See accompanying notes to consolidated financial statements.

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

	November 30, 2009 *(unaudited)*	February 28, 2009
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 24,610	$ 24,723
Accrued expenses		
Employee compensation and benefits	15,996	12,919
Taxes other than income	1,583	1,322
Federal and state income taxes payable	820	
Other	5,827	4,706
Current installments of long-term debt	39	210
Total current liabilities	48,875	43,880
Long-term debt, less current installments	42,067	76,185
Liability for pension benefits	9,245	6,988
Deferred income taxes	17,097	16,250
Other liabilities	405	1,071
Total liabilities	117,689	144,374
Commitments and contingencies		
Shareholders equity		
Preferred stock $10 par value, authorized 1,000,000 shares; none issued		
Common stock $2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at November 30 and February 28, 2009	75,134	75,134
Additional paid in capital	122,237	122,448
Retained earnings	200,230	186,857
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	240	(1,016)
Unrealized loss on derivative instruments, net of taxes	(1,313)	(1,387)
Minimum pension liability, net of taxes	(12,107)	(12,107)
	(13,180)	(14,510)
	384,421	369,929
Treasury stock		
Cost of 4,323,501 shares at November 30, 2009 and 4,336,557 shares at February 28, 2009	(77,314)	(77,923)

Total shareholders equity		307,107		292,006
Total liabilities and shareholders equity	$	424,796	$	436,380

See accompanying notes to consolidated financial statements.

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

	Three months ended November 30, 2009	Three months ended November 30, 2008	Nine months ended November 30, 2009	Nine months ended November 30, 2008
Net sales	$ 127,756	$ 142,453	$ 396,353	$ 466,703
Cost of goods sold	93,456	104,596	295,247	349,156
Gross profit	34,300	37,857	101,106	117,547
Selling, general and administrative	19,006	21,933	58,417	67,860
(Gain) loss from disposal of assets	2	(71)	(1)	(338)
Income from operations	15,292	15,995	42,690	50,025
Other income (expense)				
Interest expense	(662)	(778)	(2,082)	(2,703)
Other, net	(40)	337	(334)	164
	(702)	(441)	(2,416)	(2,539)
Earnings before income taxes	14,590	15,554	40,274	47,486
Provision for income taxes	5,399	5,678	14,902	17,333
Net earnings	$ 9,191	$ 9,876	$ 25,372	$ 30,153
Weighted average common shares outstanding				
Basic	25,763,840	25,751,068	25,745,886	25,717,105
Diluted	25,825,800	25,808,497	25,788,579	25,790,031
Per share amounts				
Net earnings basic	$ 0.36	$ 0.38	$ 0.99	$ 1.17
Net earnings diluted	$ 0.36	$ 0.38	$ 0.98	$ 1.17
Cash dividends per share	$ 0.155	$ 0.155	$ 0.465	$ 0.465

See accompanying notes to consolidated financial statements.

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

	Nine months ended November 30, 2009	2008
Cash flows from operating activities:		
Net earnings	$ 25,372	$ 30,153
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	6,830	7,567
Amortization of deferred finance charges	330	335
Amortization of tradenames and customer lists	1,803	1,814
Gain from disposal of assets	(1)	(338)
Bad debt expense	1,768	2,819
Stock based compensation	803	742
Excess tax benefit of stock based compensation		(105)
Deferred income taxes	(15)	
Changes in operating assets and liabilities:		
Accounts receivable	(1,680)	1,179
Prepaid expenses	4,447	(2,953)
Inventories	26,101	(6,496)
Other assets	(1,065)	56
Accounts payable and accrued expenses	5,185	1,640
Other liabilities	(666)	(1,216)
Prepaid pension asset/liability for pension benefits	2,257	1,006
Net cash provided by operating activities	71,469	36,203
Cash flows from investing activities:		
Capital expenditures	(11,739)	(4,005)
Proceeds from disposal of plant and property	8	868
Net cash used in investing activities	(11,731)	(3,137)
Cash flows from financing activities:		
Repayment of debt	(34,171)	(21,699)
Dividends	(11,999)	(11,992)
Purchase of treasury stock	(405)	
Proceeds from exercise of stock options		630
Excess tax benefit of stock based compensation		105
Net cash used in financing activities	(46,575)	(32,956)
Effect of exchange rate changes on cash	145	(531)

Net change in cash	13,308	(421)
Cash at beginning of period	9,286	3,393
Cash at end of period	$ 22,594	$ 2,972

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

1. Significant Accounting Policies and General Matters

Basis of Presentation

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis) for the quarter and nine months ended November 30, 2009 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, 2009, from which the accompanying consolidated balance sheet at February 28, 2009 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

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance for fair value measurement which establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance does not require any new fair value measurements, but rather applies all other pronouncements that require or permit fair value measurements. In February 2008, the FASB issued authoritative guidance which delayed the effective date to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities. The adoption of the remaining provisions of this guidance previously deferred did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued authoritative guidance for business combinations which establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance is applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008 (the Company s fiscal year ending February 28, 2010). The impact of the adoption will depend on the nature and terms of future acquisitions, if any.

In December 2007, the FASB issued authoritative guidance which establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008 (the Company s fiscal year ending February 28, 2010). The adoption did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued authoritative guidance which requires entities to provide enhanced disclosures about derivative instruments and hedging activities. The guidance is effective for fiscal years and interim periods beginning on or after November 15, 2008. The adoption did not have a material impact on the Company s consolidated financial position, results of operations, cash flows or notes to the financial statements.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

1. Significant Accounting Policies and General Matters-continued

In May 2009, the FASB issued authoritative guidance which establishes principles and standards related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. This guidance requires an entity to recognize in the financial statements subsequent events that provide additional information regarding conditions that existed at the balance sheet date. Subsequent events that provide information about conditions that did not exist at the balance sheet date shall not be recognized in the financial statements under this guidance. The company adopted this guidance in the second quarter of fiscal year 2010, and the adoption did not have a material effect on the Company s consolidated financial position, results of operations, cash flows or notes to the financial statements.

In June 2008, the FASB issued authoritative guidance related to the calculation of earnings per share. The guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company s participating securities are composed of unvested restricted stock. These participating securities, prior to application, were excluded from weighted-average common shares outstanding in the calculation of basic earnings per common share. The Company adopted the new guidance on March 1, 2009, and has calculated and presented basic earnings per common share on this basis for all periods presented for fiscal year 2010. The impact of the adoption had no effect on basic earnings per common share for the three and nine months ended November 30, 2008.

In April 2009, the FASB issued additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. Additionally, this guidance identifies circumstances that indicate a transaction is not orderly. The Company adopted this guidance in the second quarter of fiscal year 2010, and the adoption did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued authoritative guidance related to interim disclosures about fair value of financial instruments. This guidance requires disclosures about the fair value of financial instruments whenever a public company issues financial information for interim reporting periods. The Company adopted this guidance in the second quarter of fiscal 2010 and the adoption did not have an effect on the Company s consolidated financial position, results of operations or cash flows.

In December 2008, the FASB issued authoritative guidance related to employers disclosures about the plan assets of defined benefit pension or other postretirement plans. The additional disclosure requirements include how investment allocation decisions are made, the major categories of plan assets and the inputs and valuation techniques used to measure the fair value of plan assets. The disclosures about plan assets required by this additional guidance shall be provided for fiscal years ending after December 15, 2009 (the Company s fiscal year ending February 28, 2010). The adoption is not expected to have an impact on the Company s consolidated financial position, results of operations or cash flows, but additional disclosures will be made in the notes to the financial statements for the year ended February 28, 2010.

2. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 95% of the Company s receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer s financial condition, (ii) the amount of credit the customer requests and (iii) the customer s actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company s allowance for doubtful receivables is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

2. Accounts Receivable and Allowance for Doubtful Receivables-continued

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

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

	Three months ended November 30,		Nine months ended November 30,	
	2009	2008	2009	2008
Balance at beginning of period	$ 4,068	$ 5,324	$ 3,561	$ 3,954
Bad debt expense	240	790	1,768	2,819
Recoveries	239	5	257	18
Accounts written off	(74)	(917)	(1,141)	(1,589)
Foreign currency translation	(10)		18	
Balance at end of period	$ 4,463	$ 5,202	$ 4,463	$ 5,202

3. Inventories

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

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

	November 30, 2009	February 28, 2009
Raw material	$ 12,174	$ 13,357
Work-in-process	14,151	13,090
Finished goods	49,723	74,720
	$ 76,048	$ 101,167

4. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. After conducting its fiscal year 2009 test, the Company determined there was no impairment in the Print Segment, and $63.2 million of goodwill in the Apparel Segment was impaired. The goodwill impairment charge was primarily driven by current adverse economic conditions and, to a lesser extent, by expected future cash flows. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future.

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ENNIS, INC. AND SUBSIDIARIES
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FOR THE PERIOD ENDED NOVEMBER 30, 2009

4. Goodwill and Other Intangible Assets-continued

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives and a net book value of $58.5 million at November 30, 2009 are evaluated for impairment on an annual basis. After conducting its fiscal year 2009 test, the Company determined there was no impairment in the Print Segment, and $4.7 million of trademarks in the Apparel Segment were impaired. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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

As of November 30, 2009	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 842	$ 392
Customer lists	29,908	9,592	20,316
Noncompete	500	479	21
	$ 31,642	$ 10,913	$ 20,729

As of February 28, 2009			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 742	$ 492
Customer lists	29,908	7,901	22,007
Noncompete	500	467	33
	$ 31,642	$ 9,110	$ 22,532

	November 30, 2009	February 28, 2009
Non-amortizing intangible assets (in thousands)		
Trademarks	$ 58,538	$ 58,538

Aggregate amortization expense for the nine months ended November 30, 2009 and November 30, 2008 was $1,803,000 and $1,814,000, respectively.

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

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

2015	2,136,000

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

4. Goodwill and Other Intangible Assets-continued

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

	Print Segment Total	Apparel Segment Total	Total
Balance as of March 1, 2008	$ 40,688	$ 137,700	$ 178,388
Goodwill acquired	2,104		2,104
Goodwill impairment		(63,151)	(63,151)
Balance as of March 1, 2009	42,792	74,549	117,341
Goodwill acquired			
Goodwill impairment			
Balance as of November 30, 2009	$ 42,792	$ 74,549	$ 117,341

An adjustment of ($63.2) million during the fiscal year ended February 28, 2009 reflects an impairment charge related to goodwill recorded from the previous acquisition of Alstyle Apparel. An adjustment of $2.1 million during fiscal year ended February 28, 2009 was added to goodwill due to a revised tax estimate of prior acquisitions.

5. Other Accrued Expenses

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

	November 30, 2009	February 28, 2009
Accrued taxes	$ 317	$ 332
Accrued legal and professional fees	448	430
Accrued interest	127	129
Accrued utilities	1,755	1,499
Accrued repairs and maintenance	513	410
Accrual-earn out agreements	599	225
Other accrued expenses	2,068	1,681
	$ 5,827	$ 4,706

6. Derivative Instruments and Hedging Activities

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

The Swap was designated as a cash flow hedge, and the fair value at November 30, 2009 and February 28, 2009 was $(2.1) million, $(1.3) million net of deferred taxes and $(2.2) million, $(1.4) million net of deferred taxes, respectively. The Swap has been reported on the Consolidated Balance Sheet as long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During the three and nine months ended November 30, 2009, there was a loss of approximately $358,000 and $962,000, respectively, reclassified from accumulated other comprehensive income to interest expense related to the Swap the Company has in place.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. Fair Value Financial Instruments

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

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

Level 1	Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
Level 2	Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.
Level 3	Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of November 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

Description	November 30, 2009	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liability (Swap)	$ (2,067)	$	$ (2,067)	$
	$ (2,067)	$	$ (2,067)	$

8. Long-Term Debt

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

	November 30, 2009	February 28, 2009
Revolving credit facility	$ 40,000	$ 74,000

Interest rate swap		2,067		2,185
Capital lease obligation		39		210
		42,106		76,395
Less current installments		39		210
Long-term debt	$	42,067	$	76,185

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

8. Long-Term Debt-continued

On August 18, 2009, the Company entered into a Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides the Company access to $150.0 million in revolving credit, which the Company may increase to $200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.0% to 3.5% (currently LIBOR + 2.25% or 2.49% at November 30, 2009), depending on the Company s total funded debt to EBITDA ratio, as defined. As of November 30, 2009, the Company had $40.0 million of borrowings under the revolving credit line and $3.7 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately $106.3 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of November 30, 2009. The Facility is secured by substantially all of the Company s domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

The capital lease obligation has interest due monthly at 4.96% and principal paid in equal monthly installments. The lease will mature in January 2010. Assets under capital leases with a total gross book value of $936,000 for both November 30, 2009 and February 28, 2009 and accumulated amortization of $663,000 and $488,000 as of November 30, 2009 and February 28, 2009, respectively, are included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense.

The interest rate swap at November 30, 2009 and February 28, 2009 consists of the derivative liability recorded see Note 6 Derivative Instruments and Hedging Activities to the Notes to the Consolidated Financial Statements for further discussion.

We capitalized $109,000 of interest expense for the three and nine months ended November 30, 2009 relating to the construction of the Agua Prieta facility. There was no interest expense capitalized for the three and nine months ended November 30, 2008.

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 November 30,		Nine months ended November 30,	
	2009	**2008**	**2009**	**2008**
Net earnings	$ 9,191	$ 9,876	$ 25,372	$ 30,153
Foreign currency translation adjustment, net of deferred taxes	283	(1,414)	1,256	(1,618)
Unrealized gain (loss) on derivative instruments, net of deferred taxes	(20)	(866)	74	(1,155)
Comprehensive income	$ 9,454	$ 7,596	$ 26,702	$ 27,380

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2009

9. Shareholders Equity-continued

Changes in shareholders equity accounts for the nine months ended November 30, 2009 are as follows (in thousands):

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Total
Balance February 28, 2009	30,053,443	$ 75,134	$ 122,448	$ 186,857	$ (14,510)	(4,336,557)	$ (77,923)	$ 292,006
Net earnings				25,372				25,372
Foreign currency translation, net of deferred tax of $738					1,256			1,256
Unrealized gain on derivative instruments, net of deferred tax benefit of $43					74			74
Comprehensive income								26,702
Dividends declared ($0.465 per share)				(11,999)				(11,999)
Stock based compensation			803					803
Exercise of stock options and restricted stock grants			(1,014)			56,356	1,014	
Stock repurchases						(43,300)	(405)	(405)
Balance November 30, 2009	30,053,443	$ 75,134	$ 122,237	$ 200,230	$ (13,180)	(4,323,501)	$ (77,314)	$ 307,107

On October 20, 2008, the Board of Directors authorized the repurchase of up to $5.0 million of the common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. During the three months ended November 30, 2009, there were no repurchases of common stock. As of November 30, 2009, there have been 96,000 shares of common stock that had been purchased under the repurchase program since its inception, at a cost of approximately $1.0 million.

10. Stock Option Plans and Stock Based Compensation

At November 30, 2009, the Company has stock options and restricted stock granted to key executives and managerial employees and non-employee directors under the Company s stock based compensation plan, the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 (Plan). The Company has 348,463 shares of unissued common stock reserved under the plan for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each stock option granted equals the quoted market price of the Company s common stock on the date of grant, and an option s maximum term is ten years. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from upon grant to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the three months ended November 30, 2009 and 2008, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of $275,000 ($174,000 net of tax), and $211,000 ($134,000 net of tax), respectively. For the nine months ended November 30, 2009 and 2008, the Company had compensation expense related to share based compensation of $803,000 ($506,000 net of tax), and $742,000 ($471,000 net of tax), respectively.

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10. Stock Option Plans and Stock Based Compensation-continued

Stock Options

The Company had the following stock option activity for the nine months ended November 30, 2009:

	Number of Shares *(exact quantity)*	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life *(in years)*	Aggregate Intrinsic Value(a) *(in thousands)*
Outstanding at February 28, 2009	318,563	$10.98	2.4	$ 75
Granted	105,000	8.94		
Terminated	(115,000)	8.69		
Exercised				
Outstanding at November 30, 2009	308,563	$11.14	5.2	$ 1,294
Exercisable at November 30, 2009	198,563	$12.16	2.9	$ 711

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

The Company did not grant any stock options during the nine months ended November 30, 2008. The following is a summary of the assumptions used and the weighted average grant-date fair value of the stock options granted during the nine months ended November 30, 2009:

Expected volatility	32.35%
Expected term (years)	4
Risk free interest rate	2.01%
Dividend yield	4.74%
Weighted average grant-date fair value	$1.583

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

	Three months ended November 30,		Nine months ended November 30,	
	2009	2008	2009	2008
Total cash received	$	$525	$	$630
Income tax benefits		105		105
Total grant-date fair value		120		133
Intrinsic value				

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10. Stock Option Plans and Stock Based Compensation-continued

A summary of the status of the Company s unvested stock options at February 28, 2009, and changes during the nine months ended November 30, 2009 is presented below:

	Number of Options	Weighted Average Grant Date Fair Value
Unvested at February 28, 2009	18,425	$ 2.85
New grants	105,000	1.58
Vested	(13,425)	2.85
Forfeited		
Unvested at November 30, 2009	110,000	$ 1.64

As of November 30, 2009, there was $142,000 of unrecognized compensation cost related to unvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 3.3 years. The total fair value of shares underlying the options vested during the nine months ended November 30, 2009 was $195,000.

Restricted Stock

The Company had the following restricted stock grants activity for the nine months ended November 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at February 28, 2009	103,091	$ 19.33
Granted	44,800	8.94
Terminated		
Vested	(56,421)	17.48
Outstanding at November 30, 2009	91,470	$ 15.38

As of November 30, 2009, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately $890,000. The weighted average remaining requisite service period of the unvested restricted stock awards was 1.6 years.

11. Employee Benefit Plans

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

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11. Employee Benefit Plans-continued

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

	Three months ended November 30,		Nine months ended November 30,	
	2009	2008	2009	2008
Components of net periodic benefit cost				
Service cost	$ 284	$ 337	$ 854	$ 1,007
Interest cost	686	657	2,056	1,970
Expected return on plan assets	(606)	(813)	(1,818)	(2,437)
Amortization of:				
Prior service cost	(37)	(37)	(109)	(109)
Unrecognized net loss	425	192	1,274	575
Net periodic benefit cost	$ 752	$ 336	$ 2,257	$ 1,006

The Company is required to make contributions to its defined benefit pension plan. These contributions are required under the minimum funding requirements of ERISA. For the current fiscal year ending February 28, 2010, 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 2010. The Company contributed $3.0 million to its pension plan during fiscal year 2009.

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. At November 30, 2009, 98,950 shares of options were not included in the diluted earnings per share computation because their exercise price exceeded the average fair market value of the Company s stock for the period. At February 28, 2009, 90,200 shares of options were not included in the diluted earnings per share computation because their exercise price exceeded the average fair market value of the Company s stock for the period. The following table sets forth the computation for basic and diluted earnings per share for the periods indicated:

	Three months ended November 30,		Nine months ended November 30,	
	2009	2008	2009	2008
Basic weighted average common shares outstanding	25,763,840	25,751,068	25,745,886	25,717,105
Effect of dilutive options	61,960	57,429	42,693	72,926
Diluted weighted average common shares outstanding	25,825,800	25,808,497	25,788,579	25,790,031
Per share amounts:				
Net earnings basic	$ 0.36	$ 0.38	$ 0.99	$ 1.17

Net earnings diluted	$ 0.36	$ 0.38	$ 0.98	$ 1.17
Cash dividends	$ 0.155	$ 0.155	$ 0.465	$ 0.465

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12. Earnings per share-continued

In June 2008, the FASB issued accounting guidance related to the calculation of earnings per share. The guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company s participating securities are comprised of unvested restricted stock. These participating securities, prior to application of this guidance, were excluded from weighted-average common shares outstanding in the calculation of basic earnings per common share. The basic earnings per share amounts have been retroactively adjusted for all periods presented. The retrospective application of the provision had no effect on basic earnings per common share for the three and nine months ended November 30, 2008.

13. Segment Information and Geographic Information

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

The Print Segment, which represented 55% of the Company s consolidated net sales for the three and nine months ended November 30, 2009, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 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 Business Forms℠, Block Graphics®, Specialized Printed Forms℠, 360º Custom Labels℠, Enfusion®, Uncompromised Check Solutions®, Witt Printing℠, B&D Litho of Arizona℠, Genforms℠ and Calibrated Forms℠. The Print Segment also sells the Adams-McClure℠ brand (which provides Point of Purchase advertising for large franchise and fast food chains as well as kitting and fulfillment); the Admore® brand (which provides presentation folders and document folders); Ennis Tag & Label℠ (which provides tags and labels, promotional products and advertising concept products); Trade Envelopes® and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and GFS℠ (which provide financial and security documents).

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

The second segment, the Apparel Segment, which accounted for 45% of the Company s consolidated net sales for the three and nine months ended November 30, 2009, 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.

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13. Segment Information and Geographic Information-continued

Segment data for the three and nine months ended November 30, 2009 and 2008 were as follows (in thousands):

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
Three months ended November 30, 2009:				
Net sales	$ 70,590	$ 57,166	$	$127,756
Depreciation	1,490	522	209	2,221
Amortization of identifiable intangibles	234	367		601
Segment earnings (loss) before income tax	12,695	6,015	(4,120)	14,590
Segment assets	146,321	252,586	25,889	424,796
Capital expenditures	317	5,607	15	5,939
Three months ended November 30, 2008:				
Net sales	$ 82,577	$ 59,876	$	$142,453
Depreciation	1,491	678	239	2,408
Amortization of identifiable intangibles	238	366		604
Segment earnings (loss) before income tax	13,382	6,286	(4,114)	15,554
Segment assets	155,209	345,704	8,577	509,490
Capital expenditures	638	137	16	791
Nine months ended November 30, 2009:				
Net sales	$216,215	$180,138	$	$396,353
Depreciation	4,532	1,654	644	6,830
Amortization of identifiable intangibles	703	1,100		1,803
Segment earnings (loss) before income tax	36,215	15,638	(11,579)	40,274
Segment assets	146,321	252,586	25,889	424,796
Capital expenditures	1,671	9,933	135	11,739
Nine months ended November 30, 2008:				
Net sales	$253,269	$213,434	$	$466,703
Depreciation	4,855	2,003	709	7,567
Amortization of identifiable intangibles	714	1,100		1,814
Segment earnings (loss) before income tax	42,204	17,717	(12,435)	47,486
Segment assets	155,209	345,704	8,577	509,490
Capital expenditures	3,583	337	85	4,005

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13. Segment Information and Geographic Information-continued

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

	United States	Canada	Mexico	Total
Three months ended November 30, 2009:				
Net sales to unaffiliated customers				
Print Segment	$ 70,590	$	$	$ 70,590
Apparel Segment	52,607	4,096	463	57,166
	$ 123,197	$ 4,096	$ 463	$ 127,756
Identifiable long-lived assets				
Print Segment	$ 38,598	$	$	$ 38,598
Apparel Segment	6,199	35	9,583	15,817
Corporate	4,825			4,825
	$ 49,622	$ 35	$ 9,583	$ 59,240
Three months ended November 30, 2008:				
Net sales to unaffiliated customers				
Print Segment	$ 82,577	$	$	$ 82,577
Apparel Segment	55,572	3,958	346	59,876
	$ 138,149	$ 3,958	$ 346	$ 142,453
Identifiable long-lived assets				
Print Segment	$ 41,434	$	$	$ 41,434
Apparel Segment	6,354	43	1,472	7,869
Corporate	5,554			5,554
	$ 53,342	$ 43	$ 1,472	$ 54,857
Nine months ended November 30, 2009:				
Net sales to unaffiliated customers				
Print Segment	$ 216,215	$	$	$ 216,215
Apparel Segment	166,181	11,840	2,117	180,138
	$ 382,396	$ 11,840	$ 2,117	$ 396,353
Nine months ended November 30, 2008:				
Net sales to unaffiliated customers				
Print Segment	$ 253,269	$	$	$ 253,269

Apparel Segment	199,560	13,011	863	213,434
	$ 452,829	$ 13,011	$ 863	$ 466,703

14. Supplemental Cash Flow Information

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

	Nine months ended November 30,	
	2009	**2008**
Interest paid	$2,084	$ 3,117
Income taxes paid	$9,914	$20,701

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15. Concentrations of Risk

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

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

For the purposes of the consolidated statements of cash flows, the Company considers cash to include cash on hand and in bank accounts. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to $250,000. At November 30, 2009, cash balances included $19.9 million that was not federally insured because it represented amounts in individual accounts above the federally insured limit for each such account. This at-risk amount is subject to fluctuation on a daily basis. While management does not believe there is significant risk with respect to such deposits, we cannot be assured that we will not experience losses on our deposits. At November 30, 2009, the Company had $723,000 in Canadian and $1.3 million in Mexican bank accounts.

16. Assets Held for Sale

As of November 30, 2009, the Company had land, building and equipment of approximately $0.8 million classified as assets held for sale on the consolidated balance sheet. This balance is comprised of land and building with a net book value of $0.7 million and equipment with a net book value of $0.1 million.

17. Subsequent Events

On December 18, 2009, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents a share quarterly dividend to be payable on February 1, 2010 to shareholders of record on January 11, 2010.

The Company has evaluated subsequent events through December 23, 2009, the date the financial statements of the Company were issued. During this period, no material recognizable subsequent events were identified.

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

Overview

Ennis, Inc. (formerly Ennis Business Forms, Inc.) was organized under the laws of Texas in 1909. Ennis, Inc. and its subsidiaries (collectively known as the Company, Registrant, Ennis, or we, us, or our) print and manufactu broad line of business forms and other business products and also manufacture a line of activewear for distribution throughout North America. Distribution of business products and forms throughout the United States, Canada, and Mexico is primarily through independent dealers, and with respect to our activewear products, through sales representatives. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, activewear wholesalers, screen printers and advertising agencies, among others. The Company s apparel business was acquired on November 19, 2004. The Apparel Segment produces and sells activewear, including t-shirts, fleece goods and other wearables. We offer a great selection of high-quality activewear apparel and hats with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The apparel line features a wide variety of tees, fleece, shorts and yoga pants, and two headwear brands.

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 the Consolidated Financial Statements beginning on page 18 included elsewhere herein, which information is incorporated herein by reference.

Print Segment

The Print Segment, which represented 55% of our consolidated net sales for the three and nine months ended November 30, 2009, 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 Business Forms℠, Block Graphics®, Specialized Printed Forms℠, 360º Custom Labels℠, Enfusion®, Uncompromised Check Solutions®, Witt Printing℠, B&D Litho of Arizona℠, Genforms℠ and Calibrated Forms℠. The Print Segment also sells the Adams-McClure℠ brand (which provides Point of Purchase advertising for large franchise and fast food chains as well as kitting and fulfillment); the Admore® brand (which provides presentation folders and document folders); Ennis Tag & Label℠ (which provides tags and labels, promotional products and advertising concept products); Trade Envelopes®, and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and GFS℠ (which provide financial and security documents).

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

The 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

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distributing primarily through independent dealers and that its business forms offering is more diversified than that of most companies in the business forms industry.

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

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

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

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

Apparel Segment

The Apparel Segment represented 45% of our consolidated net sales for the three and nine months ended November 30, 2009, and operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knit basic activewear (t-shirts, tank tops, and fleece) across all market segments. Over 95% of Alstyle s revenues are derived from t-shirt sales, and more than 90% of those are domestic sales. Alstyle s branded product lines are sold under the AAA label, Murina® and Hyland® Headwear brands.

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

Alstyle utilizes a customer-focused internal sales team comprised of 23 sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are allocated performance objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend approximately 60% of their time in the field.

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

A majority of Alstyle s sales are to direct customer branded products, and the remainder relates to private label and re-labels programs. Generally, sales to screen printers and mass marketers are driven by price and the availability of products which directly impacts inventory level requirements. Sales in the private label business are characterized by slightly higher customer loyalty.

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

Alstyle s sales are seasonal, with sales in the first and second quarters generally being the highest. The apparel industry is characterized by rapid shifts in fashion, consumer demand and competitive pressures, resulting in both

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price and demand volatility. However, the imprinted activewear market that Alstyle sells to is generally event driven. Blank t-shirts can be thought of as walking billboards promoting movies, concerts, sports teams, and image brands. Still, the demand for any particular product varies from time to time based largely upon changes in consumer preferences and general economic conditions affecting the apparel industry.

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

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

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

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.

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

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

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

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

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Declining economic conditions could negatively impact our business.

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

We have significant amounts of cash that are in excess of federally insured limits. With the current financial environment and the instability of financial institutions, we cannot be assured that we will not experience losses on our deposits.

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

The terms and conditions of our credit facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions, asset dispositions, as well as other customary covenants, such as minimum equity level and total funded debt to EBITDA, as defined. Our ability to comply with the covenants may be affected by events beyond our control, such as distressed and volatile financial markets which could trigger an impairment charge to our recorded intangible assets. In fiscal year 2009 we were required to write down goodwill and other intangible assets and we may have similar charges in the future, which could cause our financial condition and results of operations to be negatively affected in the future. A breach of any of these covenants could result in a default under our credit facility. In the event of a default, the bank could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable. As of November 30, 2009, we were in compliance with all terms and conditions of our credit facility, which matures on August 18, 2012.

We may be required to borrow under our credit facility to provide financing for our new manufacturing facility in Agua Prieta in the state of Sonora, Mexico. Our ability to access this facility for these funds will depend upon our future operating performance, which will be affected by prevailing economic, financial and business conditions and other factors, some of which are beyond our control. In the event that we aren t able to access the facility for the funds needed and require additional capital, there can be no assurance that we will be able to raise such capital when needed or at all.

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

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

In fiscal year 2009 we were required to write down goodwill and other intangible assets and we may have similar charges in the future, which could cause our financial condition and results of operations to be negatively affected in the future.

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. The annual impairment test is based on several factors requiring judgment. A decline in market conditions may indicate potential impairment of goodwill. In fiscal year 2009, we recorded a non-cash impairment charge of $63.2 million and $4.7 million to goodwill and trademarks, respectively. At November 30, 2009, our goodwill and other intangible assets were approximately $117.3 million and $79.3 million, respectively.

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

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

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

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

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

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

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

As of November 30, 2009, approximately 12% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Two unions represent all of our hourly employees in Mexico. There can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

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

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.

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

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

Demand for Alstyle s products is dependent on the general demand for shirts and the availability of alternative sources of supply. Alstyle s strategy in this market environment is to be a low cost producer and to differentiate itself by providing quality service and quality products to its customers. Even if this strategy is successful, its results may be offset by reductions in demand or price declines due to competitors pricing strategies. Our Print Segment also faces the risk of our competition following a strategy of selling their products at or below cost in order to cover some amount of fixed costs, especially in distressed economic times.

The apparel industry is heavily influenced by general economic cycles.

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

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

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

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

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

The North American Free Trade Agreement (NAFTA) became effective on January 1, 1994 and has created a free-trade zone among Canada, Mexico, and the United States. NAFTA contains a rule of origin requirement that

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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 are duty-free and quota-free immediately if they meet the agreement s rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement gives duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle outsourced approximately 4% for the three and nine months ended November 30, 2009 of its sewing to a contract manufacturer in El Salvador, and we do not anticipate that alteration or subsequent repeal of CAFTA would have a material effect on our operations.

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

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

Environmental regulations may impact our future operating results.

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

Our construction of a new apparel manufacturing facility in Mexico is subject to multiple approvals and uncertainties that could affect our ability to complete the project on schedule or at budgeted cost.

The construction of our new apparel manufacturing facility in the town of Agua Prieta in the state of Sonora, Mexico is expected to be completed during fiscal year 2011. The construction of this new facility will involve numerous regulatory, environmental, political, and legal uncertainties beyond our control. The cost of the facility and the equipment required for the facility will require the expenditure of significant amounts of capital that will be required to be financed through internal cash flows or alternatively additional debt, which given the current financial environment there can be no assurances that such funds will be available. Moreover, this facility is being built to capture anticipated future growth in demand and anticipated savings in production costs. Should such growth or production savings not materialize, or should the timeline for our transition be delayed, we may be unable to achieve our expected investment return, which could adversely affect our results of operations and financial condition.

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

Our extension of credit involves considerable judgment and is based on an evaluation of each customer s financial condition and payment history. We monitor our credit risk exposure by periodically obtaining credit reports and updated financials on our customers. Recently we have seen a heightened amount of bankruptcies by our customers, especially retailers, and we believe this trend may continue given the current economic environment. We maintain an allowance for doubtful receivables for potential credit losses based upon our historical trends and other available information. However, the inability to collect on sales to significant customers or a group of customers could have a material adverse effect on our results of operations.

Our business incurs significant freight and transportation costs.

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

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

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

We rely on independent contract production for a portion of our apparel production.

We have historically relied on third party suppliers to provide a portion of our apparel production. Any shortage of supply, production disruptions, shipping delays, regulatory changes, significant price increases from our suppliers, could adversely affect our apparel operating results.

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

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

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

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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.

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 obligations, accrued liabilities and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We believe the following accounting policies are the most critical due to their 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. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status and associated liability recorded.

Amounts allocated to intangibles are determined based on valuation analysis for our acquisitions and are amortized over their expected useful lives. We evaluate these amounts periodically (at least once a year) to determine whether 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 long lived assets. If these estimates or the related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. In fiscal year 2009, we recorded a non-cash impairment charge of $63.2 million and $4.7 million of goodwill and trademarks, respectively. At November 30, 2009, our goodwill and other intangible assets were approximately $117.3 million and $79.3 million, respectively. We believe our businesses will generate sufficient undiscounted cash flow to more than recover the investments we have made in property, plant and equipment, as well as the goodwill and other intangibles recorded as a result of our acquisitions. However, we cannot predict the occurrence of future 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, we print and store custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms, and revenue is recognized when manufacturing is complete. Approximately $3.1 million and $9.9 million of revenue were recognized under these agreements during the three and nine months ended November 30, 2009, respectively, as compared to $3.9 million and $13.2 million during the three and nine months ended November 30, 2008, respectively.

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

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

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

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

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

Result of Operations

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2009		2008		2009		2008	
Net sales	$ 127,756	100.0%	$ 142,453	100.0%	$ 396,353	100.0%	$ 466,703	100.0%
Cost of goods sold	93,456	73.2	104,596	73.4	295,247	74.5	349,156	74.8
Gross profit	34,300	26.8	37,857	26.6	101,106	25.5	117,547	25.2
Selling, general and administrative	19,006	14.8	21,933	15.4	58,417	14.7	67,860	14.5
(Gain) loss from disposal of assets	2	0.0	(71)	0.0	(1)	0.0	(338)	0.0
Income from operations	15,292	12.0	15,995	11.2	42,690	10.8	50,025	10.7
Other expense	(702)	(0.6)	(441)	(0.3)	(2,416)	(0.6)	(2,539)	(0.5)
	14,590	11.4	15,554	10.9	40,274	10.2	47,486	10.2

Earnings before income taxes											
Provision for income taxes		5,399	4.2		5,678	4.0		14,902	3.8		17,333	3.7
Net earnings	$	9,191	7.2%	$	9,876	6.9%	$	25,372	6.4%	$	30,153	6.5%

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Results of Operations Consolidated

Overview. Our results of operations for the three months and nine months ended November 30, 2009 continue to be impacted by the negative economic environment. However, despite the economic environment which led to a continued decline in sales, we were able to increase both our gross margins and net earnings margin, as a percent of sales, by 20 basis points and 30 basis points, respectively, by successfully implementing cost reduction programs at both our Print and Apparel Segments. We continued to maintain a strong balance sheet, with excellent liquidity and leverage ratios. We generated $71.5 million in cash from our operations for the nine months ended November 30, 2009, almost doubling our last year s production.

Three Months ended November 30, 2009 compared to Three Months ended November 30, 2008

Net Sales. Our sales for the quarter continued to be impacted by the decline in the economic environment. On a comparable basis our sales declined from $142.5 million for the three months ended November 30, 2008 to $127.8 million for current quarter, or 10.3%. Our Print Segment sales for the quarter decreased $12.0 million, or 14.5%, from $82.6 million for the same quarter last year to $70.6 million for the current quarter. Our Apparel Segment sales decreased $2.7 million, or 4.5%, from $59.9 million for the same quarter last year to $57.2 million for the current quarter.

Cost of Goods Sold. Due to cost reduction initiatives implemented and reduced sales, our manufacturing costs decreased by $11.1 million or 10.6%. Our cost of goods sold for the three months ended November 30, 2009 was $93.5 million, or 73.2% of sales, compared to $104.6 million, or 73.4% of sales for the three months ended November 30, 2008. As our costs declined by 10.6% compared to our 10.3% decline in sales, we saw our margins improve 20 basis points during the quarter from 26.6% for the three months ended November 30, 2008 to 26.8% for the three months ended November 30, 2009.

Selling, general and administrative expense. For the three months ended November 30, 2009, our selling, general and administrative expenses were $19.0 million, or 14.8% of sales, compared to $21.9 million, or 15.4% of sales for the three months ended November 30, 2008, or a decrease of approximately $2.9 million, or 13.2% as a result of our cost reduction initiatives implemented.

Gain/Loss from disposal of assets. The loss from disposal of assets of $2,000 for the three months ended November 30, 2009 resulted primarily from the sale of manufacturing equipment. The gain from disposal of assets of $71,000 for the three months ended November 30, 2008 resulted primarily from the sale of vacant facilities.

Income from operations. Our sales volume decline impacted our income from operations by $3.9 million during the quarter, however we were able to successfully mitigate this impact by improving our margins and reducing our selling, general and administrative expenses by $2.9 million. Although our operational earnings on a dollar-basis declined $0.7 million or 4.4%, we were able to improve our operational performance, on a percentage of sales basis. Our income from operations for the three months ended November 30, 2009 was $15.3 million or 12.0% of sales, compared to $16.0 million, or 11.2% of sales for the three months ended November 30, 2008.

Other income and expense. Our interest expense decreased from $0.8 million for the three months ended November 30, 2008 to $0.7 million for the three months ended November 30, 2009 due to less debt on average being outstanding and a lower effective borrowing rate during the quarter.

Provision for income taxes. Our effective tax rate was 37.0% for the three months ended November 30, 2009 compared to 36.5% for the three months ended November 30, 2008. The increase in our effective tax rate from the prior year primarily reflects the changing mix of sales originating in states with higher tax rates.

Net earnings. Due to the above factors, our net earnings for the three months ended November 30, 2009 was $9.2 million, or 7.2% of sales, compared to $9.9 million, or 6.9% of sales for the three months ended November 30, 2008. Our basic earnings per share were $0.36 per share for the three months ended November 30, 2009 compared to $0.38 per share for the three months ended November 30, 2008. Our diluted earnings per share were $0.36 per share for the three months ended November 30, 2009 compared to $0.38 per share for the three months ended November 30, 2008.

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Nine Months ended November 30, 2009 compared to Nine Months ended November 30, 2008

Net Sales. Our sales for the period continued to be impacted by the decline in the economic environment. Net sales for the nine months ended November 30, 2009 were $396.4 million compared to $466.7 million for the nine months ended November 30, 2008, a decrease of $70.3 million, or 15.1%. Our Print Segment sales for the period decreased $37.1 million or 14.6% from $253.3 million to $216.2 million for the nine months ended November 30, 2008 and 2009, respectively. Our Apparel Segment sales for the period decreased $33.3 million or 15.6% from $213.4 million to $180.1 million for the nine months ended November 30, 2008 and 2009, respectively.

Cost of Goods Sold. Due to cost reduction initiatives implemented and reduced sales, our manufacturing costs decreased by $54.0 million or 15.4%. Our cost of goods sold for the period ended November 30, 2009 was $295.2 million, or 74.5% of sales, compared to $349.2 million, or 74.8% of sales for the comparable period last year. As a result of the 15.5% reduction in our manufacturing costs during the period, our gross margins, as a percentage of sales, increased from 25.2% for the nine months ended November 30, 2008 to 25.5% for the nine months ended November 30, 2009.

Selling, general and administrative expense. For the nine months ended November 30, 2009, our selling, general and administrative expenses were $58.4 million compared to $67.9 million for the nine months ended November 30, 2008, or a decrease of approximately $9.5 million. On a dollar basis, these expenses decreased as a result of our cost reduction initiatives and the non-recurring impact associated with an Apparel customer s bankruptcy filing in 2008. As a percentage of sales, these expenses increased slightly from 14.5% to 14.7% for the period ended November 30, 2008 and 2009, respectively, due to the fact that while these expenses decreased by 14.0% over the comparable period, our sales declined by 15.1% over the same period last year.

Gain from disposal of assets. The gain from disposal of assets of $1,000 for the nine months ended November 30, 2009 resulted primarily from the sale of manufacturing equipment. The gain from disposal of assets of $338,000 for the nine months ended November 30, 2008 related primarily to the sale of vacant facilities.

Income from operations. Our income from operations for the nine months ended November 30, 2009 was $42.7 million, or 10.8% of sales compared to $50.0 million, or 10.7% of sales for the same period last year. On a percentage basis, we were able to successfully offset the negative impact of our sales decline through improved margins and reduced selling, general and administrative (SG&A) costs. However, on a dollar basis, these reductions were not able to fully overcome the impact of fewer sales (volume impact -$17.7 million, margin impact +$1.2 million, SG&A impact +$9.4).

Other income and expense. Our interest expense decreased from $2.7 million for the nine months ended November 30, 2008 to $2.1 million for the nine months ended November 30, 2009 due to less debt on average being outstanding and a lower effective borrowing rate during the nine months.

Provision for income taxes. Our effective tax rate was 37.0% for the nine months ended November 30, 2009 compared to 36.5% for the nine months ended November 30, 2008. The increase in our effective tax rate from the prior year primarily reflects the changing mix of sales originating in states with higher tax rates.

Net earnings. Due to the above factors, our net earnings for the nine months ended November 30, 2009 was $25.4 million, or 6.4% of sales, compared to $30.2 million, or 6.5% of sales for the nine months ended November 30, 2008. Our basic earnings per share for the nine months ended November 30, 2009 was $0.99 per share compared to $1.17 per share for the nine months ended November 30, 2008. Our diluted earnings per share was $0.98 per share for the nine months ended November 30, 2009 compared to $1.17 for the nine months ended November 30, 2008.

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Results of Operations   Segments

Net Sales by Segment (in thousands)	Three months ended November 30, 2009	Three months ended November 30, 2008	Nine months ended November 30, 2009	Nine months ended November 30, 2008
Print	$ 70,590	$ 82,577	$ 216,215	$ 253,269
Apparel	57,166	59,876	180,138	213,434
Total	$ 127,756	$ 142,453	$ 396,353	$ 466,703

Print Segment. Our net sales for our Print Segment, which represented 55% of our consolidated sales during the three and nine months ended November 30, 2009, were approximately $70.6 million and $216.2 million for the same period, compared to approximately $82.6 million and $253.3 million for the three and nine months ended November 30, 2008, a decrease of $12.0 million and $37.1 million, or 14.5% and 14.6%, respectively. Sales from our traditional print plants declined primarily due to general economic conditions and the continued contraction of traditional business forms which occurs as customers continue to migrate away from traditional printed business form products due to technological advancements.

Apparel Segment. Our net sales for the Apparel Segment represented 45% of our consolidated sales for the three and nine months ended November 30, 2009. The negative economic environment and competitors pricing strategies continues to impact our Apparel sales. While we have seen some weeks of strength during the current quarter, we also saw some weeks of softness, so from our perspective we haven t started to see what we would classify as a consistent sustained rebound. For the year our Apparel sales are off $33.3 million, or 15.6%, while for the quarter our sales we off $2.7 million, or only 4.5%.

Gross Profit by Segment (in thousands)	Three months ended November 30, 2009	Three months ended November 30, 2008	Nine months ended November 30, 2009	Nine months ended November 30, 2008
Print	$ 20,111	$ 21,776	$ 60,217	$ 67,782
Apparel	14,189	16,081	40,889	49,765
Total	$ 34,300	$ 37,857	$ 101,106	$ 117,547

Print Segment. Our Print gross profit margin (margin) as a percentage of sales was 28.5% and 27.9% for the three and nine months ended November 30, 2009, respectively, as compared to 26.4% and 26.8% for the three and nine months ended November 30, 2008, respectively. Despite the economic environment, and double digit sales volume decline in our Print Segment coupled with cost increases, we were able to increase our margin through improved operational efficiencies and cost control measures we have in place.

Apparel Segment. Our Apparel gross profit margin (margin) as a percentage of sales, were 24.8% and 22.7%, for the three and nine months ended November 30, 2009, as compared to 26.9% and 23.3% for the three and nine months ended November 30, 2008, respectively. The decline in margin during the first half of the year was the result of lower sales volume, increased costs of raw material, freight, chemical and energy costs, competitive pricing pressures, product and customer mix changes (i.e., more sales of lower margin products or to larger lower pricing tiered customers). Competitive pricing pressures and product and customer mix changes continued to impact our margins during the third quarter.

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Profit by Segment (in thousands)	Three months ended November 30, 2009	Three months ended November 30, 2008	Nine months ended November 30, 2009	Nine months ended November 30, 2008
Print	$ 12,695	$ 13,382	$ 36,215	$ 42,204
Apparel	6,015	6,286	15,638	17,717
Total	18,710	19,668	51,853	59,921
Less corporate expenses	4,120	4,114	11,579	12,435
Earnings before income taxes	$ 14,590	$ 15,554	$ 40,274	$ 47,486

Print Segment. Our Print profit decreased approximately $0.7 million and $6.0 million, or 5.2% and 14.2%, from $13.4 million and $42.2 for the three and nine months ended November 30, 2008, respectively, to $12.7 million and $36.2 million for the three and nine months ended November 30, 2009, respectively. As a percent of sales, our Print profits were 18.0% and 16.7% for the three and nine months ended November 30, 2009, as compared to 16.2% and 16.7% for the three and nine months ended November 30, 2008. The increase in our Print profit as a percentage of sales resulted from cost reduction initiatives.

Apparel Segment. Our Apparel profit decreased approximately $0.3 million, or 4.3%, from $6.3 million for the three months ended November 30, 2008 to $6.0 million for the three months ended November 30, 2009. Our Apparel profit decreased approximately $2.1 million, or 11.7%, from $17.7 million for the nine months ended November 30, 2008 to $15.6 million for the nine months ended November 30, 2009. On a percentage basis, we have been able to offset the decline in sales experienced during the quarter and period through improved operational and manufacturing efficiencies. As a percent of sales, our Apparel profits were 10.5% and 8.7% for the three and nine months ended November 30, 2009, compared to 10.5% and 8.3% for the comparable periods last year.

Liquidity and Capital Resources

(Dollars in thousands)	November 30, 2009	February 28, 2009	Change
Working Capital	$118,295	$138,374	-14.5%
Cash	$ 22,594	$ 9,286	143.3%

Working Capital. Our working capital decreased by approximately $20.1 million, or 14.5% from $138.4 million at February 28, 2009 to $118.3 million at November 30, 2009. The decrease in our working capital during the period related primarily to the $34.0 million pay-down in our long-term debt as well as $11.7 million used to fund our capital expenditures, primarily the building of our new manufacturing facility in Agua Prieta, Mexico. These were offset by approximately a $26.1 million reduction in our inventories over this same period. As a result, our current ratio, calculated by dividing our current assets by our current liabilities decreased from 4.2 to 1.0 at February 28, 2009 to 3.4 to 1.0 at November 30, 2009. However, our long term debt to equity ratio improved from .26 to 1.0 to .14 to 1.0.

(Dollars in thousands)	Nine months ended November 30, 2009	2008	Change
Net Cash provided by operating activities	$ 71,469	$ 36,203	97.4%
Net Cash used in investing activities	$(11,731)	$ (3,137)	274.0%
Net Cash used in financing activities	$(46,575)	$(32,956)	41.3%

Cash flows from operating activities. Cash provided by operating activities increased by $35.3 million, or 97.4% to $71.5 million for the nine months ending November 30, 2009, compared to $36.2 million for the nine months ended November 30, 2008. We were able to generate cash by reducing our inventories by $26.1 million and increasing our payables by $5.2 million during the period.

Cash flows from investing activities. Cash used for investing activities, which related to capital expenditures, increased by $8.6 million from $3.1 million for the nine months ended November 30, 2008 to $11.7 million for the nine months ended November 30, 2009. The increase in our capital expenditures relates primarily to our new Apparel manufacturing facility located in Agua Prieta, Mexico.

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Cash flows from financing activities. We used $13.6 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 $34.2 million during the nine months ended November 30, 2009, compared to $21.7 million during the same period of 2008.

Credit Facility. On August 18, 2009, we entered into a Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides us access to $150.0 million in revolving credit, which we may increase to $200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.0% to 3.5% (currently LIBOR + 2.25% or 2.49% at November 30, 2009), depending on our total funded debt to EBITDA ratio, as defined. As of November 30, 2009, we had $40.0 million of borrowings under the revolving credit line and $3.7 million outstanding under standby letters of credit arrangements, leaving us availability of approximately $106.3 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. We are in compliance with all these covenants as of November 30, 2009. The Facility is secured by substantially all of our domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

During the nine months ended November 30, 2009, we repaid $34.2 million on other debt. It is anticipated that the available line of credit is sufficient to cover working capital requirements for the foreseeable future should it be required.

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

On July 7, 2008, we entered into a three-year Interest Rate Swap Agreement (Swap) for a notional amount of $40.0 million. The Swap effectively fixes the LIBOR rate at 3.79%. The Swap was designated as a cash flow hedge, and the fair value at November 30, 2009 was $(2.1) million, $(1.3) million net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet in long-term debt with a related deferred charge recorded as a component of other comprehensive income.

Pension We are required to make contributions to our defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Pension Plan Income Security Act of 1974 (ERISA). We anticipate that we will contribute from $2.0 million to $3.0 million during our current fiscal year. We made contributions of $3.0 million to our pension plan during fiscal year 2009.

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

Capital Expenditures We expect our capital requirements for 2010, exclusive of capital required for possible acquisitions and the construction of our new manufacturing facility in Agua Prieta, Mexico, will be in line with our historical levels of between $4.0 million and $8.0 million. We would expect to fund these expenditures through existing cash flows. We would expect to generate sufficient cash flows from our operating activities to cover our operating and other normal capital requirements for our foreseeable future.

On June 26, 2008, we announced plans to build a new manufacturing facility in the town of Agua Prieta in the state of Sonora, Mexico. We estimate the total capital expenditures of $45 million to $50 million ($20 million - $25

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million for building and $20 million - $25 million for machinery and equipment), with funding to be provided by internal cash flow and, as required, our existing credit facilities. The facility is expected to be operational in fiscal year 2011.

Contractual Obligations & Off-Balance Sheet Arrangements There have been no significant changes in our contractual obligations since February 28, 2009 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of November 30, 2009.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance for fair value measurement which establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance does not require any new fair value measurements, but rather applies all other pronouncements that require or permit fair value measurements. In February 2008, the FASB issued authoritative guidance which delayed the effective date to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities. The adoption of the remaining provisions of this guidance previously deferred did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued authoritative guidance for business combinations which establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance is applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008 (our fiscal year ending February 28, 2010). The impact of the adoption will depend on the nature and terms of future acquisitions, if any.

In December 2007, the FASB issued authoritative guidance which establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008 (our fiscal year ending February 28, 2010). The adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued authoritative guidance which requires entities to provide enhanced disclosures about derivative instruments and hedging activities. The guidance is effective for fiscal years and interim periods beginning on or after November 15, 2008. The adoption did not have a material impact on our consolidated financial position, results of operations, cash flows or notes to the financial statements.

In May 2009, the FASB issued authoritative guidance which establishes principles and standards related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. This guidance requires an entity to recognize in the financial statements subsequent events that provide additional information regarding conditions that existed at the balance sheet date. Subsequent events that provide information about conditions that did not exist at the balance sheet date shall not be recognized in the financial statements under this guidance. We adopted this guidance in the second quarter of fiscal year 2010 and the adoption did not have a material effect on our consolidated financial position, results of operations, cash flows or notes to the financial statements.

In June 2008, the FASB issued authoritative guidance related to the calculation of earnings per share. The guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Our participating securities are composed of unvested restricted stock.

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These participating securities, prior to application, were excluded from weighted-average common shares outstanding in the calculation of basic earnings per common share. We adopted the new guidance on March 1, 2009, and have calculated and presented basic earnings per common share on this basis for all periods presented for fiscal year 2010. The impact of the adoption had no effect on basic earnings per common share for the three and nine months ended November 30, 2008.

In April 2009, the FASB issued additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. Additionally, this guidance identifies circumstances that indicate a transaction is not orderly. We adopted this guidance in the second quarter of fiscal year 2010, and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued authoritative guidance related to interim disclosures about fair value of financial instruments. This guidance requires disclosures about the fair value of financial instruments whenever a public company issues financial information for interim reporting periods. We adopted this guidance in the second quarter of fiscal 2010 and the adoption did not have an effect on our consolidated financial position, results of operations or cash flows.

In December 2008, the FASB issued authoritative guidance related to employers disclosures about the plan assets of defined benefit pension or other postretirement plans. The additional disclosure requirements include how investment allocation decisions are made, the major categories of plan assets and the inputs and valuation techniques used to measure the fair value of plan assets. The disclosures about plan assets required by this additional guidance shall be provided for fiscal years ending after December 15, 2009 (our fiscal year ending February 28, 2010). The adoption is not expected to have an impact on our consolidated financial position, results of operations or cash flows, but additional disclosures will be made in the notes to the financial statements for the year ended February 28, 2010.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Cash

We have significant amounts of cash at financial institutions that are in excess of federally insured limits. With the current financial environment and the instability of financial institutions, we cannot be assured that we will not experience losses on our deposits.

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 facility, totaled $40.0 million at November 30, 2009. We entered into a $40.0 million interest rate swap designated as a cash flow hedge related to this debt. The LIBOR rate on $40.0 million of debt is effectively fixed through this interest rate swap agreement. There would be no impact on our results of operations of a one-point interest rate change on the outstanding balance of the variable rate financial instruments as of November 30, 2009.

Foreign Exchange

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

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Dollar). Such translation adjustments are reported as a separate component of shareholders equity. In future periods, foreign exchange rate fluctuations could have an increased impact on our reported results of operations.

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of November 30, 2009 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Reference is made to page 24 of this Report on Form 10-Q. There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 28, 2009.

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

There were no repurchases of common stock during the third quarter of fiscal year 2010. There is a maximum amount of approximately $4.0 million that may yet be used to purchase shares under the program.

Under the existing plan which was enacted by the Board in October 20, 2008, the Company was authorized to repurchase up to $5.0 million of the common stock. As of December 23, 2009, the Company repurchased 96,000 shares for an aggregate consideration of approximately $1.0 million.

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Items 3 and 5 are not applicable and have been omitted

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

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

Item 6. Exhibits

The following exhibits are filed as part of this report.

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

* Filed herewith

** Furnished herewith

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SIGNATURES

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

	ENNIS, INC.
Date: December 23, 2009	/s/ Keith S. Walters Keith S. Walters Chairman, Chief Executive Officer and President
Date: December 23, 2009	/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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