

ENNIS, INC.  
Form 10-K  
May 10, 2011

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

**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended February 28, 2011**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-5807**

**ENNIS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**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)

**(Registrant's Telephone Number, Including Area Code) (972) 775-9801**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class

Name of each exchange on which registered

Common Stock, par value \$2.50 per share

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of August 31, 2010 was approximately \$388.0 million. Shares of voting stock held by executive officers, directors and holders of more than 10% of the outstanding voting stock have been excluded from this calculation because such persons may be deemed to be affiliates. Exclusion of such shares should not be construed to indicate that any of such persons possesses the power, direct or indirect, to control the Registrant, or that any such person is controlled by or under common control with the Registrant.

The number of shares of the Registrant's Common Stock, par value \$2.50, outstanding at April 30, 2011 was 26,044,350.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

**ENNIS, INC. AND SUBSIDIARIES**  
**FORM 10-K**  
**FOR THE PERIOD ENDED FEBRUARY 28, 2011**  
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**Table of Contents****PART I****ITEM 1. BUSINESS****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, we, us, or our ) print and manufacture a line of business forms and other business products (the Print Segment ) and also manufacture a line of activewear (the Apparel Segment ) for distribution throughout North America. Distribution of business products and forms throughout the United States is primarily through independent dealers. This distributor channel encompasses print distributors, stationers, quick printers, computer software developers, and advertising agencies, among others. The Apparel Segment produces and sells activewear, including t-shirts, fleece goods and other wearables. Distribution of our activewear throughout the United States, Canada and Mexico is primarily through sales representatives. The distributor channel encompasses activewear wholesalers and screen printers. We offer a great selection of high-quality activewear apparel and hats with a wide variety of styles and colors in sizes ranging from toddler to 6XL. The apparel line features a wide variety of tees, fleece, shorts and yoga pants, and two headwear brands.

**Business Segment Overview**

We are one of the largest providers of business forms to independent distributors in the United States and are also one of the largest providers of blank t-shirts in North America to the activewear market. We operate in two reportable segments Print and Apparel. For additional financial information concerning segment reporting, please see Note 14 of the Notes to the Consolidated Financial Statements beginning on page F-25 included elsewhere herein, which information is incorporated herein by reference.

**Print Segment**

The Print Segment, which represented 50%, 55%, and 56% of our consolidated net sales for the fiscal years ended February 28, 2011, February 28, 2010, and February 28, 2009, respectively, 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 17 strategically located domestic states. Approximately 96% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, and quantities on an individual job basis depending upon the customers specifications.

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

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

The printing industry generally sells its products in two ways. One market direction is to sell predominantly to end users, and is dominated by a few large manufacturers, such as Moore Wallace (a subsidiary of R.R. Donnelly), Standard Register, and Cenveo. The other market direction, which the Company primarily serves, sells forms and other business products through a variety of independent distributors and distributor groups. While it is not possible, because of the lack of adequate statistical information, to determine Ennis share of the total business products market,

management believes Ennis is one of the largest producers of business forms in the United States

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

There are a number of competitors that operate in this segment, ranging in size from single employee-owner operations to multi-plant organizations. 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 50%, 45%, and 44% of our consolidated net sales for the fiscal years ended February 28, 2011, February 28, 2010, and February 28, 2009, respectively, and operates under the name of Alstyle Apparel ( Alstyle ). Alstyle markets high quality knitted activewear (t-shirts, tank tops and fleece) across all market segments. The main products of Alstyle are standardized shirts manufactured in a variety of sizes and colors. Approximately 98% of Alstyle s revenues are derived from t-shirt sales, with 91% domestic sales. Alstyle s branded product lines are sold mainly under the AAA and Murina® brands.

The Apparel Segment operates two manufacturing facilities, one in California (leased), and one in Mexico (owned) and six cut/sew facilities in Mexico (1 in Agua Prieta, 3 in Ensenada, and 2 in Hermosillo). Alstyle s manufacturing facility located in Anaheim, California, knits domestic cotton yarn and some polyester fibers into tubular material. The material is then dyed and then shipped to one of the cut/sew plants located in Mexico, where it is cut and sewn into finished goods. As part of our transition plan, the Anaheim, CA manufacturing operations will be moving to the new manufacturing facility located in Agua Prieta, Mexico, as construction is completed during fiscal year 2012. Alstyle also ships their dyed fabric to outsourced manufacturers in El Salvador for sewing. After sewing and packaging is completed, the product is shipped to one of Alstyle s nine distribution centers located across the United States, Canada, and Mexico.

Alstyle utilizes a customer-focused internal sales team comprised of 18 sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are allocated performance objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend approximately 60% of their time in the field.

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

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

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

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





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

Raw materials of the Apparel Segment principally consist of cotton and polyester yarn purchased from a number of major suppliers at prevailing market prices, although we purchase 75% of our cotton and yarn from one supplier.

**Patents, Licenses, Franchises and Concessions**

We do not have any significant patents, licenses, franchises, or concessions.

**Intellectual Property**

We market our products under a number of trademarks and tradenames. We have registered trademarks in the United States for Ennis<sup>®</sup>, EnnisOnline<sup>SM</sup>, A Alstyle Apparel, AA Alstyle Apparel & Activewear, AAA Alstyle Apparel & Activewear<sup>®</sup>, American Diamond, Block Graphics<sup>®</sup>, Classic by Alstyle Apparel, Diamond Star<sup>®</sup>, Enfusion<sup>®</sup>, Executive by Alstyle, Gaziani<sup>®</sup>, Gaziani Fashions, Murina<sup>®</sup>, Tennessee River<sup>®</sup>, 360° Custom Labels<sup>SM</sup>, Admore<sup>®</sup>, CashManagementSupply.com, Securestar, Northstar<sup>®</sup>, MICRLink<sup>®</sup>, MICR Connection, Ennisstores.com, General Financial Supply<sup>®</sup>, Calibrated Forms<sup>®</sup>, Trade Envelopes<sup>®</sup>, Witt Printing<sup>SM</sup>, GenForms<sup>®</sup>, Royal Business Forms<sup>®</sup>, Crabar/GBF, Adams McClure<sup>®</sup>, Advertising Concepts, ColorWorx<sup>®</sup>, Uncompromised Check Solutions<sup>®</sup>, Star Award Ribbon, Canu<sup>SM</sup>, Platinum Canoe<sup>SM</sup>, and Printersmall.com<sup>SM</sup>, and variations<sup>SM</sup> of these brands as well as other trademarks. We have similar trademark registrations internationally. The protection of our trademarks is important to our business. We believe that our registered and common law trademarks have significant value and these trademarks are instrumental to our ability to create and sustain demand for our products.

**Customers**

No single customer accounts for as much as five percent of our consolidated net sales.

**Backlog**

At February 28, 2011, our backlog of orders was approximately \$33.8 million as compared to approximately \$22.1 million at February 28, 2010.

**Research and Development**

While we continuously look for new products to sell through our distribution channel, there have been no material amounts spent on research and development in the fiscal year ended February 28, 2011.

**Environment**

We are subject to various federal, state, and local environment laws and regulations concerning, among other things, wastewater discharges, air emissions and solid waste disposal. Our manufacturing processes do not emit substantial foreign substances into the environment. We do not believe that our compliance with federal, state, or local statutes or regulations relating to the protection of the environment has any material effect upon capital expenditures, earnings or our competitive position. There can be no assurance, however, that future changes in federal, state, or local regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Similarly, the extent of our liability, if any, for past failures to comply with laws, regulations, and permits applicable to our operations cannot be determined.

**Table of Contents****Employees**

At February 28, 2011, we had approximately 5,812 employees. Approximately 3,260 of the employees are in Mexico, and approximately 23 employees are in Canada. Of the USA employees, approximately 375 are represented by three unions, under eight separate contracts expiring at various times. Of the employees in Mexico, four unions represent substantially all employees with contracts expiring at various times.

**Available Information**

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 available free of charge under the Investors Relations page on our website, [www.ennis.com](http://www.ennis.com), as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ( SEC ). Information on our website is not included as a part of, or incorporated by reference into, this report. Our SEC filings are also available through the SEC 's website, [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy any materials we file with the SEC at the SEC 's Public Reference Room at 100 F Street NE, Washington, DC 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

**ITEM 1A. RISK FACTORS**

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

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

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

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

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

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

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

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

The terms and conditions of our credit facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions, asset dispositions, as well as other customary covenants, such as minimum equity level and total funded debt to EBITDA, as defined. Our ability to comply with the covenants may be affected by events beyond our control, such as distressed and volatile financial markets which could trigger an impairment charge to our recorded intangible assets. A breach of any of these covenants could result in a default under our credit facility. In the event of a default, the bank could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable. As of February 28, 2011, we were in compliance with all terms and conditions of our credit facility, which matures on August 18, 2012.

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

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

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. The annual impairment test is based on several factors requiring judgment. A decline in market conditions may indicate potential impairment of goodwill. An impairment test was completed for our fiscal year February 28, 2011, and we concluded that no impairment charge was necessary. At February 28, 2011, our goodwill and other intangible assets were approximately \$117.3 million and \$76.3 million, respectively.

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

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

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

In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, and we aren't able to increase our market share, our sales and profits will be affected. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins. This reduction could in turn adversely impact our profits, unless we are able to offset the reduction through the introduction of new high margin products and services or realize cost savings in other areas.

***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.

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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 February 28, 2011, approximately 15% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Four unions represent all of our hourly employees in Mexico. While we feel we have a good working relationship with all the unions, there can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

Cotton yarn is the primary raw material used in Alstyle's manufacturing processes. Cotton accounts for approximately 35% of the manufactured product cost. Alstyle acquires its yarn from three major sources that meet stringent quality and on-time delivery requirements. The largest supplier provided 75% of Alstyle's yarn requirements during the year and has an entire yarn mill dedicated to Alstyle's production. To maintain our high standard of color control associated with our apparel products, we purchase our dyeing chemicals from limited sources. If Alstyle's relations with its suppliers are disrupted, Alstyle may not be able to enter into arrangements with substitute suppliers on terms as favorable as its current terms, and our results of operations could be materially adversely affected.

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

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

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

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



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also faces the risk of our competition following a strategy of selling their products at or below cost in order to cover some amount of fixed costs, especially in distressed economic times.

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

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

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

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

In addition, after the transition of its manufacturing operations in Anaheim, CA to Agua Prieta, MX, all Alstyle's knit and dye operations will be located in one facility. Any disruptions in operations through any of the above factors, as well as others, could have a material adverse effect on the Company's operational results.

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

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

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

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

The World Trade Organization (WTO), a multilateral trade organization, was formed in January 1995 and is the successor to the General Agreement on Tariffs and Trade (GATT). This multilateral trade organization has set forth mechanisms by which world trade in clothing is being progressively liberalized by phasing-out quotas and reducing



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duties over a period of time that began in January of 1995. As it implements the WTO mechanisms, the United States government is negotiating bilateral trade agreements with developing countries, which are generally exporters of textile and apparel products, that are members of the WTO to get them to reduce their tariffs on imports of textiles and apparel in exchange for reductions by the United States in tariffs on imports of textiles and apparel.

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

***Environmental regulations may impact our future operating results.***

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

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

Our new manufacturing facility is being built to capture anticipated future growth and savings in production costs over our current cost structure in Anaheim, CA. In conjunction with the completion of this new facility in Agua Prieta, Mexico, we will be transitioning our current knit and dye manufacturing capacity from Anaheim, CA to Agua Prieta, Mexico. Should such growth or production savings not materialize, or should the timeline for our transition from Anaheim, CA to Agua Prieta, Mexico be delayed, such events may impact our ability to achieve our expected return and/or could negatively impact our operational results and financial condition.

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

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

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

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

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

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

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

We have historically relied on third party suppliers to provide a portion of our cut and sew apparel production. During the current year, approximately 16% of our production was provided by the third party suppliers. While we feel this risk has been and will continue to be mitigated over time as our new manufacturing facility in Agua Prieta, Mexico comes on line, any shortage of supply, production disruptions, shipping delays, regulatory changes, significant price increases from our suppliers, in the short-term, could adversely affect our apparel operating results.

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved staff comments.

**ITEM 2. PROPERTIES**

Our corporate headquarters are located in Midlothian, Texas. We operate manufacturing and distribution facilities throughout the United States and in Mexico and Canada. See the table below for additional information on our locations.

All of the Print Segment properties are used for the production, warehousing and shipping of the following: business forms, flexographic printing, advertising specialties and Post-it® Notes (Wolfe City, Texas); presentation products (Macomb, Michigan and Anaheim, California); and printed and electronic promotional media (Denver, Colorado); envelopes (Portland, Oregon; Columbus, Kansas and Tullahoma, Tennessee); financial forms (Minneapolis/St. Paul, Minnesota; Nevada, Iowa and Bridgewater, Virginia) and other business products. The Apparel Segment properties are used for the manufacturing or distribution of t-shirts and other activewear apparel.

Our plants are being operated at production levels required to meet forecasted customer demands. Production levels fluctuate with market demands and depends upon the product mix at any given point in time. Equipment is added as existing machinery becomes obsolete or not repairable, and as new equipment becomes necessary to meet market demands; however, at any given time, these additions and replacements are not considered to be material additions to property, plant and equipment, although such additions or replacements may increase a plant's efficiency or capacity.

All of the foregoing facilities are considered to be in good condition. We do not anticipate that substantial expansion, refurbishing, or re-equipping will be required in the near future.

All of the rented property is held under leases with original terms of one or more years, expiring at various times through December 2015. No difficulties are presently foreseen in maintaining or renewing such leases as they expire.

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The accompanying list contains each of our owned and leased locations:

| <b>Location</b>             | <b>General Use</b>                 | <b>Approximate Square Footage</b> |               |
|-----------------------------|------------------------------------|-----------------------------------|---------------|
|                             |                                    | <b>Owned</b>                      | <b>Leased</b> |
| <b>Print Segment</b>        |                                    |                                   |               |
| Ennis, Texas                | Three Manufacturing Facilities     | 325,118                           |               |
| Chatham, Virginia           | Two Manufacturing Facilities       | 127,956                           |               |
| Paso Robles, California     | Manufacturing                      | 94,120                            |               |
| DeWitt, Iowa                | Two Manufacturing Facilities       | 95,000                            |               |
| Knoxville, Tennessee        | Manufacturing                      | 48,057                            |               |
| Ft. Scott, Kansas           | Manufacturing                      | 86,660                            |               |
| Portland, Oregon            | Manufacturing                      |                                   | 139,330       |
| Wolfe City, Texas           | Two Manufacturing Facilities       | 119,259                           |               |
| Moultrie, Georgia           | Manufacturing                      | 25,000                            |               |
| Coshocton, Ohio             | Manufacturing                      | 24,750                            |               |
| Macomb, Michigan            | Manufacturing                      | 56,350                            |               |
| Anaheim, California         | Three Manufacturing Facilities (1) |                                   | 63,750        |
| Bellville, Texas            | Leasing                            | 70,196                            |               |
| Denver, Colorado            | Four Manufacturing Facilities      | 60,000                            | 101,600       |
| Oklahoma City, Oklahoma     | Sales Office                       |                                   | 460           |
| San Antonio, Texas          | Manufacturing                      | 47,426                            |               |
| Brooklyn Park, Minnesota    | Manufacturing                      | 94,800                            |               |
| Roseville, Minnesota        | Manufacturing                      |                                   | 42,500        |
| Arden Hills, Minnesota      | Warehouse                          |                                   | 31,684        |
| Nevada, Iowa                | Manufacturing                      | 232,000                           |               |
| Bridgewater, Virginia       | Manufacturing                      |                                   | 27,000        |
| Columbus, Kansas            | Manufacturing                      | 201,000                           |               |
| Leipsic, Ohio               | Manufacturing                      | 83,216                            |               |
| El Dorado Springs, Missouri | Manufacturing                      | 70,894                            |               |
| Princeton, Illinois         | Two Manufacturing Facilities       |                                   | 74,340        |
| Arlington, Texas            | Manufacturing                      | 69,935                            |               |
| Mechanicsburg, Pennsylvania | Warehouse                          |                                   | 7,500         |
| Rancho Cordova, California  | Administrative Offices             |                                   | 108           |
| Tullahoma, Tennessee        | Manufacturing                      | 24,950                            |               |
| Caledonia, New York         | Manufacturing                      | 138,730                           |               |
| Sun City, California        | Manufacturing                      | 52,617                            |               |
| Phoenix, Arizona            | Manufacturing and Warehouse        |                                   | 59,000        |
| Neenah, Wisconsin           | Manufacturing                      |                                   | 57,786        |
| West Chester, Pennsylvania  | Sales Office                       |                                   | 1,150         |
|                             |                                    | 2,148,034                         | 606,208       |
| <b>Apparel Segment</b>      |                                    |                                   |               |
| Anaheim, California         | Office and Distribution Center     |                                   | 200,000       |
| Anaheim, California         | Manufacturing (1)                  |                                   | 304,536       |
| Chicago, Illinois           | Distribution Center                |                                   | 120,000       |
| Atlanta, Georgia            | Distribution Center                |                                   | 31,958        |
| Carrollton, Texas           | Distribution Center                |                                   | 26,136        |
| Bensalem, Pennsylvania      | Distribution Center                |                                   | 60,848        |

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|                         |                              |         |        |
|-------------------------|------------------------------|---------|--------|
| Mississauga, Canada     | Distribution Center          |         | 53,982 |
| Los Angeles, California | Distribution Center          |         | 31,600 |
| Agua Prieta, Mexico     | Manufacturing                | 700,000 |        |
| Ensenada, Mexico        | Two Manufacturing Facilities | 112,622 | 53,820 |
| Ensenada, Mexico        | Car Parking                  |         | 22,000 |
| Ensenada, Mexico        | Warehouse                    |         | 2,583  |

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| Location                 | General Use                          | Approximate Square Footage |           |
|--------------------------|--------------------------------------|----------------------------|-----------|
|                          |                                      | Owned                      | Leased    |
| Hermosillo, Mexico       | Three Manufacturing Facilities       |                            | 126,263   |
| Hermosillo, Mexico       | Yard Space                           |                            | 19,685    |
| Hermosillo, Mexico       | Vacant                               |                            | 8,432     |
| Hermosillo, Mexico       | Storage for Machines                 |                            | 1,640     |
|                          |                                      | 812,622                    | 1,063,483 |
| <b>Corporate Offices</b> |                                      |                            |           |
| Ennis, Texas             | Administrative Offices               | 9,300                      |           |
| Midlothian, Texas        | Executive and Administrative Offices | 28,000                     |           |
|                          |                                      | 37,300                     |           |
|                          | Totals                               | 2,997,956                  | 1,669,691 |

(1) Lease expires June 2011 and the Print manufacturing facilities will be moving to the Anaheim distribution center.

**ITEM 3. 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 results of operations.

**ITEM 4. [REMOVED AND RESERVED]****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the New York Stock Exchange ( NYSE ) under the trading symbol EBF . The following table sets forth the high and low sales prices, the common stock trading volume as reported by the New York Stock Exchange and dividends per share paid by the Company for the periods indicated:

|                                     | Common Stock Price |          | Common Stock Trading Volume<br>(number of shares in thousands) | Dividends per share of Common Stock |
|-------------------------------------|--------------------|----------|--|-------------------------------------|
|                                     | Range              |          |  |                                     |
|                                     | High               | Low      |  |                                     |
| Fiscal Year Ended February 28, 2011 |                    |          |  |                                     |
| First Quarter                       | \$ 19.35           | \$ 15.52 | 3,134  | \$ 0.155                            |
| Second Quarter                      | 18.12              | 14.33    | 4,779  | \$ 0.155                            |
| Third Quarter                       | 19.61              | 15.60    | 3,208  | \$ 0.155                            |
| Fourth Quarter                      | 19.10              | 15.46    | 3,001  | \$ 0.155                            |
| Fiscal Year Ended February 28, 2010 |                    |          |  |                                     |
| First Quarter                       | \$ 11.17           | \$ 6.91  | 3,844  | \$ 0.155                            |
| Second Quarter                      | 15.25              | 10.35    | 3,966  | \$ 0.155                            |
| Third Quarter                       | 17.34              | 13.33    | 2,766  | \$ 0.155                            |
| Fourth Quarter                      | 17.39              | 13.75    | 2,147  | \$ 0.155                            |

The last reported sale price of our common stock on NYSE on April 29, 2011 was \$18.68. As of that date, there were approximately 1,027 shareholders of record of our common stock. Cash dividends may be paid or repurchases of our common stock may be made from time to time, as our Board of Directors deems appropriate, after considering our growth rate, operating results, financial condition, cash requirements, restrictive lending covenants, and such other factors as the Board of Directors may deem appropriate.

On October 20, 2008, our Board of Directors authorized the repurchase of up to \$5.0 million of our common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made

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from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been repurchased this fiscal year under the program, as of February 28, 2011, there have been 96,000 shares of the common stock that have been purchased under the repurchase program at an average price per share of \$10.45. Unrelated to the stock repurchase program, the Company purchased 91 shares of common stock during the fiscal year ended February 28, 2011.

See Item 12 Security Ownership of Beneficial Owners and Management and Related Stockholder Matters section of this Report for information relating to our equity compensation plan.

**Stock Performance Graph**

The graph below matches our cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S & P 500 index and the Russell 2000 index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from February 28, 2006 to February 28, 2011.

|              | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Ennis, Inc.  | 100.00      | 134.71      | 90.62       | 46.04       | 90.73       | 99.53       |
| S&P 500      | 100.00      | 111.97      | 107.94      | 61.18       | 93.98       | 115.20      |
| Russell 2000 | 100.00      | 109.87      | 96.21       | 55.43       | 90.88       | 120.50      |

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

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The following selected financial data has been derived from our audited consolidated financial statements. Our consolidated financial statements and notes thereto as of February 28, 2011 and February 28, 2010, and for the three years in the period ended February 28, 2011, and the reports of Grant Thornton LLP are included in Item 15 of this Report. The selected financial data should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in Item 15 of this Report.

|   | <b>Fiscal Years Ended</b>  |             |             |             |             |
|---|--|-------------|-------------|-------------|-------------|
|   | <b>2011</b>  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|   | <i>(Dollars and shares in thousands, except per share amounts)</i> |             |             |             |             |
| <b>Operating results:</b>                       |  |             |             |             |             |
| Net sales                                       | \$ 549,999   | \$ 517,738  | \$ 584,029  | \$ 610,610  | \$ 584,713  |
| Gross profit margin                             | 154,498  | 135,319     | 143,476     | 163,874     | 156,322     |
| SG&A expenses                                   | 83,678   | 76,738      | 86,217      | 88,851      | 83,121      |
| Impairment of goodwill and trademarks           |  |             | 67,851      |             |             |
| Net earnings (loss)                             | 44,631   | 35,206      | (32,768)    | 44,590      | 41,601      |
| <b>Earnings (loss) and dividends per share:</b> |  |             |             |             |             |
| Basic   | \$ 1.73  | \$ 1.37     | \$ (1.27)   | \$ 1.74     | \$ 1.63     |
| Diluted   | 1.72   | 1.36        | (1.27)      | 1.72        | 1.62        |
| Dividends                                       | 0.62   | 0.62        | 0.62        | 0.62        | 0.62        |
| <b>Weighted average shares outstanding:</b>     |  |             |             |             |             |
| Basic   | 25,855   | 25,769      | 25,724      | 25,697      | 25,571      |
| Diluted   | 25,888   | 25,797      | 25,790      | 25,860      | 25,759      |
| <b>Financial Position:</b>                      |  |             |             |             |             |
| Working capital                                 | \$ 135,300   | \$ 116,638  | \$ 138,374  | \$ 133,993  | \$ 102,269  |
| Current assets                                  | 182,398  | 166,439     | 182,254     | 185,819     | 151,516     |
| Total assets                                    | 473,728  | 432,699     | 436,380     | 513,131     | 478,228     |
| Current liabilities                             | 47,098   | 49,801      | 43,880      | 51,826      | 49,247      |
| Long-term debt                                  | 50,000   | 41,817      | 76,185      | 90,710      | 88,971      |
| Total liabilities                               | 126,045  | 119,439     | 144,374     | 164,652     | 161,825     |
| Equity  | 347,683  | 313,260     | 292,006     | 348,479     | 316,403     |
| Current ratio                                   | 3.87 to 1.0  | 3.34 to 1.0 | 4.15 to 1.0 | 3.59 to 1.0 | 3.08 to 1.0 |
| Long-term debt to equity                        | .14 to 1.0   | .13 to 1.0  | .26 to 1.0  | .26 to 1.0  | .28 to 1.0  |



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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. Statements that are not historical are forward-looking and involve risk and uncertainties, including those discussed under the caption "Risk Factors" in Item 1A starting on page 6 of this Annual Report on Form 10-K and elsewhere in this Report. You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related notes appearing elsewhere in this Report. While we believe these forward-looking statements are based upon reasonable assumptions, 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.

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.

This Management's Discussion and Analysis includes the following sections:

*Overview* An overall discussion on our Company, the business challenges and opportunities we believe are key to our success, and our plans for facing these challenges.

*Critical Accounting Policies and Estimates* A discussion of the accounting policies that require our most critical judgments and estimates. This discussion provides insight into the level of subjectivity, quality, and variability involved in these judgments and estimates. This section also provides a summary of recently adopted and recently issued accounting pronouncements that have or may materially affect our business.

*Results of Operations* An analysis of our consolidated results of operations and segment results for the three years presented in our consolidated financial statements. This analysis discusses material trends within our business and provides important information necessary for an understanding of our operating results.

*Liquidity and Capital Resources* An analysis of our cash flows and a discussion of our financial condition and contractual obligations. This section provides information necessary to evaluate our ability to generate cash and to meet existing and known future cash requirements over both the short and long term.

References to 2011, 2010 and 2009 refer to the fiscal years ended February 28, 2011, February 28, 2010 and February 28, 2009, respectively.

**Overview**

***The Company*** We are one of the largest providers of business forms to independent distributors in the United States and are also one of the largest providers of blank t-shirts in North America to the activewear market. We operate in two reportable segments: Print and Apparel.

***Our Print Business Challenges*** In our Print segment, we are engaged in an industry undergoing significant changes. Technology advances have made electronic distribution of documents, internet hosting, digital printing and print on demand valid, cost-effective alternatives to traditional custom printed documents and customer communications. In addition, the downturn in the economy and turmoil in the credit markets in 2009 and 2010 have created highly competitive conditions in an already over-supplied, price-competitive industry. Thus, we believe we are facing the following challenges in the Print Segment of our business:

Transformation of our portfolio of products

Excess production capacity and price competition within our industry

Economic uncertainties

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



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

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

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

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

**Our Apparel Business Challenges** In our Apparel segment, our market niche is highly competitive, commodity driven and is generally dominated by a limited number of players. The downturn in the economy and turmoil in the credit markets in 2009 and 2010 created an over-supply situation which further increased competitive pressures in this market. Cotton, which represents 35% of our costs, is a commodity product and subject to volatile fluctuations in price, due to general market conditions, domestic and international demand, perceived availability, international actions, etc. As such, our operational costs are subject to significant swings, which may or may not be passed on to the marketplace due to competitive or economic conditions, competitors' pricing strategies, etc. Thus, we believe we are facing the following challenges in our Apparel Segment business in fiscal 2012:

- Cotton prices

- Start-up of and transition to our new manufacturing facility

- Economic uncertainties

**Cotton prices** Due to shortage of supply and other international factors, domestic cotton prices are at high levels not seen in years. While there has been some abatement in prices of late, spot and future prices are still at levels significantly higher than historical averages. Whether or not prices will stay at current levels for a sustained period of time, or continue to recede is unknown. Due to current cotton pricing, we believe most large manufacturers are relatively short with respect to their cotton purchases, which increases their risk to potential volatility in swings in cotton prices. We believe we are competitive with other companies in the United States apparel industry in negotiating the price of cotton and as such we do not feel we are at a competitive disadvantage from a cotton cost perspective.

While the market has over the past year absorbed a certain level of price increase due to previous increases in cotton costs, it is unknown at this time whether the market will allow the manufacturers to pass further price increases through to offset the current level of cotton pricing and whether our competitors will in fact attempt to pass through these costs.

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**Completion of new manufacturing facility** We are nearing the completion of Phase 1 on our new state-of-the art manufacturing facility located in Agua Prieta, Mexico (the Project ). Upon completion, expenditures associated with this facility are still expected to be in the range of \$50.0 million to \$54.0 million (\$26.0 million for the building and \$24.0 million \$28.00 million for machinery and equipment), with approximately 93% of the money having been expended to date. At the completion of Phase 1 of the Project (expected to be by the end of May 2011), we expect this facility will be able to produce approximately 1.0 million pounds of fabric per week, with the eventual capacity to be between 2.6 million to 2.8 million pounds per week. This compares to our previous capacity of approximately 1.6 million to 1.8 million pounds per week in our Anaheim facility.

During the ramp up of this facility and the phase out of our current manufacturing facility in Anaheim, CA, there will be considerable duplicate costs, inefficiencies, moving costs, etc. that will have a negative impact on the apparel segment's fiscal year 2012 operating results. Our plan is to try to contain the remaining portion of these costs to the first six months of fiscal year 2012, through an accelerated ramp up schedule. Our current estimate of the negative impact of the start-up and ramp up costs of this facility remains at approximately \$4.0 million to \$5.0 million in fiscal 2012. The negative impact associated with this facility was approximately \$4.6 million for the fiscal year ended February 28, 2011. The success of this plan continues to be dependent on meeting key targets and any delay in the start-up/wind-down schedule could add significantly to these costs. Once fully operational and the transition complete, and with sell-through levels of 2.6 million pounds to 2.8 million pounds per week, we continue to anticipate significant manufacturing efficiencies will be realized. The original estimate of the annualized cost savings associated with this facility was between \$10.0 million to \$15.0 million per annum. However, a certain portion of the savings associated with the conversion of our dye machines have already been realized in our current manufacturing facility, hence part of the reason for the improvement in our operating margins in fiscal year 2011. Nonetheless, we continue to anticipate a substantial savings in costs associated with this facility once fully operational and the transition has been completed and the production levels have been obtained.

**Economic uncertainties** As a result of the recessionary conditions of 2009 and 2010, the economic climate has been volatile and challenging. Decreased demand and intense price competition resulted in significant declines in our revenue during fiscal year 2009 and 2010. Although we have seen an increase in our apparel revenues during fiscal year 2011, and would expect such to continue, continued high unemployment and housing sector weakness and international instability all could potentially undermine the fragile state of the current economic recovery which could have a negative impact on our revenues. As we cannot predict the pace of the economic recovery, or the continuance of the recent positive trends in unemployment numbers, we will be highly focused on customer retention, expanding our growth targeted markets and managing our costs (both the start-up and operational costs).

**Critical Accounting Policies and Estimates**

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

We maintain a defined-benefit pension plan for employees. Included in our financial results are pension costs that are measured using actuarial valuations. The actuarial assumptions used may differ from actual results. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status and associated liability recorded.

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

We exercise judgment in evaluating our long-lived assets for impairment. We assess the impairment of long-lived assets that include other intangible assets, goodwill, and property, plant, and equipment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In performing tests of impairment, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of our long lived assets. If these estimates or the

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related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. At February 28, 2011, our goodwill and other intangible assets were approximately \$117.3 million and \$76.3 million, respectively. No impairment charge was required for the year ended February 28, 2011 based on the results of our annual impairment test. The carrying value of invested capital for each reporting unit as compared to their fair value at February 28, 2011 was as follows:

| <b>Reporting Unit</b> | <b>Carrying Value of Invested Capital</b> | <b>Fair Value of Invested Capital</b> |
|-----------------------|---|---------------------------------------|
| Apparel               | \$299.9 million                           | \$376.0 million                       |
| Print                 | \$124.2 million                           | \$272.0 million                       |

We believe our businesses will generate sufficient undiscounted cash flow to more than recover the investments we have made in property, plant and equipment, as well as the goodwill and other intangibles recorded as a result of our acquisitions. However, we cannot predict the occurrence of future impairments or specific triggering events nor the impact such events might have on our reported asset values.

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, we print and store custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately \$10.4 million, \$12.4 million, and \$18.3 million of revenue were recognized under these agreements during fiscal years ended February 28, 2011, February 28, 2010, and February 28, 2009, respectively.

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

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

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

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

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

forward-looking statements, whether as a result of new information, future events or otherwise.



**Table of Contents****Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board ( FASB ) amended authoritative guidance for improving disclosures about fair value measurements. The updated guidance requires new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance also clarified existing fair value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The adoption of the new guidance on March 1, 2010 had no impact on the Company's consolidated financial statements and disclosures.

**Results of Operations**

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

*Consolidated Summary* this section provides an overview of our consolidated results of operations for fiscal years 2011, 2010 and 2009.

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

**Consolidated Summary**

| <b>Consolidated<br/>Statements of Earnings</b> | <b>Data</b> | <b>Fiscal Years Ended</b> |            |             |             |             |  |
|--|-------------|---------------------------|------------|-------------|-------------|-------------|--|
|  |             | <b>2011</b>               |            | <b>2010</b> |             | <b>2009</b> |  |
| Net sales                                      | \$ 549,999  | 100.0%                    | \$ 517,738 | 100.0%      | \$ 584,029  | 100.0%      |  |
| Cost of goods sold                             | 395,501     | 71.9                      | 382,419    | 73.9        | 440,553     | 75.4        |  |
| Gross profit margin                            | 154,498     | 28.1                      | 135,319    | 26.1        | 143,476     | 24.6        |  |
| Selling, general and administrative            | 83,678      | 15.2                      | 76,738     | 14.8        | 86,217      | 14.8        |  |
| Impairment of goodwill and trademarks          |             |                           |            | 0.0         | 67,851      | 11.6        |  |
| Gain from disposal of assets                   | (1)         |                           | (1)        | 0.0         | (514)       | (0.1)       |  |
| Income (loss) from operations                  | 70,821      | 12.9                      | 58,582     | 11.3        | (10,078)    | (1.7)       |  |
| Other expense, net                             | (1,404)     | (0.3)                     | (2,913)    | (0.5)       | (2,981)     | (0.5)       |  |
| Earnings (loss) before income taxes            | 69,417      | 12.6                      | 55,669     | 10.8        | (13,059)    | (2.2)       |  |
| Provision for income taxes                     | 24,786      | 4.5                       | 20,463     | 4.0         | 19,709      | 3.4         |  |
| Net earnings (loss)                            | \$ 44,631   | 8.1%                      | \$ 35,206  | 6.8%        | \$ (32,768) | -5.6%       |  |

*Net Sales.* Net sales began to rebound in fiscal year 2011 after being impacted by the significant economic downturn which began during the later part of our third quarter of fiscal year 2009. The volatile economic conditions of 2009 and 2010 and the resulting lower demand led an already competitive market environment to a weaker selling price environment, as manufacturers tried to maintain their production levels/market share. We saw this trend reverse somewhat during the latest fiscal year as the economy started to strengthen, which allowed manufacturers, for the most part, to pass along raw material costs increases and to realize some unit volume sales gains. Net sales for fiscal year 2011 were \$550.0 million, compared to \$517.7 million for fiscal year 2010, an increase of \$32.3 million, or 6.2%. Net sales declined by \$66.3 million, or 11.4% during fiscal year 2010 as compared to fiscal year 2009.

*Cost of Goods Sold.* Our manufacturing costs increased by \$13.1 million from \$382.4 million for fiscal year 2010 to \$395.5 million for fiscal year 2011, or 3.4% while our sales increased 6.2% over that same period. As a result our gross profit margin (net sales less cost of goods sold) improved 200 basis points over the comparable period last year from 26.1% for fiscal year 2010 to 28.1% for fiscal year 2011, through increased operational efficiencies due to increased unit sales, increased unit selling price, and product mix changes.

Due to our cost-side focused approach during fiscal year 2010 and some favorable cotton pricing during the fourth quarter ended February 28, 2010, we were able to reduce our cost of goods sold by 13.2% during fiscal year 2010. This resulted in our consolidated gross profit margin (net sales less cost of goods sold) increasing by 150 basis points, from 24.6% in fiscal 2009 to 26.1% in fiscal 2010.

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*Selling, general, and administrative expenses.* For fiscal year 2011, our selling, general and administrative expenses increased approximately \$7.0 million, or 9.1% from \$76.7 million, or 14.8% of sales for fiscal year 2010 to \$83.7 million, or 15.2% of sales for fiscal year 2011. The increase in our selling, general and administrative expenses was basically volume related; however, we did incur increases in our credit card fees due to increased customer usage as well as performance incentive costs during the year. In addition, we had approximately \$1.2 million in one-time credits during fiscal year 2010 which did not repeat in fiscal year 2011.

For fiscal year 2010, our selling, general and administrative expenses decreased approximately \$9.5 million, or 11.0% from \$86.2 million, or 14.8% of sales for fiscal year 2009 to \$76.7 million, or 14.8% of sales for fiscal year 2010. As a percentage of sales these expenses remained the same for both years, while on a dollar basis, these expenses decreased primarily as a result of our continual cost control initiatives and the focus of being cost-side driven during these difficult economic times.

*Gain from disposal of assets.* The gain from disposal of assets of \$1,000 for both fiscal years ended February 28, 2011 and 2010 resulted from sale of equipment.

*Income from operations.* Our income from operations for fiscal year 2011 increased \$12.2 million from operational earnings of \$58.6 million, or 11.3% of sales for fiscal year 2010, to operational earnings of \$70.8 million, or 12.9% of sales for fiscal year 2011. The increase in our operational earnings during fiscal year 2011, related primarily to our improved consolidated gross profit margin, offset by slightly higher selling, general and administrative costs.

Our income from operations for fiscal year 2010 increased from an operational loss of \$10.1 million, or -1.7% of sales for fiscal year 2009, to operational earnings of \$58.6 million, or 11.3% of sales for fiscal year 2010. The increase in our operational earnings during fiscal year 2010, related primarily to our improved consolidated gross profit margin, reduced selling, general and administrative costs, and the lack of a comparable non-cash impairment charge in 2010 like we incurred in fiscal year 2009.

*Other income and expense.* Our interest expense was \$1.2 million, \$2.6 million and \$3.4 million for fiscal years 2011, 2010 and 2009, respectively. Our interest expense decreased in fiscal year 2011 due mainly to increased capitalized interest related to our Agua Prieta facility and in fiscal year 2010 due to less debt on average being outstanding. During fiscal year 2011, we capitalized interest expense relating to our Agua Prieta, Mexico construction project of \$1.7 million compared to \$0.3 million for fiscal year 2010. No interest was capitalized during fiscal year 2009.

*Provision for income taxes.* Our effective tax rates for fiscal years 2011, 2010 and 2009 were 35.7%, 36.8% and -150.9%, respectively. Our rate for fiscal year 2011 reduced over our rate for fiscal year 2010 due to an increase in our Domestic Production Activities Deduction credit. Our effective tax rate for 2009 was impacted by the non-deductible goodwill impairment charge.

*Net earnings.* Our net earnings increased from \$35.2 million, or 6.8% of sales for fiscal year 2010 to earnings of \$44.6 million, or 8.1% of sales for fiscal year 2011. Basic earnings per share increased from earnings of \$1.37 per share for fiscal year 2010 to earnings of \$1.73 per share for fiscal year 2011. Diluted earnings per share increased from earnings of \$1.36 per share for fiscal year 2010 to earnings of \$1.72 per share for fiscal year 2011. The increase in net earnings during the period related primarily to our improved operational margin.

Our net earnings increased from a loss of \$32.8 million, or -5.6% of sales for fiscal year 2009 to earnings of \$35.2 million, or 6.8% of sales for fiscal year 2010. Basic earnings per share increased from a loss of \$1.27 per share for fiscal year 2009 to earnings of \$1.37 per share for fiscal year 2010. Diluted earnings per share increased from a loss of \$1.27 per share for fiscal year 2009 to earnings of \$1.36 per share for fiscal year 2010. The increase in net earnings during the period related primarily to the lack of a non-cash impairment charge as was incurred in fiscal year 2009.

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Operating Results**

| Net Sales by Segment (in thousands) | Fiscal Years Ended |            |            |
|-------------------------------------|--------------------|------------|------------|
|                                     | 2011               | 2010       | 2009       |
| Print                               | \$ 272,689         | \$ 282,308 | \$ 327,034 |
| Apparel                             | 277,310            | 235,430    | 256,995    |
| Total                               | \$ 549,999         | \$ 517,738 | \$ 584,029 |

**Print Segment.** The print segment net sales represented 50.0%, 55.0%, and 56.0% of our consolidated net sales for fiscal years 2011, 2010, and 2009, respectively.

Our print sales declined by \$9.6 million, or 3.4% during the fiscal year 2011 and \$44.7 million, or 13.7% during fiscal year 2010, when compared to the preceding fiscal year. The decline in our print sales particularly in 2010, was primarily due to the severe economic recession which started during the later part of our third quarter of the fiscal year 2009. In addition to the general impact of the economic recession on our sales, the adoption of digital technologies continues to erode revenues from our traditional print business. The evolution to digital technology has been transpiring for some time now, and we would expect this to continue into the future. The turbulent economy also led to weaker pricing in an already competitive industry as our customers sought cost savings to improve their own profitability in the light of declining sales.

**Apparel Segment.** The Apparel Segment net sales represented 50.0% , 45.0%, and 44.0% of our consolidated net sales for fiscal years 2011, 2010 and 2009, respectively.

Our fiscal year 2011 net sales for the Apparel Segment increased by \$41.9 million, or 17.8% over fiscal year 2010, while our 2010 net sales decreased by \$21.6 million, or 8.4% over fiscal 2009. Due to improving economic factors, we were able to increase our unit sales to new and existing customers by approximately 10.5% and increase our average unit selling price by approximately 7.3% during fiscal year 2011 . The decrease in our fiscal year 2010 sales, due to economic factors, was generally contained to the first three quarters where we saw our apparel sales decline by \$33.3 million, or 15.6%. As the economy started to improve and retailers started to experience some comparable sales growth, we were able to partially offset this sales decline with a fourth quarter sales gain of \$11.7 million, or 26.9%.

| Gross Profit by Segment (in thousands) | Fiscal Years Ended |            |            |
|--|--------------------|------------|------------|
|  | 2011               | 2010       | 2009       |
| Print                                  | \$ 77,236          | \$ 77,789  | \$ 85,295  |
| Apparel                                | 77,262             | 57,530     | 58,181     |
| Total                                  | \$ 154,498         | \$ 135,319 | \$ 143,476 |

**Print Segment.** Our print gross profit margin ( margin ), as a percent of sales, was 28.3%, 27.6% and 26.1% for fiscal years 2011, 2010 and 2009, respectively. In fiscal 2011 we saw our material prices rise; however, we have been able to offset these price increases through selling price increases and operational improvements. In fiscal 2010 we saw our material prices stabilize due to depressed economic conditions. As such, we were able to fully realize the benefits associated with our costs control initiatives started during fiscal 2009.

**Apparel Segment.** Our apparel margin, as a percent of sales, was 27.9%, 24.4% and 22.6%, for fiscal years 2011, 2010 and 2009, respectively.

We were able to increase our margin by 350 basis points during fiscal year 2011 through an increase in our unit sales price and improved operational efficiencies which have been able to offset our higher raw material costs. During the previous fiscal year, spot cotton prices increased significantly, however, manufacturers were able to insulate themselves from some of these increases with forward purchase contracts. However, because spot cotton prices have remained at these levels for a sustained period of time, most of these favorable forward contracts have expired and

higher cotton costs are starting to impact all manufacturer's inventory costs. As such, while we have to date been able to offset the higher costs of cotton, we continue to be concerned with current cotton pricing, and the potential impact upon our operation results for fiscal year 2012. Our ability to manage this potential cost increase will be dependent upon many factors, a number of which are outside of our control, such as the continued economic recovery of the United States, outside market factors such as availability of cotton and the actions of our competitors.

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Cost control was a major factor in the improvement of our margin for 2010. Gas prices were more favorable in 2010 as compared to 2009 and, combined with lower chemical and other input costs, helped to partially offset the reduction in sales for the year. In addition all non-essential overtime was eliminated and a period of 4 day manufacturing was implemented in our main fabric producing plant in Anaheim for a portion of the year without impacting our reported margin. We were also able to take advantage, during the fourth quarter, of lower cotton prices which we had locked in at previously contracted prices earlier in the year when cotton was selling at a much lower price per pound.

| <b>Profit by Segment (in thousands)</b>    | <b>Fiscal Years Ended</b> |                  |                    |
|--|---------------------------|------------------|--------------------|
|  | <b>2011</b>               | <b>2010</b>      | <b>2009</b>        |
| Print                                      | \$ 46,002                 | \$ 46,047        | \$ 51,553          |
| Apparel                                    | 42,611                    | 24,778           | (49,416)           |
| Total                                      | 88,613                    | 70,825           | 2,137              |
| Less corporate expenses                    | 19,196                    | 15,156           | 15,196             |
| <b>Earnings (loss) before income taxes</b> | <b>\$ 69,417</b>          | <b>\$ 55,669</b> | <b>\$ (13,059)</b> |

**Print Segment.** As a percent of sales, our Print Segment's profits were 16.9%, 16.3%, and 15.8% for fiscal years 2011, 2010 and 2009, respectively. Our Print Segment's profit for fiscal year 2011 remained level at \$46.0 million, the same as for fiscal year 2010.

While our Print Segment's profit on a percentage basis increased for fiscal year 2010 over fiscal year 2009, on a dollar basis it decreased by approximately \$5.5 million, or 10.7%. The decrease in our Print profit during fiscal year 2010 related to the 13.7% decline in our sales during the period, as previously discussed.

**Apparel Segment.** As a percent of sales, our Apparel Segment's profits were 15.4%, 10.5%, and -19.2%. During the fourth quarter of fiscal year 2009 we recorded a non-cash impairment charge of \$63.2 million and \$4.7 million to goodwill and trademarks, respectively. The increase in our Apparel profits during both fiscal year 2011 and 2010 related primarily to our improved gross profit margins for these years due to the factors previously discussed. In addition to the significant improvement in our gross profits margins as noted earlier, during fiscal year 2010 cost cutting in selling, general, and administrative expenses were achieved following a review of our advertising and marketing activities.

**Liquidity and Capital Resources**

| <b>(Dollars in thousands)</b> | <b>Fiscal Years Ended</b> |             |               |
|-------------------------------|---------------------------|-------------|---------------|
|                               | <b>2011</b>               | <b>2010</b> | <b>Change</b> |
| Working Capital               | \$ 135,300                | \$ 116,638  | 16.0%         |
| Cash                          | \$ 12,305                 | \$ 21,063   | -41.6%        |

**Working Capital.** Our working capital increased by approximately \$18.7 million, or 16.0% from \$116.6 million at February 28, 2010 to \$135.3 million at February 28, 2011. The increase in our working capital during the period related primarily to the increase in our inventories on hand, which increased in anticipation of our transition of our manufacturing from Anaheim, CA to Agua Prieta, Mexico. Our current ratio, calculated by dividing our current assets by our current liabilities, increased from 3.3-to-1.0 at February 28, 2010 to 3.9-to-1.0 at February 28, 2011, due to the increased inventory on hand.

| <b>(Dollars in thousands)</b>             | <b>Fiscal Years Ended</b> |             |               |
|---|---------------------------|-------------|---------------|
|   | <b>2011</b>               | <b>2010</b> | <b>Change</b> |
| Net Cash provided by operating activities | \$ 32,766                 | \$ 82,567   | -60.3%        |
| Net Cash used in investing activities     | \$(35,985)                | \$(20,244)  | 77.8%         |
| Net Cash used in financing activities     | \$(6,005)                 | \$(50,488)  | -88.1%        |

***Cash flows from operating activities.*** Cash flows from operations during fiscal 2011 decreased by \$49.8 million, or 60.3% over fiscal year 2010, which had increased by \$38.4 million, or 86.7% over fiscal year 2009. The change in our cash flows from operating activities from 2010 to 2011, of approximately \$49.8 million, related primarily to the change in our inventory levels. During fiscal year 2011, we used cash to build our inventories by approximately \$24.0 million in anticipation of our move to Agua Prieta, whereas during fiscal year 2010 we generated approximately \$27.0 million in cash through reducing our inventory levels to help fund the construction of our new manufacturing facility.

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**Cash flows from investing activities.** Cash used for our investing activities, which relates primarily to capital expenditures, increased by \$15.7 million, or 77.8% from \$20.2 million for fiscal year 2010 to \$36.0 million for fiscal year 2011. The increase in our capital expenditures relates primarily to our new Apparel manufacturing facility located in Agua Prieta, Mexico. For contractual commitments remaining in connection with the construction of this facility see Contractual Obligations & Off-Balance Sheet Arrangements section following in this Report.

**Cash flows from financing activities.** We used \$44.5 million less in cash associated with our financing activities in fiscal year 2011 when compared to the same period last year. We did not repay any debt in fiscal year ended 2011, as compared to \$34.2 million during fiscal year ended 2010. We borrowed an additional \$10.0 million against our revolving credit line in fiscal 2011 relating to our inventory build of finished goods at our Apparel Segment.

**Stock Repurchase** On October 20, 2008, our Board of Directors authorized the repurchase of up to \$5.0 million of our common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been purchased this fiscal year under the program, as of February 28, 2011, there have been 96,000 shares of our common stock that have been purchased under the repurchase program at an average price per share of \$10.45. Unrelated to the stock repurchase program, we purchased 91 shares of common stock during the fiscal year ended February 28, 2011.

**Credit Facility** On August 18, 2009, we entered into a Second Amended and Restated Credit Agreement (the Facility ) with a group of lenders led by Bank of America, N.A. (the Lenders ). The Facility provides us access to \$150.0 million in revolving credit, which we may increase to \$200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate ( LIBOR ) plus a spread ranging from 2.0% to 3.5% (LIBOR + 2.25% or 2.51% at February 28, 2011 and 2.48% at February 28, 2010), depending on our total funded debt to EBITDA ratio, as defined. As of February 28, 2011, we had \$50.0 million of borrowings under the revolving credit line and \$3.2 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$96.8 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. We are in compliance with all these covenants as of February 28, 2011. The Facility is secured by substantially all of our domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

During fiscal year 2011, we borrowed \$10.0 million and we did not pay any additional amounts on the revolver. It is anticipated that the available line of credit is sufficient to cover, should it be required, working capital required for the foreseeable future.

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

On July 7, 2008, we entered into a three-year Interest Rate Swap Agreement ( Swap ) for a notional amount of \$40.0 million. The Swap effectively fixes the LIBOR rate at 3.79%. The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was \$(0.6) million, \$(0.4) million net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet in current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income.

**Pension** We are required to make contributions to our defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ( ERISA ). We anticipate that we will contribute from \$2.0 million to \$3.0 million during our next fiscal year. We made contributions of \$3.0 million to our pension plan during each of our last 3 fiscal years. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status, associated



liabilities recorded and future required minimum contributions. At February 28, 2011, we had an unfunded pension liability recorded on our balance sheet of \$2.0 million.

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

**Capital Expenditures** We expect our capital requirements for 2012, exclusive of capital required for possible acquisitions and the completion of our new manufacturing facility in Agua Prieta, Mexico, will be in line with our historical levels of between \$4.0 million and \$5.0 million. We expect to fund these expenditures through existing cash flows. We expect to generate sufficient cash flows from our operating activities to cover our operating and other normal capital requirements for our foreseeable future.

On June 26, 2008, we announced plans to build a new manufacturing facility in the town of Agua Prieta in the state of Sonora, Mexico. At the time we estimated that the total capital expenditures associated with this facility would be between \$50.0 million and \$54.0 million (\$26.0 million for the building and \$24.0 million \$28.0 million for machinery and equipment). The construction of the new state of the art manufacturing facility is close to completion, with most of the new equipment installed. To date we have spent approximately \$50.5 million. We are now in the midst of transitioning both equipment and production from our existing manufacturing facility located in Anaheim, CA to our new manufacturing facility. We expect to be completed with this process by the end of the second quarter of this fiscal year. We continue to expect that the remaining funding for this project will be provided by internal cash flow and, as required, by our existing credit facilities. We expect this facility to be producing at 1.0 million pounds per week by the end of the first fiscal quarter of 2012 and between 1.4 to 1.6 million pounds per week by the end of our second fiscal quarter with an estimated capacity of approximately 2.6 to 2.8 million pounds per week.

**Contractual Obligations & Off-Balance Sheet Arrangements** There have been no significant changes in our contractual obligations since February 28, 2011 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of February 28, 2011 (in thousands).

|                                       | Total      | 2012      | 2013      | 2014     | 2015     | 2016 to<br>2021 |
|---------------------------------------|------------|-----------|-----------|----------|----------|-----------------|
| <b>Debt:</b>                          |            |           |           |          |          |                 |
| Revolving credit facility             | \$ 50,000  | \$        | \$ 50,000 | \$       | \$       | \$              |
| Interest rate swap                    | 586        | 586       |           |          |          |                 |
| Debt and interest total               | 50,586     | 586       | 50,000    |          |          |                 |
| <b>Other contractual commitments:</b> |            |           |           |          |          |                 |
| Estimated pension benefit payments    | 33,300     | 2,600     | 2,800     | 3,400    | 4,300    | 20,200          |
| Letters of credit                     | 3,199      | 3,199     |           |          |          |                 |
| Operating leases                      | 12,306     | 5,438     | 3,183     | 1,871    | 1,006    | 808             |
| Construction contract Agua Prieta     | 8,175      | 8,175     |           |          |          |                 |
| Total other contractual commitments   | 56,980     | 19,412    | 5,983     | 5,271    | 5,306    | 21,008          |
| Total                                 | \$ 107,566 | \$ 19,998 | \$ 55,983 | \$ 5,271 | \$ 5,306 | \$ 21,008       |

Subsequent to February 28, 2011 and through May 10, 2011, we made no additional repayments on our revolving credit facility. We expect future interest payments of \$1.9 million for fiscal year 2012, and \$0.6 million for fiscal year 2013 assuming interest rates and debt levels remain the same throughout the remaining term of the facility.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

***Cash***

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

***Interest Rates***

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. Our variable rate financial instruments, including the outstanding credit facilities, totaled \$50.0 million at February 28, 2011. We entered into a \$40.0 million interest rate swap designated as a cash flow hedge related to this debt. The LIBOR rate on \$40.0 million of debt is effectively fixed through this interest rate swap agreement. 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 February 28, 2011 would be approximately \$0.1 million.

***Foreign Exchange***

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

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

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our Consolidated Financial Statements and Supplementary Data required by this Item 8 are set forth following the signature page of this report and are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

No matter requires disclosure.

**ITEM 9A. 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 February 28, 2011, 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 February 28, 2011 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time 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

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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.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The financial statements, financial analysis and all other information in this Annual Report on Form 10-K were prepared by management, who is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that:

- i. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;
- ii. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- iii. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or dispositions of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of February 28, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control - Integrated Framework*. Based on management's assessment using those criteria, we believe that, as of February 28, 2011, the Company's internal control over financial reporting is effective.

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company for the fiscal year ended February 28, 2011 and has attested to the effectiveness of the Company's internal control over financial reporting as of February 28, 2011. Their report on the effectiveness of internal control over financial reporting is presented on page F-3 of this Report.

**ITEM 9B. OTHER INFORMATION**

No matter requires disclosure.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Except as set forth below, the information required by Item 10 is incorporated herein by reference to the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders.

In the wake of well-publicized corporate scandals, the Securities and Exchange Commission and the New York Stock Exchange have issued multiple new regulations, requiring the implementation of policies and procedures in the corporate governance area. In complying with new regulations requiring the institution of policies and

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procedures, it has been the goal of the Ennis Board of Directors and senior leadership to do so in a way which does not inhibit or constrain Ennis' unique culture, and which does not unduly impose a bureaucracy of forms and checklists. Accordingly, formal, written policies and procedures have been adopted in the simplest possible way, consistent with legal requirements, including a Code of Ethics applicable to the Company's principal executive officer, principal financial officer, and principal accounting officer or controller. The Company's Corporate Governance Guidelines, its charters for each of its Audit, Compensation, Nominating and Corporate Governance Committees and its Code of Ethics covering all Employees are available on the Company's website, www.ennis.com, and a copy will be mailed upon request to Ms. Sharlene Reagan at 2441 Presidential Parkway, Midlothian, TX 76065. If we make any substantive amendments to the Code, or grant any waivers to the Code for any of our senior officers or directors, we will disclose such amendment or waiver on our website and in a report on Form 8-K.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12, as to certain beneficial owners and management, is hereby incorporated by reference to the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders.

The following table provides information about securities authorized for issuance under the Company's equity compensation plan as of February 28, 2011.

| <b>Plan Category</b>   | <b>Number of securities to be issued upon exercise of outstanding options<br/>(a)</b> | <b>Weighted average exercise price of outstanding options<br/>(b)</b> | <b>Number of securities available for future issuances under equity compensation plans (excluding securities reflected in column (a))<br/>(c)</b> |
|--|---|---|---|
| Equity compensation plans approved by the security holders (1) | 342,723   | \$ 14.31  | 274,556   |
| Equity compensation plans not approved by security holders     |   |   |   |
| <b>Total</b>   | <b>342,723</b>  | <b>\$ 14.31</b>   | <b>274,556</b>  |

(1) The 2004 Long-Term Incentive Plan of Ennis, Inc., as amended and restated on May 14, 2008, formerly the 1998 Option and Restricted Stock Plan, amended and restated as of June 17, 2004. Includes 80,823 shares of restricted stock.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) Documents filed as a part of the report:**

**(1) Index to Consolidated Financial Statements of the Company**

An Index to Consolidated Financial Statements has been filed as a part of this Report beginning on page F-1 hereof.

- (2)** All schedules for which provision is made in the applicable accounting regulation of the SEC have been omitted because of the absence of the conditions under which they would be required or because the information required is included in the consolidated financial statements of the Registrant or the notes thereto.

**(3) Exhibits**

An Index to Exhibits has been filed as a part of this Report beginning on page E-1 and is herein incorporated by reference.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: May 10, 2011

BY: /s/ KEITH S. WALTERS  
Keith S. Walters, Chairman of the  
Board,  
Chief Executive Officer and President

Date: May 10, 2011

BY: /s/ RICHARD L. TRAVIS, JR.  
Richard L. Travis, Jr.  
Senior Vice President Finance and CFO,  
Secretary and Principal Financial and  
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: May 10, 2011

BY: /s/ KEITH S. WALTERS  
Keith S. Walters, Chairman of the  
Board, Chief  
Executive Officer and President

Date: May 10, 2011

BY: /s/ MICHAEL D. MAGILL  
Michael D. Magill, Executive Vice  
President  
and Director

Date: May 10, 2011

BY: /s/ FRANK D. BRACKEN  
Frank D. Bracken, Director

Date: May 10, 2011

BY: /s/ GODFREY M. LONG, JR.  
Godfrey M. Long, Jr., Director

Date: May 10, 2011

BY: /s/ THOMAS R. PRICE  
Thomas R. Price, Director

Date: May 10, 2011

BY: /s/ KENNETH G. PRITCHETT

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Kenneth G. Pritchett, Director

Date: May 10, 2011

BY: /s/ ALEJANDRO QUIROZ  
Alejandro Quiroz, Director

Date: May 10, 2011

BY: /s/ MICHAEL J. SCHAEFER  
Michael J. Schaefer, Director

Date: May 10, 2011

BY: /s/ JAMES C. TAYLOR  
James C. Taylor, Director

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**ENNIS, INC. AND SUBSIDIARIES  
Index to Consolidated Financial Statements**

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| <u>Report of Independent Registered Public Accounting Firm</u>   | F-2 |
| <u>Report of Independent Registered Public Accounting Firm</u>   | F-3 |
| <u>Consolidated Balance Sheets February 28, 2011 and February 28, 2010</u>   | F-4 |
| <u>Consolidated Statements of Earnings Fiscal years ended 2011, 2010 and 2009</u>  | F-6 |
| <u>Consolidated Statements of Changes in Shareholders Equity and Comprehensive Income Fiscal years ended 2011, 2010 and 2009</u> | F-7 |
| <u>Consolidated Statements of Cash Flows Fiscal years ended 2011, 2010 and 2009</u>  | F-8 |
| <u>Notes to Consolidated Financial Statements</u>  | F-9 |

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Ennis, Inc.

We have audited the accompanying consolidated balance sheets of Ennis, Inc. (a Texas corporation) and subsidiaries as of February 28, 2011 and 2010, and the related consolidated statements of earnings, changes in shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended February 28, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ennis, Inc. and subsidiaries as of February 28, 2011 and 2010, and the results of their operations and its cash flows for each of the three years in the period ended February 28, 2011 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ennis, Inc. and subsidiaries' internal control over financial reporting as of February 28, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated May 10, 2011 expressed an unqualified opinion on the effectiveness of Ennis, Inc.'s internal control over financial reporting.

/s/ Grant Thornton LLP

Dallas, Texas

May 10, 2011

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Ennis, Inc.

We have audited Ennis, Inc. (a Texas corporation) and subsidiaries' internal control over financial reporting as of February 28, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ennis, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Ennis, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ennis, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 28, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ennis, Inc. and subsidiaries as of February 28, 2011 and 2010 and the related consolidated statements of earnings, changes in shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended February 28, 2011 and our report dated May 10, 2011 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP  
Dallas, Texas  
May 10, 2011

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

|   | <b>Fiscal Years Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>2011</b>               | <b>2010</b>       |
| <b>Assets</b>   |                           |                   |
| Current assets  |                           |                   |
| Cash  | \$ 12,305                 | \$ 21,063         |
| Accounts receivable, net of allowance for doubtful receivables of \$4,814 at February 28, 2011 and \$4,446 at February 28, 2010 | 58,359                    | 57,249            |
| Prepaid expenses  | 5,335                     | 6,867             |
| Inventories   | 100,363                   | 75,137            |
| Deferred income taxes   | 6,036                     | 5,319             |
| Assets held for sale  |                           | 804               |
| <b>Total current assets</b>   | <b>182,398</b>            | <b>166,439</b>    |
| Property, plant and equipment, at cost  |                           |                   |
| Plant, machinery and equipment  | 156,356                   | 138,419           |
| Land and buildings  | 73,482                    | 55,430            |
| Other   | 22,646                    | 22,402            |
| <b>Total property, plant and equipment</b>  | <b>252,484</b>            | <b>216,251</b>    |
| Less accumulated depreciation   | 158,823                   | 150,531           |
| <b>Net property, plant and equipment</b>  | <b>93,661</b>             | <b>65,720</b>     |
| Goodwill  | 117,341                   | 117,341           |
| Trademarks and tradenames, net  | 58,765                    | 58,897            |
| Customer lists, net   | 17,547                    | 19,753            |
| Deferred finance charges, net   | 648                       | 1,079             |
| Other assets  | 3,368                     | 3,470             |
| <b>Total assets</b>   | <b>\$ 473,728</b>         | <b>\$ 432,699</b> |

See accompanying notes to consolidated financial statements.

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

|  | <b>Fiscal Years Ended</b> |                |
|--|---------------------------|----------------|
|  | <b>2011</b>               | <b>2010</b>    |
|  |                           |                |
| <b>Liabilities and Shareholders Equity</b>   |                           |                |
| Current liabilities  |                           |                |
| Accounts payable   | \$ 18,868                 | \$ 27,463      |
| Accrued expenses   |                           |                |
| Employee compensation and benefits   | 16,503                    | 14,374         |
| Taxes other than income  | 585                       | 1,539          |
| Federal and state income taxes payable   | 2,935                     | 705            |
| Other  | 7,621                     | 5,720          |
| Current installments of long-term debt   | 586                       |                |
| <br>Total current liabilities  | <br>47,098                | <br>49,801     |
| <br>Long-term debt   | <br>50,000                | <br>41,817     |
| Liability for pension benefits   | 2,048                     | 7,132          |
| Deferred income taxes  | 25,379                    | 19,821         |
| Other liabilities  | 1,520                     | 868            |
| <br>Total liabilities  | <br>126,045               | <br>119,439    |
| <br>Commitments and contingencies  |                           |                |
| <br>Shareholders equity  |                           |                |
| Preferred stock \$10 par value, authorized 1,000,000 shares; none issued                               |                           |                |
| Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares in 2011 and 2010 | 75,134                    | 75,134         |
| Additional paid in capital   | 121,306                   | 121,978        |
| Retained earnings  | 234,636                   | 206,062        |
| Accumulated other comprehensive income (loss):   |                           |                |
| Foreign currency translation, net of taxes   | 1,727                     | 267            |
| Unrealized loss on derivative instruments, net of taxes  | (372)                     | (1,154)        |
| Minimum pension liability, net of taxes  | (9,803)                   | (12,376)       |
| <br>Total accumulated other comprehensive income (loss)  | <br>(8,448)               | <br>(13,263)   |
| <br>Treasury stock   |                           |                |
| Cost of 4,197,567 shares in 2011 and 4,292,080 shares in 2010  | (74,945)                  | (76,651)       |
| <br>Total shareholders equity  | <br>347,683               | <br>313,260    |
| <br>Total liabilities and shareholders equity  | <br>\$ 473,728            | <br>\$ 432,699 |

See accompanying notes to consolidated financial statements.

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

|  | <b>Fiscal Years Ended</b> |             |             |
|--|---------------------------|-------------|-------------|
|  | <b>2011</b>               | <b>2010</b> | <b>2009</b> |
| Net sales                                  | \$ 549,999                | \$ 517,738  | \$ 584,029  |
| Cost of goods sold                         | 395,501                   | 382,419     | 440,553     |
| Gross profit margin                        | 154,498                   | 135,319     | 143,476     |
| Selling, general and administrative        | 83,678                    | 76,738      | 86,217      |
| Impairment of goodwill                     |                           |             | 63,151      |
| Impairment of trademarks                   |                           |             | 4,700       |
| Gain from disposal of assets               | (1)                       | (1)         | (514)       |
| Income (loss) from operations              | 70,821                    | 58,582      | (10,078)    |
| Other income (expense)                     |                           |             |             |
| Interest expense                           | (1,234)                   | (2,627)     | (3,363)     |
| Other, net                                 | (170)                     | (286)       | 382         |
|  | (1,404)                   | (2,913)     | (2,981)     |
| Earnings (loss) before income taxes        | 69,417                    | 55,669      | (13,059)    |
| Provision for income taxes                 | 24,786                    | 20,463      | 19,709      |
| Net earnings (loss)                        | \$ 44,631                 | \$ 35,206   | \$ (32,768) |
| Weighted average common shares outstanding |                           |             |             |
| Basic                                      | 25,855,129                | 25,768,632  | 25,724,150  |
| Diluted                                    | 25,887,995                | 25,796,553  | 25,790,166  |
| Per share amounts                          |                           |             |             |
| Net earnings (loss) basic                  | \$ 1.73                   | \$ 1.37     | \$ (1.27)   |
| Net earnings (loss) diluted                | \$ 1.72                   | \$ 1.36     | \$ (1.27)   |
| Cash dividends per share                   | \$ 0.62                   | \$ 0.62     | \$ 0.62     |

See accompanying notes to consolidated financial statements.



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**ENNIS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND**  
**COMPREHENSIVE INCOME FOR THE FISCAL YEARS ENDED 2009, 2010, AND 2011**  
*(Dollars in thousands, except share and per share amounts)*

|  | Common Stock |           | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock |             | Total      |
|--|--------------|-----------|----------------------------------|----------------------|---|----------------|-------------|------------|
|  | Shares       | Amount    |                                  |                      | (Loss)  | Shares         | Amount      |            |
| <b>Balance</b>   |              |           |                                  |                      |   |                |             |            |
| <b>March 1, 2008</b>   | 30,053,443   | \$ 75,134 | \$ 122,566                       | \$ 235,624           | \$ (5,521)                                      | (4,391,193)    | \$ (79,324) | \$ 348,479 |
| Net loss   |              |           |                                  | (32,768)             |   |                |             | (32,768)   |
| Foreign<br>currency<br>translation, net<br>of deferred tax<br>of \$1,142             |              |           |                                  |                      | (1,945)   |                |             | (1,945)    |
| Unrealized loss<br>on derivative<br>instruments, net<br>of deferred tax<br>of \$797  |              |           |                                  |                      | (1,387)   |                |             | (1,387)    |
| Adjustment to<br>pension, net of<br>deferred tax of<br>\$3,252                       |              |           |                                  |                      | (5,657)   |                |             | (5,657)    |
| Comprehensive<br>loss  |              |           |                                  |                      |   |                |             | (41,757)   |
| Dividends<br>declared (\$.62<br>per share)   |              |           |                                  | (15,999)             |   |                |             | (15,999)   |
| Excess tax<br>benefit of stock<br>option exercises<br>and restricted<br>stock grants |              |           | 249                              |                      |   |                |             | 249        |
| Stock based<br>compensation  |              |           | 993                              |                      |   |                |             | 993        |
| Exercise of<br>stock options<br>and restricted<br>stock grants                       |              |           | (1,360)                          |                      |   | 107,336        | 2,000       | 640        |
| Stock<br>repurchases   |              |           |                                  |                      |   | (52,700)       | (599)       | (599)      |
| <b>Balance</b>   | 30,053,443   | \$ 75,134 | \$ 122,448                       | \$ 186,857           | \$ (14,510)                                     | (4,336,557)    | \$ (77,923) | \$ 292,006 |
| <b>February 28,</b>  |              |           |                                  |                      |   |                |             |            |

**2009**

|   |  |         |          |       |          |       |  |          |
|---|--|---------|----------|-------|----------|-------|--|----------|
| Net earnings  |  | 35,206  |          |       |          |       |  | 35,206   |
| Foreign<br>currency<br>translation, net<br>of deferred tax<br>of \$754                      |  |         |          | 1,283 |          |       |  | 1,283    |
| Unrealized gain<br>on derivative<br>instruments, net<br>of deferred tax<br>benefit of \$137 |  |         |          | 233   |          |       |  | 233      |
| Adjustment to<br>pension, net of<br>deferred tax of<br>\$158                                |  |         |          | (269) |          |       |  | (269)    |
| Comprehensive<br>income   |  |         |          |       |          |       |  | 36,453   |
| Dividends<br>declared (\$.62<br>per share)  |  |         | (16,001) |       |          |       |  | (16,001) |
| Excess tax<br>benefit of stock<br>option exercises<br>and restricted<br>stock grants        |  | 101     |          |       |          |       |  | 101      |
| Stock based<br>compensation   |  | 1,079   |          |       |          |       |  | 1,079    |
| Exercise of<br>stock options<br>and restricted<br>stock grants                              |  | (1,650) |          |       | 93,034   | 1,758 |  | 108      |
| Stock<br>repurchases  |  |         |          |       | (48,557) | (486) |  | (486)    |

**Balance****February 28,  
2010**

|   |            |           |            |            |             |             |             |            |
|---|------------|-----------|------------|------------|-------------|-------------|-------------|------------|
| Net earnings  | 30,053,443 | \$ 75,134 | \$ 121,978 | \$ 206,062 | \$ (13,263) | (4,292,080) | \$ (76,651) | \$ 313,260 |
| Foreign<br>currency<br>translation, net<br>of deferred tax<br>of \$811                      |            |           |            | 44,631     |             |             |             | 44,631     |
| Unrealized gain<br>on derivative<br>instruments, net<br>of deferred tax<br>benefit of \$434 |            |           |            |            | 1,460       |             |             | 1,460      |
|   |            |           |            |            | 782         |             |             | 782        |
|   |            |           |            |            | 2,573       |             |             | 2,573      |

Adjustment to  
pension, net of  
deferred tax of  
\$1,429

|  |            |           |            |            |            |             |             |            |          |
|--|------------|-----------|------------|------------|------------|-------------|-------------|------------|----------|
| Comprehensive<br>income  |            |           |            |            |            |             |             |            | 49,446   |
| Dividends<br>declared (\$.62<br>per share)   |            |           |            | (16,057)   |            |             |             |            | (16,057) |
| Excess tax<br>benefit of stock<br>option exercises<br>and restricted<br>stock grants |            |           | (49)       |            |            |             |             |            | (49)     |
| Stock based<br>compensation  |            |           | 982        |            |            |             |             |            | 982      |
| Exercise of<br>stock options<br>and restricted<br>stock grants                       |            |           | (1,605)    |            | 94,604     | 1,708       |             |            | 103      |
| Stock<br>repurchases   |            |           |            |            | (91)       | (2)         |             |            | (2)      |
| <b>Balance<br/>February 28,<br/>2011</b>   | 30,053,443 | \$ 75,134 | \$ 121,306 | \$ 234,636 | \$ (8,448) | (4,197,567) | \$ (74,945) | \$ 347,683 |          |

See accompanying notes to consolidated financial statements.

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

|  | <b>Fiscal Years Ended</b> |              |             |
|--|---------------------------|--------------|-------------|
|  | <b>2011</b>               | <b>2010</b>  | <b>2009</b> |
| Cash flows from operating activities:  |                           |              |             |
| Net earnings (loss)  | \$ 44,631                 | \$ 35,206    | \$ (32,768) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: |                           |              |             |
| Depreciation   | 8,066                     | 8,976        | 9,993       |
| Amortization of deferred finance charges   | 432                       | 438          | 448         |
| Amortization of tradenames and customer lists  | 2,399                     | 2,403        | 2,419       |
| Impairment of goodwill and trademarks  |                           |              | 67,851      |
| Gain from disposal of assets   | (1)                       | (1)          | (514)       |
| Bad debt expense   | 1,952                     | 2,182        | 3,609       |
| Stock based compensation   | 982                       | 1,079        | 993         |
| Excess tax benefit of stock based compensation   | 49                        | (101)        | (249)       |
| Deferred income taxes  | 4,365                     | 2,705        | (4,265)     |
| Changes in operating assets and liabilities, net of the effects of acquisitions:           |                           |              |             |
| Accounts receivable  | (1,643)                   | (1,614)      | 10,580      |
| Prepaid expenses   | 1,718                     | 1,867        | (5,313)     |
| Inventories  | (23,753)                  | 27,096       | (4,154)     |
| Other current assets   | (717)                     | 409          | 2,058       |
| Other assets   | 90                        | (3,927)      | (4)         |
| Accounts payable and accrued expenses  | (3,945)                   | 6,177        | (7,789)     |
| Other liabilities  | 652                       | (203)        | (270)       |
| Prepaid pension asset/liability for pension benefits                                       | (2,511)                   | (125)        | 1,591       |
| <br>Net cash provided by operating activities  | <br>32,766                | <br>82,567   | <br>44,216  |
| <br>Cash flows from investing activities:  |                           |              |             |
| Capital expenditures   | (33,753)                  | (20,280)     | (6,399)     |
| Purchase of businesses, net of cash acquired   | (2,237)                   |              |             |
| Proceeds from disposal of plant and property   | 5                         | 36           | 1,049       |
| <br>Net cash used in investing activities  | <br>(35,985)              | <br>(20,244) | <br>(5,350) |
| <br>Cash flows from financing activities:  |                           |              |             |
| Borrowings on debt   | 10,000                    |              | 5,000       |
| Repayment of debt  |                           | (34,210)     | (21,755)    |
| Dividends  | (16,057)                  | (16,001)     | (15,999)    |
| Purchase of treasury stock   | (2)                       | (486)        | (599)       |
| Proceeds from exercise of stock options  | 103                       | 108          | 640         |
| Excess tax benefit of stock based compensation   | (49)                      | 101          | 249         |

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|   |           |           |          |
|---|-----------|-----------|----------|
| Net cash used in financing activities   | (6,005)   | (50,488)  | (32,464) |
| Effect of exchange rate changes on cash | 466       | (58)      | (509)    |
| Net change in cash                      | (8,758)   | 11,777    | 5,893    |
| Cash at beginning of period             | 21,063    | 9,286     | 3,393    |
| Cash at end of period                   | \$ 12,305 | \$ 21,063 | \$ 9,286 |

See accompanying notes to consolidated financial statements.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Significant Accounting Policies and General Matters**

**Nature of Operations.** Ennis, Inc. and its wholly owned subsidiaries (the Company) are principally engaged in the production of and sale of business forms, other business products and apparel to customers primarily located in the United States.

**Basis of Consolidation.** The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company's fiscal years ended on the following days: February 28, 2011, February 28, 2010 and February 28, 2009 (fiscal years ended 2011, 2010, and 2009, respectively).

**Accounts Receivable.** Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date. 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.

**Inventories.** With the exception of approximately one third of its print segment inventories, which are valued at the lower of last-in, first-out (LIFO) cost or market, the Company values its inventories at the lower of first in, first out (FIFO) cost or market. At fiscal years ended 2011 and 2010, approximately 4.15% and 6.15% of inventories, respectively, are valued at LIFO with the remainder of inventories valued at FIFO. 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 Company provides reserves for excess and obsolete inventory when necessary based upon analysis of quantities on hand, recent sales volumes and reference to market prices. Reserves for excess and obsolete inventory at fiscal years ended 2011 and 2010 were \$2.6 million and \$2.0 million, respectively.

**Property, Plant and Equipment.** Depreciation of property, plant and equipment is calculated using the straight-line method over a period considered adequate to amortize the total cost over the useful lives of the assets, which range from 3 to 11 years for plant, machinery and equipment and 10 to 40 years for buildings and improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized and depreciated over the remaining life of the specific property unit. The Company capitalizes all leases that are in substance acquisitions of property. As of February 28, 2010, the Company had land, building and equipment of approximately \$0.8 million classified as assets held for sale on the consolidated balance sheet. This balance is comprised of land and building with a net book value of \$0.7 million and equipment with a net book value of \$0.1 million. During fiscal year 2011, management concluded that the sale of these assets within one year was no longer probable and reclassified them out of assets held for sale and into land and building and plant, machinery and equipment.

**Goodwill and Other Intangible Assets.** Goodwill is the excess of the purchase price paid over the value of net assets of businesses acquired and is not amortized. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets with indefinite lives are 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 related business unit to its carrying value.

**Long-Lived Assets.** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is based upon future discounted net cash flows.





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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Significant Accounting Policies and General Matters-continued**

**Fair Value of Financial Instruments.** The carrying amounts of cash, accounts receivables, accounts payable and long-term debt approximate fair value because of the short maturity and/or variable rates associated with these instruments. Derivative financial instruments are recorded at fair value. Refer to Note 7 for additional discussion of fair value measurements.

**Treasury Stock.** The Company accounts for repurchases of common stock using the cost method with common stock in treasury classified in the Consolidated Balance Sheets as a reduction of shareholders' equity.

**Deferred Finance Charges.** The Company accounts for deferred finance charges in connection with its revolving credit facility. The costs associated with the debt are amortized to interest expense over the term of the facility using the straight-line method, which approximates the effective interest method. If the facility is extinguished before the end of the term, the remaining balance of the deferred finance charges will be amortized fully in such year.

**Revenue Recognition.** Revenue is generally recognized upon shipment of products. Net sales represent gross sales invoiced to customers, less certain related charges, including sales tax, discounts, returns and other allowances.

Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, the Company prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss passes to the customer, the customer is invoiced under normal credit terms, and revenue is recognized when manufacturing is complete. Approximately \$10.4 million, \$12.4 million and \$18.3 million of revenue was recognized under these arrangements during fiscal years 2011, 2010, and 2009 respectively.

**Advertising Expenses.** The Company expenses advertising costs as incurred. Catalog and brochure preparation and printing costs, which are considered direct response advertising, are amortized to expense over the life of the catalog, which typically ranges from three to twelve months. Advertising expense was approximately \$1.3 million, \$1.6 million, and \$1.7 million, during the fiscal years ended 2011, 2010 and 2009, respectively and is included in selling, general and administrative expenses in the Consolidated Statements of Earnings. Included in advertising expense is amortization related to direct response advertising of approximately \$453,000, \$817,000, and \$693,000 for the fiscal years ended 2011, 2010 and 2009, respectively. Unamortized direct advertising costs included in prepaid expenses at fiscal years ended 2011, 2010 and 2009 were approximately \$99,000, \$104,000, and \$409,000, respectively.

**Income Taxes.** Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Earnings (Loss) Per Share.** Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding plus the number of additional shares that would have been outstanding if potentially dilutive securities had been issued, calculated using the treasury stock method. For fiscal years 2011, 2010, and 2009, 93,700, 98,950, and 90,200 of options, respectively, were not included in the diluted earnings (loss) per share computation because their effect was anti-dilutive.

**Accumulated Other Comprehensive Income (Loss).** Other comprehensive income (loss) is defined as the change in equity resulting from transactions from non-owner sources. Other comprehensive income (loss) consisted of the following: adjustments resulting from the foreign currency translation of the Company's Mexican and Canadian operations, changes in the fair value of interest rate swap and changes in the funded status of the Company's pension plan.

**Derivative Instruments and Hedging Activities.** The Company uses derivative financial instruments to manage its exposures to interest rate fluctuations on its floating debt agreements when the Company deems it prudent to do so. The Company recognizes all derivatives as either assets or liabilities in the balance sheet, measure those instruments



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Significant Accounting Policies and General Matters-continued**

at fair value and recognize changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures.

**Foreign Currency Translation.** The functional currency for the Company's foreign subsidiaries is the applicable local currency. Assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at the rates of exchange prevailing during the year. The adjustments resulting from translating the financial statements of the foreign subsidiary are reflected in shareholders' equity as accumulated other comprehensive income or loss.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations in other income (expense), net as incurred. Transaction gains and losses totaled approximately \$169,000, \$290,000, and (\$384,000) for fiscal years ended 2011, 2010 and 2009, respectively.

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Shipping and Handling Costs.** The Company records amounts billed to customers for shipping and handling costs in net sales and related costs are included in cost of goods sold.

**Stock Based Compensation.** The Company recognizes stock-based compensation expense net of estimated forfeitures (estimated at 3%) over the requisite service period of the individual grants, which generally equals the vesting period. The fair value of all share based awards is estimated on the date of grant. For a further discussion of the impact of stock based compensation on the consolidated financial statements, see Note 10, Stock Option Plan and Stock Based Compensation.

**Concentrations of Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and trade receivables. Cash is placed with high-credit quality financial institutions which, at times, may exceed federally insured limits. The Company's credit risk with respect to trade receivables is limited in management's opinion due to industry and geographic diversification. As disclosed on the Consolidated Balance Sheets, the Company maintains an allowance for doubtful receivables to cover estimated credit losses associated with accounts receivable. The Company, for quality and pricing reasons, purchases its paper, cotton and yarn products from a limited number of suppliers. To maintain its high standard of color control associated with its apparel products, the Company purchases its dyeing chemicals from limited sources. While other sources may be available to the Company to purchase these products, they may not be available at the cost or at the quality the Company has come to expect.

**(2) Accounts Receivable and Allowance for Doubtful Receivables**

Accounts receivable are reduced by an estimated allowance for amounts that are uncollectible. Approximately 96% of the Company's receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables 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.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(2) Accounts Receivable and Allowance for Doubtful Receivables-continued**

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

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

|                                | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--------------------------------|-------------|-------------|-------------|
| Balance at beginning of period | \$ 4,446    | \$ 3,561    | \$ 3,954    |
| Bad debt expense               | 1,952       | 2,182       | 3,609       |
| Recoveries                     | 105         | 34          | 24          |
| Accounts written off           | (1,696)     | (1,297)     | (4,026)     |
| Foreign currency translation   | 7           | (34)        |             |
| Balance at end of period       | \$ 4,814    | \$ 4,446    | \$ 3,561    |

**(3) Inventories**

The following table summarizes the components of inventories at the different stages of production for the fiscal years ended (in thousands):

|                 | <b>2011</b> | <b>2010</b> |
|-----------------|-------------|-------------|
| Raw material    | \$ 11,237   | \$ 11,089   |
| Work-in-process | 13,453      | 14,280      |
| Finished goods  | 75,673      | 49,768      |
|                 | \$ 100,363  | \$ 75,137   |

The excess of current costs at FIFO over LIFO stated values was approximately \$5.6 million and \$5.3 million at fiscal years ended 2011 and 2010, respectively. There were no significant liquidations of LIFO inventories during the fiscal years ended 2011, 2010 and 2009. Cost includes materials, labor and overhead related to the purchase and production of inventories.

**(4) Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. 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 the estimated useful life (between 1 and 10 years). In fiscal 2009, trademarks with indefinite lives, with a net book value of \$63.2 million (fair value at time of acquisition) were evaluated for impairment and determined to have been impaired. A \$4.7 million impairment charge was recorded to reduce the carrying value of the trademarks to their fair value of \$58.5 million at fiscal year end 2009. No such impairment charges were necessary in fiscal 2010 or 2011.

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

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(4) 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 thousand):

|   | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b>       |
|---|--------------------------------------|-------------------------------------|------------------|
| <b>As of February 28, 2011</b>                  |                                      |                                     |                  |
| Amortized intangible assets (in thousands)      |                                      |                                     |                  |
| Tradenames                                      | \$ 1,234                             | \$ 1,007                            | \$ 227           |
| Customer lists                                  | 29,957                               | 12,410                              | 17,547           |
| Noncompete                                      | 500                                  | 495                                 | 5                |
|   | <b>\$ 31,691</b>                     | <b>\$ 13,912</b>                    | <b>\$ 17,779</b> |
| <b>As of February 28, 2010</b>                  |                                      |                                     |                  |
| Amortized intangible assets (in thousands)      |                                      |                                     |                  |
| Tradenames                                      | \$ 1,234                             | \$ 875                              | \$ 359           |
| Customer lists                                  | 29,908                               | 10,155                              | 19,753           |
| Noncompete                                      | 500                                  | 483                                 | 17               |
|   | <b>\$ 31,642</b>                     | <b>\$ 11,513</b>                    | <b>\$ 20,129</b> |
|   |                                      | <b>Fiscal years ended</b>           |                  |
|   |                                      | <b>2011</b>                         | <b>2010</b>      |
| Non-amortizing intangible assets (in thousands) |                                      |                                     |                  |
| Trademarks                                      |                                      | \$ 58,538                           | \$ 58,538        |

Aggregate amortization expense for each of the fiscal years 2011, 2010 and 2009 was approximately \$2.4 million. The Company's estimated amortization expense for the next five years is as follows:

|      |         |
|------|---------|
| 2012 | \$2,396 |
| 2013 | 2,352   |
| 2014 | 2,259   |
| 2015 | 2,141   |
| 2016 | 2,083   |

The following table represents changes in the carrying amount of goodwill for the fiscal years ended (in thousands):

|                             | <b>Print<br/>Segment<br/>Total</b> | <b>Apparel<br/>Segment<br/>Total</b> | <b>Total</b> |
|-----------------------------|------------------------------------|--------------------------------------|--------------|
| Balance as of March 1, 2009 | \$ 42,792                          | \$ 74,549                            | \$ 117,341   |
| Goodwill acquired           |                                    |                                      |              |
| Goodwill impairment         |                                    |                                      |              |
| Balance as of March 1, 2010 | 42,792                             | 74,549                               | 117,341      |

Goodwill acquired  
Goodwill impairment

|                                 |           |           |            |
|---------------------------------|-----------|-----------|------------|
| Balance as of February 28, 2011 | \$ 42,792 | \$ 74,549 | \$ 117,341 |
|---------------------------------|-----------|-----------|------------|

There was no adjustment to goodwill during the fiscal years ended February 28, 2011 and February 28, 2010. In fiscal 2009, the Company recorded an impairment charge related to goodwill in the amount of \$63.2 million.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(5) Other Accrued Expenses**

The following table summarizes the components of other accrued expenses for the fiscal years ended (in thousands):

|   | <b>February 28,<br/>2011</b> | <b>February 28,<br/>2010</b> |
|---|------------------------------|------------------------------|
| Accrued taxes                           | \$ 229                       | \$ 265                       |
| Accrued legal and professional fees     | 499                          | 392                          |
| Accrued interest                        | 158                          | 114                          |
| Accrued utilities                       | 1,038                        | 1,322                        |
| Accrued repairs and maintenance         | 684                          | 547                          |
| Accrued construction retainage          | 2,020                        | 582                          |
| Accrued phantom stock obligation        | 452                          | 422                          |
| Accrued acquisition related obligations | 243                          | 594                          |
| Other accrued expenses                  | 2,298                        | 1,482                        |
|   | <b>\$ 7,621</b>              | <b>\$ 5,720</b>              |

**(6) Derivative Instruments and Hedging Activities**

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

The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was \$(0.6) million or \$(0.4) million net of deferred taxes and at February 28, 2010 was \$(1.8) million or \$(1.2) million net of deferred taxes. The Swap has been reported on the Consolidated Balance Sheet as current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During fiscal year 2011, the Company incurred an additional \$1.4 million in interest expense related to the Swap.

**(7) Fair Value Financial Instruments**

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

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

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

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

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(7) Fair Value Financial Instruments-continued**

The following table summarizes financial liabilities measured at fair value on a recurring basis as of February 28, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

| Description                   | February    | Fair Value Measurements |              |              |
|-------------------------------|-------------|-------------------------|--------------|--------------|
|                               | 28,<br>2011 | (Level<br>1)            | (Level<br>2) | (Level<br>3) |
| Derivative liability ( Swap ) | \$ (586)    | \$                      | \$ (586)     | \$           |
|                               | \$ (586)    | \$                      | \$ (586)     | \$           |

| Description                   | February    | Fair Value Measurements |            |              |
|-------------------------------|-------------|-------------------------|------------|--------------|
|                               | 28,<br>2010 | (Level<br>1)            | (Level 2)  | (Level<br>3) |
| Derivative liability ( Swap ) | \$ (1,817)  | \$                      | \$ (1,817) | \$           |
|                               | \$ (1,817)  | \$                      | \$ (1,817) | \$           |

**(8) Long-Term Debt**

Long-term debt consisted of the following at fiscal years ended (in thousands):

|                           | February 28,<br>2011 | February 28,<br>2010 |
|---------------------------|----------------------|----------------------|
| Revolving credit facility | \$ 50,000            | \$ 40,000            |
| Interest rate swap        | 586                  | 1,817                |
| Long-term debt            | \$ 50,586            | \$ 41,817            |

On August 18, 2009, the Company entered into a Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides the Company access to \$150.0 million in revolving credit, which the Company may increase to \$200.0 million in certain circumstances, and matures on August 18, 2012. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.0% to 3.5% (LIBOR + 2.25% or 2.51% at February 28, 2011 and 2.48% at February 28, 2010), depending on the Company's total funded debt to EBITDA ratio, as defined. As of February 28, 2011, the Company had \$50.0 million of borrowings under the revolving credit line and \$3.2 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately \$96.8 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of February 28, 2011. The Facility is secured by substantially all of the Company's domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign

Subsidiary.

The Company capitalized \$1.7 million of interest expense for fiscal year 2011 and \$280,000 of interest expense for fiscal year 2010 relating to the construction of the Agua Prieta facility. There was no interest capitalized for fiscal 2009.

The Company's long-term debt maturities for the years following February 28, 2011 are as follows (in thousands):

|      | <b>Debt</b> |
|------|-------------|
| 2012 | \$ 586      |
| 2013 | 50,000      |
|      | \$ 50,586   |

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**ENNIS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(9) Shareholders' Equity**

On October 20, 2008, the Board of Directors authorized the repurchase of up to \$5.0 million of the common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been repurchased this fiscal year under the program, as of February 28, 2011, there have been 96,000 shares of the common stock that have been purchased under the repurchase program at an average price per share of \$10.45. Unrelated to the stock repurchase program, the Company purchased 91 shares of common stock during the fiscal year ended February 28, 2011.

The Company's revolving credit facility maintains certain restrictions on the amount of treasury shares that may be made and distributions to its shareholders.

**(10) Stock Option Plan and Stock Based Compensation**

The Company grants stock options and restricted stock to key executives and managerial employees and non-employee directors. At fiscal year ended 2011, the Company has one stock option plan: the 2004 Long-Term Incentive Plan of Ennis, Inc., as amended and restated on May 14, 2008, formerly the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 ( "Plan" ). The Company has 274,556 shares of unissued common stock reserved under the plan for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each stock option granted equals the quoted market price of the Company's common stock on the date of grant, and an option's maximum term is ten years. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from grant date up to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the years ended 2011, 2010 and 2009, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$982,000 (\$624,000 net of tax), \$1,079,000 (\$680,000 net of tax) and \$993,000 (\$631,000 net of tax), respectively.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(10) Stock Option Plan and Stock Based Compensation-continued**Stock Options

The Company had the following stock option activity for the three years ended February 28, 2011:

|                                  | Number<br>of<br>Shares<br>( <i>exact<br/>quantity</i> ) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life ( <i>in<br/>years</i> ) | Aggregate<br>Intrinsic<br>Value(a)<br>( <i>in<br/>thousands</i> ) |
|----------------------------------|---|--|---|---|
| Outstanding at March 1, 2008     | 469,513   | \$ 10.97                                 | 2.9   |   |
| Granted                          |   |  |   |   |
| Terminated                       | (46,450)  | 12.31                                    |   |   |
| Exercised                        | (104,500)   | 10.34                                    |   |   |
| Outstanding at February 28, 2009 | 318,563   | \$ 10.98                                 | 2.4   |   |
| Granted                          | 105,000   | 8.94                                     |   |   |
| Terminated                       | (115,000)   | 8.69                                     |   |   |
| Exercised                        | (58,363)  | 7.06                                     |   |   |
| Outstanding at February 28, 2010 | 250,200   | \$ 12.09                                 | 6.0   | \$ 1,003  |
| Granted                          | 62,500  | 18.46                                    |   |   |
| Terminated                       | (11,300)  | 10.18                                    |   |   |
| Exercised                        | (39,500)  | 7.99                                     |   |   |
| Outstanding at February 28, 2011 | 261,900   | \$ 14.31                                 | 6.5   | \$ 757  |
| Exercisable at February 28, 2011 | 128,150   | \$ 15.27                                 | 4.3   | \$ 237  |

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

The Company did not grant any stock options during fiscal year 2009. The following is a summary of the assumptions used and the weighted average grant-date fair value of the stock options granted during fiscal years ended 2011 and 2010:

|  | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
| Expected volatility                    | 34.63%      | 32.35%      |
| Expected term (years)                  | 3           | 4           |
| Risk free interest rate                | 1.58%       | 2.01%       |
| Dividend yield                         | 4.24%       | 4.74%       |
| Weighted average grant-date fair value | \$ 3.35     | \$ 1.58     |

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

|                              | <b>Fiscal years ended</b> |             |             |
|------------------------------|---------------------------|-------------|-------------|
|                              | <b>2011</b>               | <b>2010</b> | <b>2009</b> |
| Total cash received          | \$103                     | \$108       | \$640       |
| Income tax (expense) benefit | (49)                      | 101         | 249         |
| Total grant-date fair value  | 38                        | 42          | 134         |
| Intrinsic value              | 339                       | 408         | 536         |

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(10) Stock Option Plan and Stock Based Compensation-continued**

A summary of the status of the company's unvested stock options at February 28, 2011, and changes during the fiscal year ended February 28, 2011 are presented below:

|                               | <b>Number<br/>of Options</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date<br/>Fair Value</b> |
|-------------------------------|------------------------------|---|
| Unvested at February 28, 2010 | 110,000                      | \$ 1.64   |
| New grants                    | 62,500                       | 3.35  |
| Vested                        | (31,250)                     | 1.79  |
| Forfeited                     | (7,500)                      | 1.58  |
| Unvested at February 28, 2011 | 133,750                      | \$ 2.41   |

As of February 28, 2011, there was \$225,000 of unrecognized compensation cost related to unvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 2.2 years. The total fair value of shares underlying the options vested during the fiscal year ended February 28, 2011 was \$508,000.

The following table summarizes information about stock options outstanding at the end of fiscal year 2011:

|                       | <b>Options Outstanding</b> |  |  | <b>Options Exercisable</b> |  |
|-----------------------|----------------------------|--|--|----------------------------|--|
|                       | Number                     | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in Years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable      | Weighted<br>Average<br>Exercise<br>Price |
| Exercise Prices       | Outstanding                |  |  |                            |  |
| \$8.9400 to \$11.6700 | 101,750                    | 7.6  | \$ 9.21                                  | 30,500                     | \$ 9.84                                  |
| 13.2800 to 16.4200    | 66,450                     | 3.2  | 15.69                                    | 66,450                     | 15.69                                    |
| 18.4600 to 19.6900    | 93,700                     | 7.8  | 18.87                                    | 31,200                     | 19.69                                    |
|                       | 261,900                    | 6.5  | 14.31                                    | 128,150                    | 15.27                                    |

**Restricted Stock**

The Company had the following restricted stock grants activity for the three fiscal years ended February 28, 2011:

|                              | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|------------------------------|-----------------------------|---|
| Outstanding at March 1, 2008 | 73,916                      | \$25.12   |
| Granted                      | 75,080                      | 15.67   |
| Terminated                   | (15,236)                    | 19.89   |
| Vested                       | (30,669)                    | 24.05   |

|                                  |          |          |
|----------------------------------|----------|----------|
| Outstanding at February 28, 2009 | 103,091  | \$ 19.33 |
| Granted                          | 44,800   | 8.94     |
| Terminated                       |          |          |
| Vested                           | (56,421) | 17.48    |
| Outstanding at February 28, 2010 | 91,470   | \$ 15.38 |
| Granted                          | 57,655   | 17.34    |
| Terminated                       | (268)    | 15.49    |
| Vested                           | (68,034) | 16.79    |
| Outstanding at February 28, 2011 | 80,823   | \$ 15.59 |

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(10) Stock Option Plan and Stock Based Compensation-continued**

As of February 28, 2011, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately \$709,000. The weighted average remaining requisite service period of the unvested restricted stock awards was 1.5 years. As of February 28, 2011, the Company's outstanding restricted stock had an underlying fair value at date of grant of \$1.3 million.

**(11) Employee Benefit Plans**

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 11% of their employees. Benefits are based on years of service and the employee's average compensation for the highest five compensation years preceding retirement or termination. The Company's funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

The Company's pension plan asset allocation, by asset category, is as follows for the fiscal years ended:

|                           | <b>2011</b> | <b>2010</b> |
|---------------------------|-------------|-------------|
| Equity securities         | 52%         | 54%         |
| Debt securities           | 41%         | 42%         |
| Cash and cash equivalents | 7%          | 4%          |
| <b>Total</b>              | <b>100%</b> | <b>100%</b> |

The current asset allocation is being managed to meet the Company's stated objective of asset growth and capital preservation. The factor is based upon the combined judgments of the Company's Administrative Committee and its investment advisors to meet the Company's investment needs, objectives, and risk tolerance. The Company's target asset allocation percentage, by asset class, for the year ended February 28, 2011 is as follows:

| <b>Asset Class</b> | <b>Target Allocation Percentage</b> |
|--------------------|-------------------------------------|
| Money Market       | 0 - 3%                              |
| Bonds              | 43 - 47%                            |
| Stocks             | 45 - 50%                            |

The Company estimates the long-term rate of return on plan assets will be 8.0% based upon target asset allocation. Expected returns are developed based upon the information obtained from the Company's investment advisors. The advisors provide ten-year historical and five-year expected returns on the fund in the target asset allocation. The return information is weighted based upon the asset allocation at the end of the fiscal year. The expected rate of return at the beginning of the fiscal year ended 2011 was 8.0%, the rate used in the calculation of the current year pension expense.

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**ENNIS, INC. AND SUBSIDIARIES**  
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**(11) Employee Benefit Plans-continued**

The following tables presents the Plan's fair value hierarchy for those assets measured at fair value as of February 28, 2011 and 2010:

| Description               | Assets<br>Measured<br>at<br>Fair Value<br>at 2/28/11 | Fair Value Measurements |           |              |
|---------------------------|--|-------------------------|-----------|--------------|
|                           |  | (Level<br>1)            | (Level 2) | (Level<br>3) |
| Cash and cash equivalents | \$ 2,742   | \$ 2,742                | \$        | \$           |
| Government bonds          | 10,487   |                         | 10,487    |              |
| Corporate bonds           | 6,601  |                         | 6,601     |              |
| Domestic equities         | 18,002   | 18,002                  |           |              |
| Foreign equities          | 3,758  | 3,758                   |           |              |
|                           | \$ 41,590  | \$ 24,502               | \$ 17,088 | \$           |

| Description               | Assets<br>Measured<br>at<br>Fair Value<br>at 2/28/10 | Fair Value Measurements |           |              |
|---------------------------|--|-------------------------|-----------|--------------|
|                           |  | (Level<br>1)            | (Level 2) | (Level<br>3) |
| Cash and cash equivalents | \$ 1,354   | \$ 1,354                | \$        | \$           |
| Government bonds          | 9,750  |                         | 9,750     |              |
| Corporate bonds           | 6,750  |                         | 6,750     |              |
| Domestic equities         | 17,706   | 17,706                  |           |              |
| Foreign equities          | 3,562  | 3,562                   |           |              |
|                           | \$ 39,122  | \$ 22,622               | \$ 16,500 | \$           |

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. The disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

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



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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(11) Employee Benefit Plans-continued**

|   | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|-------------|
| Components of net periodic benefit cost   |             |             |             |
| Service cost  | \$ 1,214    | \$ 1,138    | \$ 1,341    |
| Interest cost   | 2,618       | 2,741       | 2,627       |
| Expected return on plan assets  | (3,062)     | (2,423)     | (3,249)     |
| Amortization of:  |             |             |             |
| Prior service cost  | (145)       | (145)       | (145)       |
| Unrecognized net loss   | 1,344       | 1,698       | 766         |
| Net periodic benefit cost   | 1,969       | 3,009       | 1,340       |
| Other changes in Plan Assets and Projected Benefit Obligation<br>Recognized in Other comprehensive Income |             |             |             |
| Net actuarial loss (gain)   | (2,854)     | 1,688       | 9,529       |
| Amortization of net actuarial loss  | (1,344)     | (1,698)     | (766)       |
| Amortization of prior service credit  | 145         | 145         | 145         |
|   | (4,053)     | 135         | 8,908       |
| Total recognized in net periodic pension cost and other comprehensive income                              | \$ (2,084)  | \$ 3,144    | \$ 10,248   |

The following table represents the assumptions used to determine benefit obligations and net periodic pension cost for fiscal years ended:

|  | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|-------------|
| Weighted average discount rate (net periodic pension cost) | 6.05%       | 7.15%       | 6.40%       |
| Earnings progression (net periodic pension cost)           | 3.00%       | 3.00%       | 3.00%       |
| Expected long-term rate of return on plan assets           | 8.00%       | 8.00%       | 8.00%       |
| Weighted average discount rate (benefit obligations)       | 5.85%       | 6.05%       | 7.15%       |
| Earnings progression (benefit obligations)                 | 3.00%       | 3.00%       | 3.00%       |

The accumulated benefit obligation ( ABO ), change in projected benefit obligation ( PBO ), change in plan assets, funded status, and reconciliation to amounts recognized in the consolidated balance sheets are as follows:

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Change in benefit obligation                      |             |             |
| Projected benefit obligation at beginning of year | \$ 46,254   | \$ 38,951   |
| Service cost                                      | 1,214       | 1,138       |
| Interest cost                                     | 2,618       | 2,741       |
| Actuarial (gain)/loss                             | (865)       | 7,926       |
| Benefits paid                                     | (5,583)     | (4,502)     |

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|   |            |            |
|---|------------|------------|
| Projected benefit obligation at end of year         | \$ 43,638  | \$ 46,254  |
| Change in plan assets:                              |            |            |
| Fair value of plan assets at beginning of year      | \$ 39,122  | \$ 31,963  |
| Company contributions                               | 3,000      | 3,000      |
| Gains on plan assets                                | 5,051      | 8,661      |
| Benefits paid                                       | (5,583)    | (4,502)    |
| Fair value of plan assets at end of year            | \$ 41,590  | \$ 39,122  |
| Funded status (benefit obligation less plan assets) | \$ (2,048) | \$ (7,132) |
| Accumulated benefit obligation at end of year       | \$ 39,785  | \$ 40,852  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(11) Employee Benefit Plans-continued**

The measurement dates used to determine pension and other postretirement benefits is the Company's fiscal year end. The Company expects to contribute from \$2.0 million to \$3.0 million during fiscal year 2012.

Estimated future benefit payments which reflect expected future service, as appropriate, are expected to be paid in the fiscal years ended (in thousands):

| <b>Year</b> | <b>Projected<br/>Payments</b> |
|-------------|-------------------------------|
| 2012        | \$ 2,600                      |
| 2013        | 2,800                         |
| 2014        | 3,400                         |
| 2015        | 4,300                         |
| 2016        | 2,900                         |
| 2017 - 2021 | 17,300                        |

Effective February 1, 1994, the Company adopted a Defined Contribution 401(k) Plan (the 401(k) Plan) for its United States employees. The 401(k) Plan covers substantially all full-time employees who have completed sixty days of service and attained the age of eighteen. United States employees can contribute up to 100 percent of their annual compensation, but are limited to the maximum annual dollar amount allowable under the Internal Revenue Code. The 401(k) Plan provides for employer matching contributions or discretionary employer contributions for certain employees not enrolled in the pension plan for employees of the Company. Eligibility for employer contributions, matching percentage, and limitations depends on the participant's employment location and whether the employees are covered by the Company's pension plan, etc. The Company's matching contributions are immediately vested. The Company made matching 401(k) contributions in the amount of \$376,000, \$313,000 and \$372,000 in fiscal years ended 2011, 2010 and 2009, respectively.

In addition, the Northstar Computer Forms, Inc. 401(k) Profit Sharing Plan was merged into the 401(k) Plan on February 1, 2001. The Company declared profit sharing contributions on behalf of the former employees of Northstar Computer Forms, Inc. in accordance with its original plan in the amounts of \$289,000, \$306,000, and \$345,000, in fiscal years ended 2011, 2010 and 2009, respectively.

**(12) Income Taxes**

The following table represents components of the provision for income taxes for fiscal years ended (in thousands):

|                                      | <b>2011</b>   | <b>2010</b>   | <b>2009</b>   |
|--------------------------------------|---------------|---------------|---------------|
| Current:                             |               |               |               |
| Federal                              | \$ 18,167     | \$ 16,357     | \$ 14,723     |
| State and local                      | 3,535         | 3,104         | 3,444         |
| Foreign                              | 866           | 857           | 573           |
| Deferred                             | 2,218         | 145           | 969           |
| <br>Total provision for income taxes | <br>\$ 24,786 | <br>\$ 20,463 | <br>\$ 19,709 |

The Company's effective tax rate on earnings from operations for the year ended February 28, 2011, was 35.7%, as compared with a 36.8% and (150.9%) in 2010 and 2009, respectively. Excluding the impairment the effective tax rate for 2009 would have been 39.4%. Provision for state income tax of (18.4)% in 2009 was due to a negative pre-tax income amount created by the impairment charge. The following summary reconciles the statutory U.S. Federal income tax rate to the Company's effective tax rate for the fiscal years ended:

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(12) Income Taxes-continued**

|   | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|-------------|
| Statutory rate  | 35.0%       | 35.0%       | 35.0%       |
| Provision for state income taxes, net of Federal income tax benefit | 3.1         | 3.7         | (18.4)      |
| Impairment of goodwill  |             |             | (169.3)     |
| Domestic production activities deduction                            | (3.0)       | (2.0)       | 8.6         |
| Other   | 0.6         | 0.1         | (6.8)       |
|   | 35.7%       | 36.8%       | -150.9%     |

Included in other assets on the balance sheet is approximately \$2,700,000 of refund receivable related to amended Canadian tax returns for 2006-2008.

Deferred taxes are recorded to give recognition to temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The tax effects of these temporary differences are recorded as deferred tax assets and deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that have been deducted for tax purposes, but have not yet been recorded in the consolidated statements of earnings. To the extent there are deferred tax assets that are more likely than not to be realized, a valuation allowance would not be recorded. The components of deferred income tax assets and liabilities are summarized as follows (in thousands) for fiscal years ended:

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Current deferred tax assets related to:               |             |             |
| Allowance for doubtful receivables                    | \$ 1,833    | \$ 1,718    |
| Inventories   | 1,910       | 1,916       |
| Employee compensation and benefits                    | 1,942       | 1,625       |
| Other   | 351         | 60          |
|   | \$ 6,036    | \$ 5,319    |
| Noncurrent deferred tax liability (asset) related to: |             |             |
| Property, plant and equipment                         | \$ 4,940    | \$ 3,891    |
| Goodwill and other intangible assets                  | 21,527      | 20,898      |
| Pension and noncurrent employee compensation benefits | (1,955)     | (3,816)     |
| Net operating loss and foreign tax credits            | (315)       | (378)       |
| Property tax  | 881         |             |
| Interest rate swap                                    | (225)       | (702)       |
| Currency exchange                                     | 567         | 232         |
| Stock options exercised                               | (303)       | (570)       |
| Valuation allowance                                   | 247         | 247         |
| Other   | 15          | 19          |
|   | \$ 25,379   | \$ 19,821   |

The Company maintains a valuation allowance to adjust the basis of net deferred taxes in accordance with accounting standards for approximately \$250,000 as of February 28, 2011 and February 28, 2010, respectively, related to foreign

tax credits. Included in other non-current deferred tax liability (asset) are currency exchange, stock options exercised, and the valuation allowance. The Company has federal and state net operating loss carry forwards as a result of an acquisition in the amount of \$1,477,000 expiring in fiscal years 2019 through 2025. Based on historical earnings, management believes it will be able to fully utilize the net operating loss carry forwards.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12) Income Taxes-continued**

Accounting standards require a two-step approach to determine how to recognize tax benefits in the financial statements where recognition and measurement of a tax benefit must be evaluated separately. A tax benefit will be recognized only if it meets a more-likely-than-not recognition threshold. For tax positions that meet this threshold, the tax benefit recognized is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority.

Unrecognized tax benefits, including accrued interest and penalties, at fiscal year end 2011 and 2010 of \$163,000 and \$169,000, respectively, related to uncertain tax positions are included in other liabilities on the consolidated balance sheets and would impact the effective rate if recognized. For fiscal year 2011, the unrecognized tax benefit includes an aggregate of \$19,000 of interest expense. Approximately \$54,000 of unrecognized tax benefits relate to items that are affected by expiring statutes of limitations within the next 12 months. A reconciliation of the change in the unrecognized tax benefits for fiscal years ended 2011 and 2010 is as follows (in thousands):

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Balance at beginning of year  | \$ 147      | \$ 243      |
| Additions (reductions) based on tax positions related to the current year | 43          | (15)        |
| Reductions due to lapses of statutes of limitations                       | (49)        | (81)        |
| Balance at end of year  | \$ 141      | \$ 147      |

The Company is 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 2007. All material state and local income tax matters have been concluded for years through 2005 and foreign tax jurisdictions through 2008.

The Company recognizes interest expense on underpayments of income taxes and accrued penalties related to unrecognized non-current tax benefits as part of the income tax provision. Other than amounts included in the unrecognized tax benefits, the Company did not recognize any interest or penalties for the fiscal years ended 2011, 2010 and 2009.

**(13) Earnings (loss) per Share**

Basic earnings (loss) 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 fiscal years ended:

|  | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|-------------|
| Basic weighted average common shares outstanding   | 25,855,129  | 25,768,632  | 25,724,150  |
| Effect of dilutive options                         | 32,866      | 27,921      | 66,016      |
| Diluted weighted average common shares outstanding | 25,887,995  | 25,796,553  | 25,790,166  |
| Per share amounts:                                 |             |             |             |
| Net earnings basic                                 | \$ 1.73     | \$ 1.37     | \$ (1.27)   |
| Net earnings diluted                               | \$ 1.72     | \$ 1.36     | \$ (1.27)   |

|                |    |      |    |      |    |      |
|----------------|----|------|----|------|----|------|
| Cash dividends | \$ | 0.62 | \$ | 0.62 | \$ | 0.62 |
|----------------|----|------|----|------|----|------|

The Company treats unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities, which are included in the computation of earnings per share pursuant to the two-class method. The Company's participating securities are comprised of unvested restricted stock.

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(14) Segment Information and Geographic Information**

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

The Print Segment, which represented 50% of the Company's consolidated net sales for fiscal year 2011, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 38 manufacturing locations throughout the United States in 17 strategically located domestic states. Approximately 96% of the business products manufactured by the Print Segment are custom and semi-custom, constructed in a wide variety of sizes, colors, number of parts and quantities on an individual job basis depending upon the customers' specifications.

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

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

The Apparel Segment, which accounted for 50% of the Company's fiscal year 2011 consolidated net sales, consists of Alstyle Apparel. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

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

Segment data for the fiscal years ended 2011, 2010 and 2009 were as follows (in thousands):

|   | <b>Print<br/>Segment</b> | <b>Apparel<br/>Segment</b> | <b>Corporate</b> | <b>Consolidated<br/>Totals</b> |
|---|--------------------------|----------------------------|------------------|--------------------------------|
| <b>Fiscal year ended February 28, 2011:</b> |                          |                            |                  |                                |
| Net sales                                   | \$272,689                | \$277,310                  | \$               | \$549,999                      |
| Depreciation                                | 5,396                    | 1,943                      | 727              | 8,066                          |
| Amortization of identifiable intangibles    | 933                      | 1,466                      |                  | 2,399                          |
| Segment earnings (loss) before income tax   | 46,002                   | 42,611                     | (19,196)         | 69,417                         |
| Segment assets                              | 136,255                  | 321,908                    | 15,565           | 473,728                        |
| Capital expenditures                        | 2,176                    | 31,549                     | 28               | 33,753                         |
|   | F-25                     |                            |                  |                                |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(14) Segment Information and Geographic Information-continued**

|   | <b>Print<br/>Segment</b> | <b>Apparel<br/>Segment</b> | <b>Corporate</b> | <b>Consolidated<br/>Totals</b> |
|---|--------------------------|----------------------------|------------------|--------------------------------|
| <b>Fiscal year ended February 28, 2010:</b> |                          |                            |                  |                                |
| Net sales                                   | \$282,308                | \$235,430                  | \$               | \$517,738                      |
| Depreciation                                | 5,970                    | 2,168                      | 838              | 8,976                          |
| Amortization of identifiable intangibles    | 937                      | 1,466                      |                  | 2,403                          |
| Segment earnings (loss) before income tax   | 46,047                   | 24,778                     | (15,156)         | 55,669                         |
| Segment assets                              | 140,734                  | 270,680                    | 21,285           | 432,699                        |
| Capital expenditures                        | 2,522                    | 17,661                     | 97               | 20,280                         |

|   |           |           |          |           |
|---|-----------|-----------|----------|-----------|
| <b>Fiscal year ended February 28, 2009:</b> |           |           |          |           |
| Net sales                                   | \$327,034 | \$256,995 | \$       | \$584,029 |
| Depreciation                                | 6,406     | 2,640     | 947      | 9,993     |
| Amortization of identifiable intangibles    | 952       | 1,467     |          | 2,419     |
| Impairment of goodwill and trademarks       |           | 67,851    |          | 67,851    |
| Segment earnings (loss) before income tax   | 51,553    | (49,416)  | (15,196) | (13,059)  |
| Segment assets                              | 152,971   | 267,499   | 15,910   | 436,380   |
| Capital expenditures                        | 5,973     | 324       | 102      | 6,399     |

Identifiable long-lived assets by country of ownership 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 fiscal years ended is as follows (in thousand):

|                                     | <b>United<br/>States</b> | <b>Canada</b> | <b>Mexico</b> | <b>Total</b> |
|-------------------------------------|--------------------------|---------------|---------------|--------------|
| <b>2011</b>                         |                          |               |               |              |
| Net sales to unaffiliated customers |                          |               |               |              |
| Print Segment                       | \$ 272,689               | \$            | \$            | \$ 272,689   |
| Apparel Segment                     | 253,172                  | 22,227        | 1,911         | 277,310      |
|                                     | \$ 525,861               | \$ 22,227     | \$ 1,911      | \$ 549,999   |
| Identifiable long-lived assets      |                          |               |               |              |
| Print Segment                       | \$ 35,867                | \$            | \$            | 35,867       |
| Apparel Segment                     | 1,901                    | 33            | 51,968        | 53,902       |
| Corporate                           | 3,892                    |               |               | 3,892        |
|                                     | \$ 41,660                | \$ 33         | \$ 51,968     | \$ 93,661    |
| <b>2010</b>                         |                          |               |               |              |
| Net sales to unaffiliated customers |                          |               |               |              |
| Print Segment                       | \$ 282,308               | \$            | \$            | \$ 282,308   |
| Apparel Segment                     | 217,442                  | 15,183        | 2,805         | 235,430      |

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|                                |            |           |           |            |
|--------------------------------|------------|-----------|-----------|------------|
|                                | \$ 499,750 | \$ 15,183 | \$ 2,805  | \$ 517,738 |
| Identifiable long-lived assets |            |           |           |            |
| Print Segment                  | \$ 37,984  | \$        | \$        | 37,984     |
| Apparel Segment                | 9,508      | 33        | 13,602    | 23,143     |
| Corporate                      | 4,593      |           |           | 4,593      |
|                                | \$ 52,085  | \$ 33     | \$ 13,602 | \$ 65,720  |

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(14) Segment Information and Geographic Information-continued**

|                                     | United<br>States | Canada    | Mexico   | Total      |
|-------------------------------------|------------------|-----------|----------|------------|
| <b>2009</b>                         |                  |           |          |            |
| Net sales to unaffiliated customers |                  |           |          |            |
| Print Segment                       | \$ 327,034       | \$        | \$       | \$ 327,034 |
| Apparel Segment                     | 240,798          | 14,913    | 1,284    | 256,995    |
|                                     | \$ 567,832       | \$ 14,913 | \$ 1,284 | \$ 584,029 |
| Identifiable long-lived assets      |                  |           |          |            |
| Print Segment                       | \$ 42,272        | \$        | \$       | 42,272     |
| Apparel Segment                     | 5,856            | 38        | 1,173    | 7,067      |
| Corporate                           | 5,333            |           |          | 5,333      |
|                                     | \$ 53,461        | \$ 38     | \$ 1,173 | \$ 54,672  |

**(15) Commitments and Contingencies**

The Company leases certain of its facilities under operating leases that expire on various dates through fiscal year ended 2016. Future minimum lease commitments under non-cancelable operating leases for each of the fiscal years ending are as follows (in thousands):

|      | <b>Operating<br/>Lease<br/>Commitments</b> |
|------|--|
| 2012 | \$ 5,438                                   |
| 2013 | 3,183                                      |
| 2014 | 1,871                                      |
| 2015 | 1,006                                      |
| 2016 | 808  |
|      | \$ 12,306                                  |

Rent expense attributable to such leases totaled \$9.0 million, \$9.3 million, and \$9.4 million for the fiscal years ended 2011, 2010 and 2009, respectively.

In the ordinary course of business, the Company also enters into real property leases, which require the Company as lessee to indemnify the lessor from liabilities arising out of the Company's occupancy of the properties. The Company's indemnification obligations are generally covered under the Company's general insurance policies.

From time to time, the Company is involved in various litigation matters arising in the ordinary course of business. The Company does not believe the disposition of any current matter will have a material adverse effect on its consolidated financial position or results of operations.

**(16) Supplemental Cash Flow Information**

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

| 2011 | 2010 | 2009 |
|------|------|------|
|------|------|------|

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|                   |          |          |          |
|-------------------|----------|----------|----------|
| Interest paid     | \$ 2,938 | \$ 2,641 | \$ 3,838 |
| Income taxes paid | \$20,143 | \$15,539 | \$24,522 |

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**ENNIS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(16) Supplemental Cash Flow Information-continued**

Supplemental disclosure of non-cash investing and financing activities (in thousand):

|   | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|-------------|
| Fair value of assets acquired in acquisitions | \$2,699     | \$          | \$          |
| Liabilities assumed in acquisitions           | \$ 462      | \$          | \$          |

**(17) Quarterly Consolidated Financial Information (Unaudited)**

The following table represents the unaudited quarterly financial data of the Company for fiscal years ended 2011 and 2010 (in thousands, except per share amounts and quarter over quarter comparison):

| <b>For the Three Months Ended</b> | <b>May 31</b> | <b>August 31</b> | <b>November 30</b> | <b>February 28</b> |
|-----------------------------------|---------------|------------------|--------------------|--------------------|
| <b>Fiscal year ended 2011:</b>    |               |                  |                    |                    |
| Net sales                         | \$ 140,741    | \$ 143,034       | \$ 134,817         | \$ 131,407         |
| Gross profit margin               | 42,180        | 39,708           | 36,519             | 36,091             |
| Net earnings                      | 13,040        | 12,129           | 9,643              | 9,819              |
| Dividends paid                    | 4,006         | 4,017            | 4,017              | 4,017              |
| Per share of common stock:        |               |                  |                    |                    |
| Basic net earnings                | \$ 0.51       | \$ 0.47          | \$ 0.37            | \$ 0.38            |
| Diluted net earnings              | \$ 0.50       | \$ 0.47          | \$ 0.37            | \$ 0.38            |
| Dividends                         | \$ 0.155      | \$ 0.155         | \$ 0.155           | \$ 0.155           |
| <b>Fiscal year ended 2010:</b>    |               |                  |                    |                    |
| Net sales                         | \$ 130,830    | \$ 137,767       | \$ 127,756         | \$ 121,385         |
| Gross profit margin               | 30,984        | 35,822           | 34,300             | 34,213             |
| Net earnings                      | 6,635         | 9,546            | 9,191              | 9,834              |
| Dividends paid                    | 4,002         | 3,994            | 4,003              | 4,002              |
| Per share of common stock:        |               |                  |                    |                    |
| Basic net earnings                | \$ 0.26       | \$ 0.37          | \$ 0.36            | \$ 0.38            |
| Diluted net earnings              | \$ 0.26       | \$ 0.37          | \$ 0.36            | \$ 0.38            |
| Dividends                         | \$ 0.155      | \$ 0.155         | \$ 0.155           | \$ 0.155           |

**Current Quarter Compared to Same Quarter Last Year**

In each of the first three quarters for fiscal year ended February 28, 2011, the Company's gross profit margin (margin) increased over the comparable quarters for fiscal year ended February 28, 2010. The primary reason for the increase related to the increase in its Apparel margins throughout the period. In the final quarter of fiscal year February 28, 2011, the margin, as a percentage of sales, decreased slightly over the comparable quarter last fiscal year due to higher cotton costs and the start-up of the Agua Prieta facility in its Apparel segment.

**(18) Concentrations of Risk**

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



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**ENNIS, INC. AND SUBSIDIARIES  
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**(18) Concentrations of Risk-continued**

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

For the purposes of the consolidated statements of cash flows, the Company considers cash to include cash on hand and in bank accounts. All funds in a Non interest-bearing transaction account are insured in full by the Federal Deposit Insurance Corporation from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. Currently all of our cash balances meet these criteria. At February 28, 2011, the Company had \$659,000 in Canadian and \$531,000 in Mexican bank accounts.

**(19) Subsequent Events**

On March 31, 2011, the Company declared a quarterly cash dividend of 15 1/2 cents a share on its common stock. The dividend was paid May 2, 2011 to shareholders of record on April 11, 2011. May 2, 2011 also has been set as the record date for shareholders entitled to notice of and to vote at the Annual Meeting of Shareholders to be held on June 30, 2011.

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**INDEX TO EXHIBITS**

| Exhibit Number | Description of Document  |
|----------------|--|
| Exhibit 3.1(a) | Restated Articles of Incorporation as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988 incorporated herein by reference to Exhibit 5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1993.  |
| Exhibit 3.1(b) | Amendment to articles of Incorporation dated June 17, 2004 incorporated herein incorporated herein by reference to Exhibit 3.1(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2007.  |
| Exhibit 3.2(a) | Bylaws of the Registrant as amended through October 15, 1997 incorporated herein by reference to Exhibit 3(ii) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1997.  |
| Exhibit 3.2(b) | First amendment to Bylaws of the Registrant dated December 20, 2007 incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 20, 2007.   |
| Exhibit 10.1   | Second Amended and Restated Credit Agreement between Ennis, Inc., each of the other co-borrowers who are parties, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Compass Bank, as Syndication Agent, Wells Fargo Bank, N.A., as Documentation Agent, the other lenders who are parties and Banc of America Securities, LLC, as Sole Lead Arranger and Sole Book Manager, dated as of August 18, 2009 herein incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 20, 2009. |
| Exhibit 21     | Subsidiaries of Registrant*  |
| Exhibit 23     | Consent of Independent Registered Public Accounting Firm*  |
| Exhibit 31.1   | Certification Pursuant to Rule 13a-14(a)/15d-14(a) (Chief Executive Officer)*  |
| Exhibit 31.2   | Certification Pursuant to Rule 13a-14(a)/15d-14(a) (Chief Financial Officer)*  |
| Exhibit 32.1   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*  |
| Exhibit 32.2   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*  |

\* Filed herewith