ENNIS, INC.
Form 10-Q
July 03, 2007

Table of Contents

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 May 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated Filer o Accelerated filer þ Non-accelerated filer 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 June 27, 2007, there were 25,585,701 shares of the Registrant s common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE PERIOD ENDED MAY 31, 2007
TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Balance Sheets at May 31, 2007 (unaudited) and February 28, 2007	3
Unaudited Consolidated Statements of Earnings for the three months ended May 31, 2007 and 2006	5
Unaudited Consolidated Statements of Cash Flows for the three months ended May 31, 2007 and 2006	6
Notes to the Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	32
PART II: OTHER INFORMATION	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Submission of Matters to a Vote of Security Holders	33
Item 5. Other Information	33
Item 6. Exhibits	33
SIGNATURES	34
Certification Pursuant to Rule 13a-14(a)/15d-14(a) of CEO	
Certification Pursuant to Rule 13a-14(a)/15d-14(a) of CFO	
Section 1350 Certification of CEO	
Section 1350 Certification of CFO	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	May 31, 2007 (unaudited)	February 28, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 2,551	$ 3,582
Accounts receivable, net of allowance for doubtful receivables of $2,973 at May 31, 2007 and $2,698 at February 28, 2007	54,068	47,285
Prepaid expenses	5,039	5,628
Inventories	87,838	85,696
Deferred income taxes	7,444	7,444
Assets held for sale	1,881	1,881
Total current assets	158,821	151,516
Property, plant and equipment, at cost		
Plant, machinery and equipment	128,070	127,521
Land and buildings	40,922	40,680
Other	22,574	22,506
Total property, plant and equipment	191,566	190,707
Less accumulated depreciation	130,767	127,650
Net property, plant and equipment	60,799	63,057
Goodwill	178,388	178,314
Trademarks and tradenames, net	63,015	63,052
Customer lists, net	19,868	20,287
Deferred finance charges, net	1,269	1,382
Other assets	590	620
Total assets	$ 482,750	$ 478,228

See accompanying notes to consolidated financial statements.

Table of Contents

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

	May 31, 2007 *(unaudited)*	February 28, 2007
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 25,781	$ 25,597
Accrued expenses		
Employee compensation and benefits	14,293	15,799
Taxes other than income	658	611
Federal and state income taxes payable	5,413	973
Other	5,153	5,615
Current installments of long-term debt	532	652
Total current liabilities	51,830	49,247
Long-term debt, less current installments	83,386	88,971
Liability for pension benefits	3,106	2,702
Deferred income taxes	19,861	19,603
Other liabilities	1,014	1,302
Total liabilities	159,197	161,825
Commitments and contingencies		
Shareholders equity		
Series A junior participating preferred stock of $10 par value, authorized 1,000,000 shares; none issued		
Common stock $2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at May 31 and February 28, 2007	75,134	75,134
Additional paid in capital	122,283	122,305
Retained earnings	213,779	207,190
Accumulated other comprehensive income (loss):		
Foreign currency translation	459	25
Minimum pension liability	(7,396)	(7,396)
	(6,937)	(7,371)
	404,259	397,258
Treasury stock		
Cost of 4,467,742 shares at May 31, 2007 and 4,475,962 shares at February 28, 2007	(80,706)	(80,855)

Total shareholders equity		323,553		316,403
Total liabilities and shareholders equity	$	482,750	$	478,228

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	Three months ended May 31,	
	2007	**2006**
Net sales	$ 152,774	$ 145,113
Cost of goods sold	114,207	107,298
Gross profit	38,567	37,815
Selling, general and administrative	18,987	18,078
Income from operations	19,580	19,737
Other income (expense)		
Interest expense	(1,492)	(1,792)
Other income (expense), net	(951)	38
	(2,443)	(1,754)
Earnings before income taxes	17,137	17,983
Provision for income taxes	6,341	6,653
Net earnings	$ 10,796	$ 11,330
Weighted average common shares outstanding		
Basic	25,585,449	25,479,722
Diluted	25,874,789	25,790,687
Per share amounts		
Net earnings basic	$ 0.42	$ 0.44
Net earnings diluted	$ 0.42	$ 0.44
Cash dividends per share	$ 0.155	$ 0.155

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended May 31,	
	2007	**2006**
Cash flows from operating activities:		
Net earnings	$ 10,796	$ 11,330
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	3,301	3,894
Amortization of deferred finance charges	112	92
Amortization of trademarks and customer lists	466	497
Loss on the sale of equipment	10	3
Bad debt expense	373	
Stock based compensation	124	59
Excess tax benefit of stock option exercises		(3)
Deferred income taxes	3	
Changes in operating assets and liabilities, net of the effects of acquisition:		
Accounts receivable	(6,858)	(4,150)
Prepaid expenses	622	(2,011)
Inventories	(1,845)	675
Other current assets		(1)
Prepaid pension asset/liability for pension benefits	404	459
Other liabilities	(528)	(501)
Other assets	21	(517)
Accounts payable and accrued expenses	2,483	2,352
Net cash provided by operating activities	9,484	12,178
Cash flows from investing activities:		
Capital expenditures	(1,018)	(636)
Purchase of business, net of cash acquired		(4,627)
Proceeds from disposal of plant and property	23	3
Net cash used in investing activities	(995)	(5,260)
Cash flows from financing activities:		
Repayment of debt	(5,705)	(7,473)
Dividends	(3,967)	(3,949)
Proceeds from exercise of stock options	3	14
Excess tax benefit of stock option exercises		3
Net cash used in financing activities	(9,669)	(11,405)

Effect of exchange rate changes on cash	149	(51)
Net change in cash and cash equivalents	(1,031)	(4,538)
Cash and cash equivalents at beginning of period	3,582	13,860
Cash and cash equivalents at end of period	$ 2,551	$ 9,322

See accompanying notes to consolidated financial statements.

Table of Contents

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

1. Basis of Presentation

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis), for the quarter ended May 31, 2007 have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended February 28, 2007, from which the accompanying consolidated balance sheet at February 28, 2007 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

Recent Accounting Pronouncements

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

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

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

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

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

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

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Table of Contents

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

1. Significant Accounting Policies and General Matters-continued

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

2. Due From Factors

Pursuant to terms of an agreement between the Company and various factors, the Company sold approximately 47% of its trade accounts receivable of Alstyle Apparel (Alstyle) to the factors on a non-recourse basis during the three months ended May 31, 2007 (60% for the quarter ended May 31, 2006). The price at which the accounts are sold is the invoice amount reduced by the factor commission of between 0.25% and 1.50%. Additionally, some trade accounts receivable are sold to the factors on a recourse basis.

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

The Company may request payment from the factor in advance of the collection date or maturity. Any such advance payments are assessed interest charges through the collection date or maturity at the JP Morgan Chase Prime Rate. The Company s obligations with respect to advances from the factor are limited to the interest charges thereon. Advance payments are limited to a maximum of 90% (ninety percent) of eligible accounts receivable.

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

	May 31, 2007	February 28, 2007
Outstanding factored receivables		
Without recourse	$ 13,389	$ 18,766
With recourse	257	405
Advances from factors	(11,070)	(16,088)
Due from factors	$ 2,576	$ 3,083

3. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 97% of the Company s receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer s financial condition, (ii) the amount of credit the customer requests and (iii) the customer s actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company s allowance for doubtful receivables reserve is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

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

Table of Contents

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

3. Accounts Receivable and Allowance for Doubtful Receivables- continued

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

	Three months ended May 31,	
	2007	2006
Balance at beginning of period	$ 2,698	$ 3,001
Bad debt expense	373	
Recoveries	1	91
Accounts written off	(99)	(135)
Balance at end of period	$ 2,973	$ 2,957

4. Inventories

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

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

	May 31, 2007	February 28, 2007
Raw material	$ 12,678	$ 11,074
Work-in-process	18,486	16,694
Finished goods	56,674	57,928
	$ 87,838	$ 85,696

5. Acquisitions

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

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

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

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

Table of Contents

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

5. Acquisitions-continued

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

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

Accounts receivable	$ 826
Inventories	579
Property, plant & equipment	3,689
Other assets	5
Deferred tax asset	1,780
Noncompete	25
Accounts payable and accrued liabilities	(2,316)
	$ 4,588

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

	Three months ended May 31, 2006
Pro forma net sales	$ 156,035
Pro forma net earnings	11,050
Pro forma earnings per share diluted	0.43

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

6. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. Based on this evaluation, no impairment was recorded. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future.

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives with a net book value of $62,260,000 at May 31, 2007 are evaluated for impairment on an annual

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

10

Table of Contents

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

6. Goodwill and Other Intangible Assets-continued

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

	Gross Carrying Amount	Accumulated Amortization	Net
As of May 31, 2007			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 479	$ 755
Purchased customer lists	24,057	4,189	19,868
Noncompete	467	427	40
	$ 25,758	$ 5,095	$ 20,663
As of February 28, 2007			
Amortized intangible assets (in thousands)			
Tradenames	$ 1,234	$ 442	$ 792
Purchased customer lists	24,057	3,770	20,287
Noncompete	467	417	50
	$ 25,758	$ 4,629	$ 21,129

	May 31, 2007	February 28, 2007
Unamortized intangible assets (in thousands)		
Trademarks	$ 62,260	$ 62,260

Aggregate amortization expense for the three months ended May 31, 2007 and May 31, 2006 was $466,000 and $497,000, respectively.

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

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

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, 2006	$ 40,580	$ 137,700	$ 178,280

Goodwill adjusted during year	34		34
Impairment losses			
Balance as of March 1, 2007	40,614	137,700	178,314
Goodwill adjusted during period	74		74
Impairment losses			
Balance as of May 31, 2007	$ 40,688	$ 137,700	$ 178,388

Table of Contents

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

6. Goodwill and Other Intangible Assets-continued

During the three months ended May 31, 2007 and fiscal year ended February 28, 2007, adjustments of $74,000 and $34,000, respectively, were added to goodwill due to revised estimates in accrued expenses acquired.

7. Other Accrued Expenses

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

	May 31, 2007	February 28, 2007
Accrued interest	$ 873	$ 975
Accrued taxes	362	424
Accrued legal and professional fees	69	267
Accrued utilities	676	786
Factored receivables with recourse	869	772
Other accrued expenses	2,304	2,391
	$ 5,153	$ 5,615

8. Long-Term Debt

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

	May 31, 2007	February 28, 2007
Revolving credit facility	$ 83,000	$ 88,500
Capital lease obligations	681	784
Note payable to finance company	224	314
Other	13	25
	83,918	89,623
Less current installments	532	652
Long-term debt	$ 83,386	$ 88,971

On March 31, 2006, the Company entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides the Company access to $150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .75% 6.10%), depending on the Company s total funded debt to EBITDA ratio, as defined. The Facility is secured by substantially all of the Company s personal and investment property. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Facility is secured by substantially all of the Company s assets.

Assets under capital leases have a total gross book value of $1,392,000 and $1,092,000 and related accumulated amortization of $346,000 and $240,000 as of May 31, 2007 and February 28, 2007, respectively, and are included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense. Capital lease obligations have interest due monthly at 4.82% to 7.86% and principal paid in equal monthly installments. The notes mature at dates ranging from July 2007 through January 2010.

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

Table of Contents

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

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 May 31,	
	2007	2006
Net earnings	$ 10,796	$ 11,330
Interest rate hedge		
Foreign currency translation adjustment	434	12
Comprehensive income	$ 11,230	$ 11,342

Changes in our shareholders equity accounts for the three months ended May 31, 2007 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, 2007	30,053,443	75,134	122,305	207,190	(7,371)	(4,475,962)	(80,855)	316,403
Net earnings				10,796				10,796
Foreign currency translation					434			434
Comprehensive income								11,230
Cumulative impact of a change in accounting for income tax uncertainties pursuant to FIN 48				(240)				(240)
Dividends declared ($.155 per share)				(3,967)				(3,967)
Stock based compensation			124					124
Exercise of stock options and restricted stock grants			(146)			8,220	149	3

Balance								
May 31, 2007	30,053,443	$ 75,134	$ 122,283	$ 213,779	$ (6,937)	(4,467,742)	$ (80,706)	$ 323,553

10. <u>Stock Option Plans and Stock Based Compensation</u>

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

The Company has stock options granted to key executives and managerial employees and non-employee directors. At May 31, 2007, the Company has two stock option plans: the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 and the 1991 Incentive Stock Option Plan. The Company has 975,140 shares of unissued common stock reserved under the stock option plans for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each option granted equals the quoted market price of the Company s common stock on the date of grant, and an option s maximum term is ten years. Options may be granted at different times during the year and vest ratably over various periods, from upon grant to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

Table of Contents

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

10. Stock Option Plans and Stock Based Compensation-continued

For the three months ended May 31, 2007 and 2006, the Company included in selling, general and administrative expenses, compensation expense related to its share based compensation of $124,000 ($78,000 net of tax), and $59,000 ($37,000 net of tax), respectively.

The Company had the following stock option activity for the three months ended May 31, 2007:

	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, 2007	553,513	$11.08		
Granted				
Terminated	(13,000)	14.91		
Exercised	(250)	10.25		
Outstanding at May 31, 2007	540,263	$10.99	3.6	$ 6,977
Exercisable at May 31, 2007	481,238	$10.42	3.1	$ 6,486

(a) Value is calculated on the basis of the difference between the market value of the Company s Common Stock as reported on the New York Stock Exchange on May 31, 2007 ($23.90) and the weighted average exercise price, multiplied by the number of shares indicated.

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

	Three months ended May 31,	
	2007	2006
Total cash received	$ 3	$ 15
Income tax benefits	$	$ 3
Total grant-date fair value	$	$ 2
Intrinsic value	$ 4	$ 14

A summary of the status of the Company s unvested stock options at May 31, 2007, and changes during the three months ended May 31, 2007 is presented below:

	Number of Options	Weighted Average Grant Date Fair Value
Unvested at February 28, 2007	99,025	$ 2.52
New grants		
Vested	(27,500)	2.33
Forfeited	(12,500)	2.48
Unvested at May 31, 2007	59,025	2.61

As of May 31, 2007, there was $123,000 of unrecognized compensation cost related to nonvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 2.1 years. The total fair value of shares underlying the options vested during the three months ended May 31, 2007 was $657,000.

Table of Contents

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

10. Stock Option Plans and Stock Based Compensation-continued

The Company had the following restricted stock grants activity for the three months ended May 31, 2007:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at February 28, 2007	39,919	$19.67
Granted	40,600	27.71
Terminated		
Exercised	(7,970)	19.69
Outstanding at May 31, 2007	72,549	$24.17
Exercisable at May 31, 2007		$

As of May 31, 2007, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately $1.6 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.5 years.

11. Employee Benefit Plans

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 15% of their employees. Benefits are based on years of service and the employee s average compensation for the highest five compensation years preceding retirement or termination. The Company s funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

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

	Three months ended May 31,	
	2007	2006
Components of net periodic benefit cost Service cost	$ 358	$ 360
Interest cost	626	610
Expected return on plan assets	(770)	(712)
Amortization of:		
Prior service cost	(36)	(36)
Unrecognized net loss	226	239
Net periodic benefit cost	$ 404	$ 461

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

15

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

12. Earnings per share

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

	Three months ended May 31,	
	2007	**2006**
Basic weighted average common shares outstanding	25,585,449	25,479,722
Effect of dilutive options and restricted stock	289,340	310,965
Diluted weighted average common shares outstanding	25,874,789	25,790,687
Per share amounts:		
Net earnings basic	$ 0.42	$ 0.44
Net earnings diluted	$ 0.42	$ 0.44
Cash dividends	$ 0.155	$ 0.155

13. Segment Information and Geographic Information

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

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

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

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

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

The second segment, the Apparel Segment, which accounted for 44% of the Company s consolidated net sales for the three months ended May 31, 2007, consists of Alstyle Apparel, which was acquired in November 2004. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other

wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

Table of Contents

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

13. Segment Information and Geographic Information-continued

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

Segment data for the three months ended May 31, 2007 and 2006 were as follows (in thousands):

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
Three months ended May 31, 2007:				
Net sales	$ 85,135	$ 67,639	$	$152,774
Depreciation	2,069	1,008	224	3,301
Amortization of identifiable intangibles	99	367		466
Segment earnings (loss) before income tax	13,037	8,385	(4,285)	17,137
Segment assets	148,027	324,197	10,526	482,750
Capital expenditures	602	409	7	1,018
Three months ended May 31, 2006:				
Net sales	$ 77,096	$ 68,017	$	$145,113
Depreciation	2,024	1,719	151	3,894
Amortization of identifiable intangibles	93	404		497
Segment earnings (loss) before income tax	11,271	10,042	(3,330)	17,983
Segment assets	159,106	320,754	18,583	498,443
Capital expenditures	371	187	78	636

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

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

Table of Contents

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

13. Segment Information and Geographic Information-continued

	United States	Canada	Mexico	Total
Three months ended May 31, 2006:				
Net sales to unaffiliated customers				
Customers				
Print Segment	$ 77,096	$	$	$ 77,096
Apparel Segment	62,265	5,752		68,017
	$ 139,361	$ 5,752	$	$ 145,113
Identifiable long-lived assets				
Print Segment	$ 44,683	$	$	44,683
Apparel Segment	11,509	97	3,376	14,982
Corporate	6,194			6,194
	$ 62,386	$ 97	$ 3,376	$ 65,859

14. Supplemental Cash Flow Information

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

	Three months ended May 31,	
	2007	**2006**
Interest paid	$ 1,594	$ 1,300
Income taxes paid	$ 1,315	$ 1,264

15. Assets Held for Sale

On September 28, 2006, the Board of Directors authorized management of the Company to sell the Company s print manufacturing facilities located in Dallas, Texas. In conjunction therewith, land and building with a net book value of $0.6 million and equipment with a net book value of $1.3 million is being classified as held for sale at May 31, 2007 and February 28, 2007. The Company has entered into a contract for sale on one of the two facilities. The buyer is completing their due diligence and closing is expected to take place on or about July 23, 2007. Based on the contracted sales price, no loss on the transaction is expected.

16. Subsequent Event

On June 28, 2007, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents a share quarterly dividend to be payable on August 1, 2007 to shareholders of record of July 13, 2007.

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

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

Overview

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

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

Business Segment Overview

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

Print Segment

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

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

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

The 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

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

other business products through a variety of independent distributors and distributor groups. While it is not possible, because of the lack of adequate statistical information, to determine Ennis share of the total business products market, management believes Ennis is one of the largest producers of business forms in the United States distributing primarily through independent dealers, and that its business forms offering is more diversified than that of most companies in the business forms industry.

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

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

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

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

Apparel Segment

The Apparel Segment represented 44% of our consolidated net sales for the three months ended May 31, 2007. This segment operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knit basic activewear (t-shirts, tank tops and fleece) across all market segments. Approximately 95% of Alstyle s revenues are derived from t-shirt sales, and 93% of those are domestic sales. Alstyle s branded product lines are AAA Alstyle Apparel & Activewear®, Gaziani®, Diamond Star®, Murina®, A Classic, Tennessee River®, D Drive , and Hyland® Headware.

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

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

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

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

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

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

Alstyle s sales are seasonal, with sales in the first and second quarters generally being the highest. The general apparel industry is characterized by rapid shifts in fashion, consumer demand and competitive pressures, resulting in both price and demand volatility. However, the imprinted activewear market that Alstyle sells to is generally event driven. Blank t-shirts can be thought of as walking billboards promoting movies, concerts, sports teams, and image brands. Still, the demand for any particular product varies from time to time based largely upon changes in consumer preferences and general economic conditions affecting the apparel industry.

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

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

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

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

Risk Factors

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

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. At May 31, 2007, our goodwill and other intangible assets were approximately $178.4 million and $82.9 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets. Annually, we have conducted a review of our goodwill and other identifiable intangible assets to determine whether there has been impairment. Such a review was completed for our fiscal year ended February 28, 2007, and we concluded that no impairment charge was necessary. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders equity and financial results and may cause a decline in our stock price.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

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

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

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

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

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

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

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

As of May 31, 2007, approximately 14% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Two unions represent all of our hourly employees in Mexico. There can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

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

Alstyle generally acquires its cotton yarn under short-term purchase orders with its suppliers, and has exposure to swings in cotton market prices. Alstyle does not use derivative instruments, including cotton option contracts, to manage its exposure to movements in cotton market prices. Alstyle may use such derivative instruments in the

22

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

future. We believe we are competitive with other companies in the United States apparel industry in negotiating the price of cotton. However, any significant increase in the price of cotton or shortages in the availability of cotton as the result of farmers switching to alternative crops, such as corn, could have a material adverse effect on our results of operations.

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

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

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

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

Apparel business is subject to cyclical trends.

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

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

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

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

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

The North American Free Trade Agreement (NAFTA) became effective on January 1, 1994 and has created a free-trade zone among Canada, Mexico and the United States. NAFTA contains a rule of origin requirement that products be produced in one of the three countries in order to benefit from the agreement. NAFTA has phased out all

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

trade restrictions and tariffs among the three countries on apparel products competitive with those of Alstyle. Alstyle performs substantially all of its cutting and sewing in five plants located in Mexico in order to take advantage of the NAFTA benefits. Subsequent repeal or alteration of NAFTA could adversely affect our business.

The Central American Free Trade Agreement (CAFTA) became effective May 28, 2004 and retroactive to January 1, 2004 for textiles and apparel. It creates a free trade zone similar to NAFTA by and between the United States and Central American countries (El Salvador, Honduras, Costa Rica, Nicaragua and Dominican Republic). Textiles and apparel will be duty-free and quota-free immediately if they meet the agreement s rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement will also give duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle sources approximately 12% of its sewing to a contract manufacturer in El Salvador, and we do not anticipate that challenges to CAFTA would have a material effect on our operations.

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

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

Environmental regulations may impact our future operating results.

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

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

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

Cautionary Statements

You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. In addition, certain statements in this report, and in particular, statements found in Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We believe these forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of Ennis. All such statements involve risks and uncertainties, and as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

involve known and unknown risks, including but not limited to, general economic, business and labor conditions; the ability to implement our strategic initiatives; the ability to be profitable on a consistent basis; dependence on sales that are not subject to long-term contracts; dependence on suppliers; the ability to recover the rising cost of key raw materials in markets that are highly price competitive; the ability to meet customer demand for additional value-added products and services; the ability to timely or adequately respond to technological changes in the industry; the impact of the Internet and other electronic media on the demand for forms and printed materials; postage rates; the ability to manage operating expenses; the ability to manage financing costs and interest rate risk; a decline in business volume and profitability could result in an impairment of goodwill; the ability to retain key management personnel; the ability to identify, manage or integrate future acquisitions; the costs associated with and the outcome of outstanding and future litigation; and changes in government regulations.

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

Result of Operations

Consolidated Statements of Earnings Data

	Three Months Ended May 31,			
	2007		2006	
Net sales	$ 152,774	100.0%	$ 145,113	100.0%
Cost of goods sold	114,207	74.8	107,298	73.9
Gross profit	38,567	25.2	37,815	26.1
Selling, general and administrative	18,987	12.4	18,078	12.5
Income from operations	19,580	12.8	19,737	13.6
Other expense	(2,443)	(1.6)	(1,754)	(1.2)
Earnings before income taxes	17,137	11.2	17,983	12.4
Provision for income taxes	6,341	4.1	6,653	4.6
Net earnings	$ 10,796	7.1%	$ 11,330	7.8%

Critical Accounting Policies and Judgments

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

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

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

We exercise judgment in evaluating our long-lived assets for impairment. We assess the impairment of long-lived assets that include other intangible assets, goodwill, and property, plant, and equipment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In performing tests of

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

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

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, Ennis prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately $5.1 million of revenue were recognized under these agreements during the three months ended May 31, 2007 as compared to $5.6 million during the three months ended May 31, 2006. Sales in foreign countries were not significant for the three months ended May 31, 2007 or May 31, 2006.

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

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

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

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

Results of Operations Consolidated

Net Sales. Net sales for the three months ended May 31, 2007 were $152.8 million compared to $145.1 million for the three months ended May 31, 2006, an increase of $7.7 million, or 5.3%. The increase in our sales for the quarter related primarily to an increase in our Print Segment sales which increased $8.0 million during the quarter, or 10.4%. Our Apparel Segment sales for the quarter remained relatively flat at $67.6 million for the three months ended May 31, 2007 and $68.0 million for the three months ended May 31, 2006. See Results of Operation Segments of this Report for further discussion on our Segment sales.

Gross profit. Our gross profit for the three months ended May 31, 2007 was $38.6 million, or 25.2% of sales, compared to $37.8 million, or 26.1% of sales for the three months ended May 31, 2006. Our gross margins increased in our Print Segment from 25.1% to 26.5% for the three months ended May 31, 2006 and 2007, respectively. Our Apparel Segment margin decreased from 27.1% to 23.7% for the three months ended May 31, 2006 and 2007, respectively. See Results of Operations Segments of this Report for further discussion on the fluctuations in our Segment margins.

Selling, general and administrative expenses. For the three months ended May 31, 2007, our selling, general and administrative expenses were $19.0 million, or 12.4% of sales, compared to $18.1 million, or 12.5% of sales, for the three months ended May 31, 2006. The dollar increase in our selling, general and administrative expenses during the period related primarily to our acquisition of Block which was acquired on August 8, 2006 and therefore was not included in our first quarter results last year. Block s selling, general and administrative expenses during the current quarter amounted to approximately $900,000.

Income from operations. As a result of the above factors, our income from operations was $19.6 million, or 12.8% of sales compared to $19.7 million, or 13.6% of sales for the three months ended May 31, 2007 and 2006, respectively. The decrease in our income from operations as a percent of sales related primarily to the decrease in our Apparel gross margins during the quarter. See Results of Operations Gross Profit by Segment of this Report for further discussion.

Other income and expense. For the three months ended May 31, 2007, our interest expense decreased from $1.8 million for the three months ended May 31, 2006 to $1.5 million for the three months ended May 31, 2007 due to less debt on average being outstanding. Our other income (expense) items increased from income of $38,000 to expense of $951,000 for the three months ended May 31, 2006 and 2007, respectively. During the current period we incurred increased bank fees of approximately $182,000, penalties and interest fees for taxes of $186,000 and a decrease in interest income and miscellaneous income of approximately $460,000.

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

Net earnings. Our net earnings for the three months ended May 31, 2007 was $10.8 million, or 7.1% of sales, compared to $11.3 million, or 7.8% of sales for the three months ended May 31, 2006. Our basic earnings per share for the three months ended May 31, 2007 was $0.42 per share compared to $0.44 per share for the three months ended May 31, 2006. Our diluted earnings per share was $0.42 per share for the three months ended May 31, 2007 compared to $0.44 per share for the three months ended May 31, 2006. This decrease related primarily to the reduction in our Apparel gross profit margin during the period. See Results of Operation Segments of this Report for further discussion.

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Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

Results of Operations Segments

	Three months ended May 31,	
Net Sales by Segment (in thousands)	**2007**	**2006**
Print	$ 85,135	$ 77,096
Apparel	67,639	68,017
Total	$ 152,774	$ 145,113

Print Segment. Our net sales for our Print Segment, which represented 55.7% of our consolidated sales during the three months ended May 31, 2007, were approximately $85.1 million for the same period, compared to approximately $77.1 million for the three months ended May 31, 2006, an increase of $8.0 million, or 10.4%. The increase in the Print Segment s net sales for the three months ended May 31, 2007 related primarily to our acquisition of Block, which was acquired August 8, 2006. Net sales for Block Graphics during the period ended May 31, 2007 were $10.0 million. The impact of the increase in sales from our Block acquisition was partially offset by the loss of a large promotional customer with sales of approximately $2.4 million during the same quarter last year. Our Print Segment s sales for the quarter, without the impact of these two items, were relatively flat when compared to the same quarter last year.

Apparel Segment. Our net sales for the Apparel Segment, which represented 44.3% of our consolidated sales for the three months ended May 31, 2007, were approximately $67.6 million for the current period, as compared to approximately $68.0 million for the three months ended May 31, 2006, or a slight decrease of $0.4 million, or 0.6%. Management believes that the Apparel sales during the quarter were negatively impacted by their pre-quarter inventory position, which hindered their ability to capture certain opportunity sales during this period. Traditionally, the Apparel group rebuilds their inventory levels in the last half of the fiscal year for the upcoming summer buying season due to the normal falloff of demand during the winter season. However, during the second half of last fiscal year demand was at or above forecasted sales levels. As a result, production levels were only able to stay abreast of then current sales levels, which resulted in their inventory position not being as robust in the fourth quarter of fiscal year 2007 as it was during the same period last fiscal year. Consequently, several initiatives were implemented during the current quarter to improve their inventory position and to meet their forecasted demand. Some of these initiatives in turn had a negative impact on their margin during the period (see discussion on Apparel margins following).

	May 31,	
Gross Profit Margin by Segment (in thousands)	**2007**	**2006**
Print	$ 22,529	$ 19,366
Apparel	16,038	18,449
Total	$ 38,567	$ 37,815

Print Segment. Our Print gross profit margin increased approximately $3.1 million, or 16.3% from $19.4 million for the three months ended May 31, 2006 to $22.5 million for the three months ended May 31, 2007. As a percentage of sales, our Print margin was 26.5% for the three months ended May 31, 2007, as compared to 25.1% for the three months ended May 31, 2006. Our Print margin, as a percentage of sales, increased primarily as a result of improved operational efficiencies.

Apparel Segment. Our Apparel gross profit margin decreased approximately $2.4 million, or 13.1% from $18.4 million for the three months ended May 31, 2006 to $16.0 million for the three months ended May 31, 2007. As a percent of sales, our Apparel margins were 23.7%, compared to 27.1% for the same quarter last year. During the

quarter our Apparel margin was impacted slightly by increased yarn and cut/sew costs and reduced selling margins, due to changes in product mix. However, the main impact on our Apparel margin during the quarter related to our initiative to increase our cut/sew capacity in our Mexican facilities to meet our forecasted demand. We feel that the training costs associated with this program, which negatively impacted our Apparel margin during the period, was in excess of $1.0 million, or approximately 1.5% of sales. Overall our cut/sew costs increased by approximately $1.7

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

million, or 2.7% of sales during the period. We feel that the increase in our cut/sew capacity is a critical step and one that must be undertaken to meet our forecasted sales projections and inventory demand levels. We are however, looking for ways to minimize the cost of this initiative going forward.

	Three months ended May 31,	
Profit by Segment (in thousands)	**2007**	**2006**
Print	$ 13,037	$ 11,271
Apparel	8,385	10,042
Total	21,422	21,313
Less corporate expenses	4,285	3,330
Earnings before income taxes	$ 17,137	$ 17,983

Print Segment. Our Print profit increased approximately $1.7 million, or 15.7%, from $11.3 million for the three months ended May 31, 2006, to $13.0 million for the three months ended May 31, 2007. As a percent of sales, our Print profits were 15.3% for the three months ended May 31, 2007, as compared to 14.6% for the three months ended May 31, 2006. The increase in our Print profit, as a percent of sales is directly related to the increase in their gross profit margin - see Gross Profit by Segment above for further discussion.

Apparel Segment. Our Apparel profit decreased approximately $1.6 million, or 16.5%, from $10.0 million for the three months ended May 31, 2006, to $8.4 million for the three months ended May 31, 2007. As a percent of sales, our Apparel profit decreased from 14.8% for the three months ended May 31, 2006 to 12.4% for the three months ended May 31, 2007. The decrease in our Apparel profit during the current period is primarily due to the decrease in their gross profit margin see Gross Profit by Segment above for further discussion.

Liquidity and Capital Resources

(Dollars in thousands)	**May 31, 2007**	**February 28, 2007**	**Change**
Working Capital	$106,991	$102,269	4.6%
Cash and cash equivalents	$ 2,551	$ 3,582	-28.8%

Working Capital. Our working capital increased by approximately $4.7 million, or 4.6% from $102.3 million at February 28, 2007 to $107.0 million at May 31, 2007. The increase in our working capital during the period related primarily to an increase in our receivables and inventories of $8.9 million offset by an increase in income taxes payable of $4.4 million. Our current ratio, calculated by dividing our current assets by our current liabilities remained at 3.1-to-1.0 at May 31, 2007 and February 28, 2007.

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

	Three months ended May 31,		
(Dollars in thousands)	**2007**	**2006**	**Change**
Net Cash provided by operating activities	$ 9,484	$ 12,178	-22.1%
Net Cash used in investing activities	$ (995)	$ (5,260)	-81.1%
Net Cash used in financing activities	$(9,669)	$(11,405)	-15.2%

Cash flows from operating activities. Cash provided by our operating activities decreased by $2.7 million, or 22.1% to $9.5 million for the three months ending May 31, 2007 as compared to $12.2 million for the three months ended May 31, 2006. During the quarter, approximately 39% of our Apparel sales were factored compared to 48%

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

for the same quarter last year. As a result, we used approximately $6.0 million of operational cash during the period to fund the transition of these previously factored sales to in-house credit.

Cash flows from investing activities. Cash used for our investing activities decreased by $4.3 million, or 81.1% to $1.0 million for the three months ended May 31, 2007 as compared to $5.3 million for the three months ended May 31, 2006. During the first quarter of last fiscal year we completed our purchase of Specialized Printed Forms, Inc. for $4.6 million.

Cash flows from financing activities. We used $1.7 million less in cash associated with our financing activities this period when compared to the same period last year. We repaid debt in the amount of $5.7 million during the three months ended May 31, 2007 as compared to $7.4 million during the same period of 2006.

Credit Facility On March 31, 2006, we entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides us access to $150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (currently LIBOR + .75% 6.10%), depending on our total funded debt to EBITDA ratio, as defined. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants. As of May 31, 2007, we had $83.0 million of borrowings under the revolver and $4.0 million outstanding under standby letters of credit arrangements, leaving us availability of approximately $63.0 million. The Facility is secured by substantially all of our personal and investment property.

During the three months ended in May 31, 2007, we repaid $5.5 million on the revolver and $0.2 million on other debt. It is anticipated that the available line of credit is sufficient to cover, should it be required, working capital requirements for the foreseeable future.

Our Apparel group continues to sell a portion of their accounts receivable to factors (for the three months ended May 31, 2007 47% versus 60% for the three months ended May 31, 2006) based upon agreements in place with these factors. As previous discussed, due to potential cost savings, we are continuing with our plans to reduce the amount of receivables we factor each year through the utilization of our existing bank line or from working capital generated by our Apparel Group over the next couple years.

Pension We are required to make contributions to our defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Pension Plan Income Security Act (ERISA). We anticipate that we will contribute from $2.0 million to $3.0 million during our current fiscal year. We made contributions of $3 million to our pension plan during fiscal year 2007.

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

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

Contractual Obligations & Off-Balance Sheet Arrangements There have been no significant changes in our contractual obligations since February 28, 2007 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of May 31, 2007.

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

Recent Accounting Pronouncements

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

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

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

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Interest Rates

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

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

Foreign Exchange

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

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of May 31, 2007 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

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

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Reference is made to page 21 of this Report on Form 10-Q. There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 28, 2007.

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

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

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 3.1	Restated Articles of Incorporation as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988 incorporated herein by reference to Exhibit 5 to the Registrant s Form 10-K Annual Report for the fiscal year ended February 28, 1993.
Exhibit 3.2	Bylaws of the Registrant as amended through October 15, 1997 incorporated herein by reference to Exhibit 3(ii) to the registrant s Form 10-Q Quarterly Report for the quarter ended November 30, 1997.
Exhibit 3.3	Articles of Amendment to the Articles of Incorporation of Ennis Business Forms, Inc. filed on June 17, 2004 incorporated herein by reference to Exhibit 3.3 to the registrant s Form 10-Q Quarterly Report for the quarter ended November 30, 2004.
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Executive Officer.*
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Financial Officer.*
Exhibit 32.1	Section 1350 Certification of Chief Executive Officer.**
Exhibit 32.2	Section 1350 Certification of Chief Financial Officer.**

* Filed herewith

** Furnished herewith

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007

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: July 3, 2007	/s/ Keith S. Walters Keith S. Walters Chairman, Chief Executive Officer and President
Date: July 3, 2007	/s/ Richard L. Travis, Jr. Richard L. Travis, Jr. V.P. Finance and CFO, Secretary and Principal Financial and Accounting Officer

Table of Contents

ENNIS, INC. AND SUBSIDIARIES
FORM 10Q
FOR THE PERIOD ENDED MAY 31, 2007
INDEX TO EXHIBITS

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Exhibit 3.2	Bylaws of the Registrant as amended through October 15, 1997 incorporated herein by reference to Exhibit 3(ii) to the registrant s Form 10-Q Quarterly Report for the quarter ended November 30, 1997.
Exhibit 3.3	Articles of Amendment to the Articles of Incorporation of Ennis Business Forms, Inc. filed on June 17, 2004 incorporated herein by reference to Exhibit 3.3 to the registrant s Form 10-Q Quarterly Report for the quarter ended November 30, 2004.
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Executive Officer.*
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Chief Financial Officer.*
Exhibit 32.1	Section 1350 Certification of Chief Executive Officer.**
Exhibit 32.2	Section 1350 Certification of Chief Financial Officer.**

* Filed herewith

** Furnished herewith