

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

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

FORM 10-Q

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended November 30, 2007**

OR

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

Commission File Number 1-5807

ENNIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas

75-0256410

(State or Other Jurisdiction of Incorporation or
Organization)

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

2441 Presidential Pkwy., Midlothian, Texas

76065

(Address of Principal Executive Offices)

(Zip code)

(972) 775-9801

(Registrant's Telephone Number, Including Area Code)

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

Large accelerated Filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 21, 2007, there were 25,654,280 shares of the Registrant's common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007
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ENNIS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	November 30, 2007 <i>(unaudited)</i>	February 28, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 2,156	\$ 3,582
Accounts receivable, net of allowance for doubtful receivables of \$3,653 at November 30, 2007 and \$2,698 at February 28, 2007	70,791	47,285
Prepaid expenses	4,182	5,628
Inventories	101,760	85,696
Deferred income taxes	7,780	7,444
Assets held for sale	441	1,881
Total current assets	187,110	151,516
Property, plant and equipment, at cost		
Plant, machinery and equipment	129,123	127,521
Land and buildings	43,727	40,680
Other	22,465	22,506
Total property, plant and equipment	195,315	190,707
Less accumulated depreciation	134,316	127,650
Net property, plant and equipment	60,999	63,057
Goodwill	178,964	178,314
Trademarks and tradenames, net	64,310	63,052
Customer lists, net	23,392	20,287
Deferred finance charges, net	1,046	1,382
Other assets	614	620
Total assets	\$ 516,435	\$ 478,228

See accompanying notes to consolidated financial statements.

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

	November 30, 2007	February 28, 2007
	<i>(unaudited)</i>	
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	\$ 28,654	\$ 25,597
Accrued expenses		
Employee compensation and benefits	16,319	15,799
Taxes other than income	813	611
Federal and state income taxes payable	970	973
Other	7,213	5,615
Current installments of long-term debt	305	652
 Total current liabilities	 54,274	 49,247
 Long-term debt, less current installments	 97,265	 88,971
Liability for pension benefits	3,914	2,702
Deferred income taxes	20,067	19,603
Other liabilities	868	1,302
 Total liabilities	 176,388	 161,825
 Commitments and contingencies		
 Shareholders equity		
Series A junior participating preferred stock of \$10 par value, Authorized 1,000,000 shares; none issued		
Common stock \$2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at November 30 and February 28, 2007	75,134	75,134
Additional paid in capital	122,463	122,305
Retained earnings	228,523	207,190
Accumulated other comprehensive income (loss):		
Foreign currency translation	814	25
Minimum pension liability	(7,396)	(7,396)
	(6,582)	(7,371)
	419,538	397,258
Treasury stock		
Cost of 4,400,413 shares at November 30, 2007 and 4,475,962 shares at February 28, 2007	(79,491)	(80,855)

Total shareholders' equity	340,047	316,403
Total liabilities and shareholders' equity	\$ 516,435	\$ 478,228

See accompanying notes to consolidated financial statements.

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

	Three months ended		Nine months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Net sales	\$ 158,215	\$ 151,743	\$ 461,075	\$ 448,574
Cost of goods sold	118,971	113,770	344,644	334,545
Gross profit	39,244	37,973	116,431	114,029
Selling, general and administrative	19,323	18,450	57,054	54,850
Income from operations	19,921	19,523	59,377	59,179
Other income (expense)				
Interest expense	(1,398)	(1,853)	(4,283)	(5,363)
Other income (expense), net	(163)	(493)	(1,917)	(174)
	(1,561)	(2,346)	(6,200)	(5,537)
Earnings before income taxes	18,360	17,177	53,177	53,642
Provision for income taxes	6,792	6,355	19,675	19,847
Net earnings	\$ 11,568	\$ 10,822	\$ 33,502	\$ 33,795
Weighted average common shares outstanding				
Basic	25,653,030	25,555,460	25,613,143	25,517,901
Diluted	25,887,798	25,799,890	25,867,564	25,744,187
Per share amounts				
Net earnings basic	\$ 0.45	\$ 0.42	\$ 1.31	\$ 1.32
Net earnings diluted	\$ 0.45	\$ 0.42	\$ 1.30	\$ 1.31
Cash dividends per share	\$ 0.155	\$ 0.155	\$ 0.465	\$ 0.465

See accompanying notes to consolidated financial statements.

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

	Nine months ended	
	November 30,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 33,502	\$ 33,795
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	9,402	11,207
Amortization of deferred finance charges	336	339
Amortization of trademarks and customer lists	1,488	1,502
Gain on the sale of equipment	(332)	(257)
Bad debt expense	1,431	884
Stock based compensation	527	213
Excess tax benefit of stock option exercises	(337)	(55)
Changes in operating assets and liabilities, net of the effects of acquisition:		
Accounts receivable	(20,842)	(5,351)
Prepaid expenses	1,542	(1,474)
Inventories	(13,442)	1,490
Other current assets		53
Other assets	(5)	(1,864)
Accounts payable and accrued expenses	4,729	(3,261)
Other liabilities	(1,596)	(1,473)
Liability for pension benefits	1,212	1,380
Net cash provided by operating activities	17,615	37,128
Cash flows from investing activities:		
Capital expenditures	(2,471)	(3,245)
Purchase of business, net of cash acquired	(14,543)	(17,617)
Proceeds from disposal of plant and property	771	2,802
Net cash used in investing activities	(16,243)	(18,060)
Cash flows from financing activities:		
Borrowings on debt	18,000	15,000
Repayment of debt	(10,053)	(28,882)
Dividends	(11,929)	(11,870)
Proceeds from exercise of stock options	658	461
Excess tax benefit of stock option exercises	337	55
Net cash used in financing activities	(2,987)	(25,236)

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Effect of exchange rate changes on cash	189	(106)
Net change in cash and cash equivalents	(1,426)	(6,274)
Cash and cash equivalents at beginning of period	3,582	13,860
Cash and cash equivalents at end of period	\$ 2,156	\$ 7,586

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007

1. Basis of Presentation

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively the Company or Ennis), for the quarter and the nine months ended November 30, 2007, have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2007, from which the accompanying consolidated balance sheet at February 28, 2007 was derived. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

Recent Accounting Pronouncements

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

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

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

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

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

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

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**ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007**

1. Significant Accounting Policies and General Matters-continued

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

FAS 141R. In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business combinations (FAS 141R), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (our Fiscal year ended February 28, 2010). We have not completed our evaluation of the potential impact, if any, of the adoption of FAS 141R on our consolidated financial position, results of operations and cash flows.

FAS 160. In December 2007, Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51 (FAS 160). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008, (our Fiscal year ended February 28, 2010). We have not completed our evaluation of the potential impact, if any, of the adoption of FAS 160 on our consolidated financial position, results of operations and cash flows.

2. Due From Factors

Pursuant to terms of an agreement between the Company and various factors, the Company sold approximately 39.3% of its trade accounts receivable of Alstyle Apparel (Alstyle) to the factors on a non-recourse basis during the nine months ended November 30, 2007 (72.5% for the nine months ended November 30, 2006). The price at which the accounts are sold is the invoice amount reduced by the factor commission of between 0.25% and 1.50%. Additionally, some trade accounts receivable are sold to the factors on a recourse basis.

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

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

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

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

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

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ENNIS, INC. AND SUBSIDIARIES
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FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007

2. Due From Factors-continued

	November 30, 2007	February 28, 2007
Outstanding factored receivables without recourse	\$ 7,054	\$ 18,766
Advances from factors	(5,560)	(15,683)
Due from factors	\$ 1,494	\$ 3,083

3. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Approximately 97.5% of the Company's receivables are due from customers in North America. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables reserve is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

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

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

	Three months ended November 30,		Nine months ended November 30,	
	2007	2006	2007	2006
Balance at beginning of period	\$ 3,376	\$ 3,226	\$ 2,698	\$ 3,001
Bad debt expense	535	429	1,431	884
Recoveries	21		24	99
Accounts written off	(279)	(521)	(500)	(850)
Balance at end of period	\$ 3,653	\$ 3,134	\$ 3,653	\$ 3,134

4. Inventories

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

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

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ENNIS, INC. AND SUBSIDIARIES
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4. Inventories-continued

	November 30, 2007	February 28, 2007
Raw material	\$ 16,344	\$ 11,074
Work-in-process	17,320	16,694
Finished goods	68,096	57,928
	\$ 101,760	\$ 85,696

5. Acquisitions

On October 5, 2007, the Company acquired certain assets of B & D Litho, Inc. (B & D) headquartered in Phoenix, Arizona, and certain assets and related real estate of Skyline Business Forms (Skyline), operating in Denver, Colorado through its wholly owned subsidiaries for \$12.5 million in cash. The acquisition of B&D Litho, Inc. did not include the acquisition of B&D Litho California, Inc., which has commercial printing operations located in Ontario, California. No significant liabilities were assumed in the transactions. The combined sales of the purchased operations were \$25.0 million during the most recent twelve month period. The acquisition is expected to be accretive to Ennis earnings in the first full year of operations and will add additional medium and long run multi-part forms, laser cut sheets, jumbo rolls and mailer products sold through the indirect sales (distributorship) marketplace.

The following is a summary of the purchase price allocation for B & D and Skyline (in thousands):

Accounts receivable	\$ 2,713
Inventories	1,711
Other assets	66
Property, plant & equipment	3,467
Customer lists	4,425
Goodwill	521
Accounts payable and accrued liabilities	(443)
	\$ 12,460

On September 17, 2007, the Company acquired certain assets of Trade Envelope, Inc. (Trade) for \$3.0 million. Under the terms of the purchase agreement, the Company has agreed to pay the former owners of Trade under a contingent earn-out arrangement over three years for intangibles, subject to certain set-offs. Trade is an envelope manufacturer (converter) and printer, offering high quality, 1-4 color process with lithograph and flexography capabilities with locations in Tullahoma, Tennessee and Carol Stream, Illinois. The acquisition expands and strengthens the envelope line for Ennis.

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

Accounts receivable	\$ 974
Inventories	346
Property, plant & equipment	363
Tradenames	1,415
Goodwill	55
Accounts payable and accrued liabilities	(171)

\$ 2,982

The Company purchased all of the outstanding stock of Block Graphics, Inc. (Block), a privately held company headquartered in Portland, Oregon for \$14.8 million in cash on August 8, 2006. Block Graphics had sales of approximately \$38.6 million for the year ended December 31, 2005. The acquisition of Block continues the strategy of growth through related manufactured products to further service the Company s existing customer base. The

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007

5. Acquisitions-continued

acquisition added additional short-run print products (snaps, continuous forms, and cut-sheet forms) as well as the production of envelopes, a new product for the Company.

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

Accounts receivable	\$ 2,492
Inventories	1,864
Property, plant & equipment	7,398
Other assets	152
Deferred income taxes	2,166
Trademarks	1,260
Accounts payable and accrued liabilities	(2,292)
	\$ 13,040

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

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

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

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

	Three months ended		Nine months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Pro forma net sales	\$ 161,136	\$ 160,696	\$ 482,214	\$ 493,105
Pro forma net earnings	11,661	11,164	34,155	34,567
Pro forma earnings per share diluted	0.45	0.43	1.32	1.34

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

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007

6. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. Fair values of reporting units are typically calculated using a factor of expected earnings before interest, taxes, depreciation, and amortization. Based on this evaluation, no impairment was recorded. The Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of its goodwill and other intangibles. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future. The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 1 and 10 years). Trademarks with indefinite lives, with a net book value of \$62.3 million at November 30, 2007, are evaluated for impairment on an annual basis. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows

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

	Gross Carrying Amount	Accumulated Amortization	Net
As of November 30, 2007			
Amortized intangible assets (in thousands)			
Tradenames	\$ 2,634	\$ 584	\$ 2,050
Customer lists	28,482	5,090	23,392
Noncompete	482	442	40
	\$ 31,598	\$ 6,116	\$ 25,482
As of February 28, 2007			
Amortized intangible assets (in thousands)			
Tradenames	\$ 1,234	\$ 442	\$ 792
Customer lists	24,057	3,770	20,287
Noncompete	467	417	50
	\$ 25,758	\$ 4,629	\$ 21,129
	November 30, 2007	February 28, 2007	
Unamortized intangible assets (in thousands)			
Trademarks	\$ 62,260	\$ 62,260	

Aggregate amortization expense for the nine months ended November 30, 2007 and November 30, 2006 was \$1,488,000 and \$1,502,000, respectively.

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

2008	\$2,121,000
2009	2,418,000
2010	2,403,000
2011	2,399,000
2012	2,396,000
2013	2,353,000

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ENNIS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2007

6. Goodwill and Other Intangible Assets-continued

During the nine months ended November 30, 2007, \$55,000 and \$521,000 were added to goodwill related to acquisitions of B &D and Trade, respectively. Adjustments of \$74,000 and \$34,000 during the nine months ended November 30, 2007 and fiscal year ended February 28, 2007, respectively, were added to goodwill due to revised estimates in accrued expenses from the previous acquisition of Tennessee Business Forms. Changes in the net carrying amount of goodwill are as follows (in thousands):

	Print Segment Total	Apparel Segment Total	Total
Balance as of March 1, 2006	\$ 40,580	\$ 137,700	\$ 178,280
Goodwill	34		34
Impairment losses			
Balance as of March 1, 2007	40,614	137,700	178,314
Goodwill	650		650
Impairment losses			
Balance as of November 30, 2007	\$ 41,264	\$ 137,700	\$ 178,964

7. Other Accrued Expenses

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

	November 30, 2007	February 28, 2007
Accrued interest	\$ 749	\$ 975
Accrued taxes	384	424
Accrued legal and professional fees	397	267
Accrued utilities	1,237	786
Accrued repairs and maintenance	239	137
Accrued contract labor	911	355
Factored receivables with recourse	594	772
Other accrued expenses	2,702	1,899
	\$ 7,213	\$ 5,615

8. Long-Term Debt

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

	November 30, 2007	February 28, 2007
Revolving credit facility	\$ 97,000	\$ 88,500
Capital lease obligations	528	784
Note payable to finance companies	29	314
Other	13	25

		97,570		89,623
Less current installments		305		652
Long-term debt	\$	97,265	\$	88,971

On March 31, 2006, the Company entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides the Company access to \$150 million in revolving credit

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8. Long-Term Debt-continued

and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (LIBOR + .50% or 5.65% at 11/30/07), depending on the Company's total funded debt to EBITDA ratio, as defined. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of November 30, 2007. The Facility is secured by substantially all of the Company's assets.

Assets under capital leases have a total gross book value of \$1,154,000 and \$1,092,000 and related accumulated amortization of \$337,000 and \$240,000 as of November 30, 2007 and February 28, 2007, respectively, and are included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense. Capital lease obligations have interest due monthly at 4.82% to 4.96% and principal paid in equal monthly installments. The notes mature at dates ranging from July 2008 through January 2010.

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

9. Shareholders' Equity

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

	Three months ended		Nine months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Net earnings	\$ 11,568	\$ 10,822	\$ 33,502	\$ 33,795
Foreign currency translation adjustment, net of deferred taxes	312	(216)	789	(247)
Comprehensive income	\$ 11,880	\$ 10,606	\$ 34,291	\$ 33,548

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9. Shareholders' Equity-continued

Changes in our shareholders' equity accounts for the nine months ended November 30, 2007 are as follows (in thousands except share amounts):

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		
	Shares	Amount				Shares	Amount	Total
Balance								
February 28, 2007	30,053,443	75,134	122,305	207,190	(7,371)	(4,475,962)	(80,855)	316,403
Net earnings				33,502				33,502
Foreign currency translation, net of deferred taxes					789			789
Comprehensive income								34,291
Cumulative impact of a change in accounting for income tax uncertainties pursuant to FIN 48				(240)				(240)
Dividend declared (\$.465 per share)				(11,929)				(11,929)
Excess tax benefit of stock option exercises and restricted stock grants			337					337
Stock based compensation, net of deferred taxes			527					527
Exercise of stock options and restricted stock grants			(706)			75,549	1,364	658
Balance	30,053,443	\$ 75,134	\$ 122,463	\$ 228,523	\$ (6,582)	(4,400,413)	\$ (79,491)	\$ 340,047
November 30,								

2007

10. Stock Option Plans and Stock Based Compensation

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

The Company has stock options granted to key executives and managerial employees and non-employee directors. At November 30, 2007, the Company has two stock option plans: the 1998 Option and Restricted Stock Plan amended and restated as of June 17, 2004 and the 1991 Incentive Stock Option Plan. The Company has 802,955 shares of unissued common stock reserved under the stock option plans for issuance to officers and directors, and

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10. Stock Option Plans and Stock Based Compensation-continued

supervisory employees of the Company and its subsidiaries. The exercise price of each option granted equals the quoted market price of the Company's common stock on the date of grant, and an option's maximum term is ten years. Options may be granted at different times during the year and vest ratably over various periods, from upon grant to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

For the three months ended November 30, 2007 and 2006, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of \$206,000 (\$130,000 net of tax), and \$88,000 (\$55,000 net of tax), respectively. For the nine months ended November 30, 2007 and 2006, the Company had compensation expense related to share based compensation of \$527,000 (\$332,000 net of tax), and \$213,000 (\$134,000 net of tax), respectively.

The Company had the following stock option activity for the nine months ended November 30, 2007:

	Number of Shares (exact quantity)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (a) (in thousands)
Outstanding at February 28, 2007	553,513	\$11.08		
Granted				
Terminated	(20,500)	15.15		
Exercised	(62,250)	10.58		
Outstanding at November 30, 2007	470,763	\$10.97	3.2	\$ 3,530
Exercisable at November 30, 2007	425,163	\$10.47	2.8	\$ 3,406

The Company did not grant any stock options during the nine months ended November 30, 2007 and 2006. A summary of the stock options exercised is presented below (in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2007	2006	2007	2006
Total cash received	\$	\$21	\$658	\$ 461
Income tax benefits		1	337	55
Total grant-date fair value		3	81	81
Intrinsic value		23	605	1,050

A summary of the status of the Company's unvested stock options at February 28, 2007, and changes during the nine months ended November 30, 2007 is presented below:

Number of Options	Weighted Average Grant Date
------------------------------	--

		Fair Value
Unvested at February 28, 2007	99,025	\$ 2.52
New grants		
Vested	(33,425)	2.35
Forfeited	(20,000)	2.53
Unvested at November 30, 2007	45,600	2.64

As of November 30, 2007, there was \$94,000 of unrecognized compensation cost related to nonvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was

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10. Stock Option Plans and Stock Based Compensation-continued

1.7 years. The total fair value of shares underlying the options vested during the nine months ended November 30, 2007 was \$614,000.

The Company had the following restricted stock awards activity for the nine months ended November 30, 2007:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at February 28, 2007	39,919	\$19.67
Granted	56,600	26.79
Terminated	(1,334)	19.64
Exercised	(13,299)	19.67
Outstanding at November 30, 2007	81,886	\$24.59
Exercisable at November 30, 2007		\$

As of November 30, 2007, the total remaining unrecognized compensation cost related to unvested restricted stock was approximately \$1.5 million. The weighted average remaining requisite service period of the unvested restricted stock awards was 2.1 years.

11. Employee Benefit Plans

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

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

	Three months ended November 30,		Nine months ended November 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	\$ 358	\$ 362	\$ 1,073	\$ 1,080
Interest cost	626	609	1,879	1,829
Expected return on plan assets	(769)	(712)	(2,309)	(2,136)
Amortization of:				
Prior service cost	(37)	(37)	(109)	(109)
Unrecognized net loss	226	238	678	716
Net periodic benefit cost	\$ 404	\$ 460	\$ 1,212	\$ 1,380

The Company is required to make contributions to its defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA). For the current fiscal year ending February 28, 2008, there is not a minimum contribution requirement and no pension payments have

been made so far this fiscal year; however, the Company expects to contribute from \$2.0 million to \$3.0 million in the fourth quarter of fiscal year 2008. The Company contributed \$3 million to its pension plan during fiscal year 2007.

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12. Earnings per share

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

	Three months ended		Nine months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Basic weighted average common shares outstanding	25,653,030	25,555,460	25,613,143	25,517,901
Effect of dilutive options	234,768	244,430	254,421	226,286
Diluted weighted average common shares outstanding	25,887,798	25,799,890	25,867,564	25,744,187
Per share amounts:				
Net earnings basic	\$ 0.45	\$ 0.42	\$ 1.31	\$ 1.32
Net earnings diluted	\$ 0.45	\$ 0.42	\$ 1.30	\$ 1.31
Cash dividends	\$ 0.155	\$ 0.155	\$ 0.465	\$ 0.465

13. Segment Information and Geographic Information

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

The Print Segment, which represented 56.1% and 55.8% of the Company's consolidated net sales for the three and nine months ended November 30, 2007, is in the business of manufacturing, designing, and selling business forms and other printed business products primarily to distributors located in the United States.

The Print Segment operates 42 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom, constructed in a wide variety of sizes, colors, number of parts and quantities on an individual job basis depending upon the customers' specifications.

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

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

top 25 tier of banks in the United States. Adams-McClure sales are generally provided through advertising agencies. The second segment, the Apparel Segment, which accounted for 43.9% and 44.2% of the Company's consolidated net sales for the three and nine months ended November 30, 2007, consists of Alstyle Apparel, which was acquired in November 2004. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

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13. Segment Information and Geographic Information-continued

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

Segment data for the three and nine months ended November 30, 2007 and 2006 were as follows (in thousands):

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
Three months ended November 30, 2007:				
Net sales	\$ 88,734	\$ 69,481	\$	\$158,215
Depreciation	1,975	772	225	2,972
Amortization of identifiable intangibles	193	366		559
Segment earnings (loss) before income tax	14,172	8,072	(3,884)	18,360
Segment assets	164,080	345,649	6,706	516,435
Capital expenditures	533	156	5	694
Three months ended November 30, 2006:				
Net sales	\$ 85,665	\$ 66,078	\$	\$151,743
Depreciation	2,122	1,363	162	3,647
Amortization of identifiable intangibles	98	404		502
Segment earnings (loss) before income tax	12,681	8,271	(3,775)	17,177
Segment assets	167,546	323,517	10,465	501,528
Capital expenditures	858	377	199	1,434
Nine months ended November 30, 2007:				
Net sales	\$257,432	\$203,643	\$	\$461,075
Depreciation	6,069	2,660	673	9,402
Amortization of identifiable intangibles	388	1,100		1,488
Segment earnings (loss) before income tax	41,168	24,046	(12,037)	53,177
Segment assets	164,080	345,649	6,706	516,435
Capital expenditures	1,456	982	33	2,471
Nine months ended November 30, 2006:				
Net sales	\$245,016	\$203,558	\$	\$448,574
Depreciation	6,187	4,557	463	11,207
Amortization of identifiable intangibles	290	1,212		1,502
Segment earnings (loss) before income tax	35,336	28,601	(10,295)	53,642
Segment assets	167,546	323,517	10,465	501,528
Capital expenditures	1,869	1,029	347	3,245

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

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13. Segment Information and Geographic Information-continued

	United States	Canada	Mexico	Total
Three months ended November 30, 2007:				
Net sales to unaffiliated customers				
Print Segment	\$ 88,734	\$	\$	\$ 88,734
Apparel Segment	65,269	4,212		69,481
	\$ 154,003	\$ 4,212	\$	\$ 158,215
Identifiable long-lived assets				
Print Segment	\$ 44,510	\$	\$	\$ 44,510
Apparel Segment	7,916	85	2,187	10,188
Corporate	6,301			6,301
	\$ 58,727	\$ 85	\$ 2,187	\$ 60,999
Three months ended November 30, 2006:				
Net sales to unaffiliated customers				
Print Segment	\$ 85,665	\$	\$	\$ 85,665
Apparel Segment	62,204	3,874		66,078
	\$ 147,869	\$ 3,874	\$	\$ 151,743
Identifiable long-lived assets				
Print Segment	\$ 45,635	\$	\$	\$ 45,635
Apparel Segment	9,990	105	2,926	13,021
Corporate	6,154			6,154
	\$ 61,779	\$ 105	\$ 2,926	\$ 64,810
Nine months ended November 30, 2007:				
Net sales to unaffiliated customers				
Print Segment	\$ 257,432	\$	\$	\$ 257,432
Apparel Segment	190,063	13,580		203,643
	\$ 447,495	\$ 13,580	\$	\$ 461,075
Identifiable long-lived assets				

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Print Segment	\$ 44,510	\$	\$	\$ 44,510
Apparel Segment	7,916	85	2,187	10,188
Corporate	6,301			6,301
	\$ 58,727	\$ 85	\$ 2,187	\$ 60,999

Nine months ended November 30, 2006:

Net sales to unaffiliated customers

Print Segment	\$ 245,016	\$	\$	\$ 245,016
Apparel Segment	188,796	14,762		203,558
	\$ 433,812	\$ 14,762	\$	\$ 448,574

Identifiable long-lived assets

Print Segment	\$ 45,635	\$	\$	\$ 45,635
Apparel Segment	9,990	105	2,926	13,021
Corporate	6,154			6,154
	\$ 61,779	\$ 105	\$ 2,926	\$ 64,810

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14. Supplemental Cash Flow Information

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

	Three months ended		Nine months ended	
	November 30, 2007	November 30, 2006	November 30, 2007	November 30, 2006
Interest paid	\$ 1,523	\$ 1,863	\$ 4,509	\$ 5,030
Income taxes paid	\$ 6,125	\$ 6,482	\$ 19,854	\$ 21,081

15. Assets Held for Sale

In September 2006, the Board of Directors authorized management of the Company to sell the Company's print manufacturing facilities located in Dallas, Texas. As of February 2007, total assets held for sale were \$1.9 million and comprised of land and 2 buildings with a net book value of \$0.6 million and equipment with a net book value of \$1.3 million. During the quarter, one of the buildings was sold for a gain of approximately \$325,000, the equipment was returned to service and the remaining building is under a contract for sale. As of November 2007, total assets held for sale were \$0.4 million, the remaining net book value of land and building.

16. Subsequent Events

On December 20, 2007, the Board of Directors of Ennis, Inc. declared a 15 1/2 cents per share quarterly dividend to be payable on February 1, 2008 to shareholders of record of January 14, 2008.

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

Overview

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

On October 5, 2007, we acquired certain assets of B & D Litho, Inc. (B & D) headquartered in Phoenix, Arizona, and certain assets and related real estate of Skyline Business Forms, operating in Denver, Colorado through its wholly owned subsidiaries for \$12.5 million. The acquisition of B&D Litho, Inc. did not include the acquisition of B&D Litho California, Inc., which has commercial printing operations located in Ontario, California. No significant liabilities were assumed in the transactions. The combined sales of the purchased operations were \$25.0 million during the most recent twelve month period. The acquisition is expected to be accretive to Ennis' earnings in the first full year of operations and will add additional medium and long run multi-part forms, laser cut sheets, jumbo rolls and mailer products sold through the indirect sales (distributorship) marketplace.

On September 17, 2007, we acquired certain assets of Trade Envelope, Inc. (Trade) for \$3.0 million. Under the terms of the purchase agreement, we have agreed to pay the former owners of Trade under a contingent earn-out arrangement over three years for intangibles, subject to certain set-offs. Trade is an envelope manufacturer (converter) and printer, offering high quality, 1-4 color process with lithograph and flexography capabilities with locations in Tullahoma, Tennessee and Carol Stream, Illinois. The acquisition expands and strengthens the envelope line for Ennis.

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

Business Segment Overview

We operate in two business segments, the Print Segment and the Apparel Segment. For additional financial information concerning segment reporting, please see note 13 of the notes to our consolidated financial statements beginning on page 18 included elsewhere herein, which information is incorporated herein by reference.

Print Segment

The Print Segment, which represented 56.1% and 55.8% of our consolidated net sales for the three and nine months ended November 30, 2007, is in the business of manufacturing, designing and selling of business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 42 manufacturing locations throughout the United States in 16 strategically located domestic states. Approximately 95% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, and quantities on an individual job basis depending upon the customers' specifications.

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

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

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

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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 43.9% and 44.2% of our consolidated net sales for the three and nine months ended November 30, 2007. This segment operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knit basic activewear (t-shirts, tank tops and fleece) across all market segments. Approximately 95% of Alstyle's revenues are derived from t-shirt sales, and 93% of those are domestic sales. Alstyle's branded product lines are AAA Alstyle Apparel & Activewear®, Gaziani®, Diamond Star®, Murina®, A Classic, Tennessee River®, D Drive , and Hyland® Headware.

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

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

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

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

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

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

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

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

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

Risk Factors

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

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. At November 30, 2007, our goodwill and other intangible assets were approximately \$179.0 million and \$87.7 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets. Annually, we have conducted a review of our goodwill and other identifiable intangible assets to determine whether there has been impairment. Such a review was completed for our fiscal year ended February 28, 2007, and we concluded that no impairment charge was necessary. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results and may cause a decline in our stock price.

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

Printed business forms and checks may eventually be superceded by paperless business forms, which could have a material adverse effect on our business over time. The price and performance capabilities of personal computers and related printers now provide a cost-competitive means to print low-quality versions of many of our business forms on plain paper. In addition, electronic transaction systems and off-the-shelf business software applications have been designed to automate several of the functions performed by our business form and check products. In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do

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not continue to offset the obsolescence of our standardized business forms products, there is a risk that the number of new customers we attract and existing customers we retain may diminish, which could reduce our sales and profits. Decreases in sales of our standardized business forms and products due to obsolescence could also reduce our gross margins. This reduction could in turn adversely impact our profits, unless we are able to offset the reduction through the introduction of new high margin products and services or realize cost savings in other areas.

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

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

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

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

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

As of November 30, 2007, approximately 13% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Two unions represent all of our hourly employees in Mexico. There can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

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

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

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

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

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

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

Apparel business is subject to cyclical trends.

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

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

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

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

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

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

The Central American Free Trade Agreement (CAFTA) became effective May 28, 2004 and retroactive to January 1, 2004 for textiles and apparel. It creates a free trade zone similar to NAFTA by and between the United States and Central American countries (El Salvador, Honduras, Costa Rica, Nicaragua and Dominican Republic). Textiles and apparel will be duty-free and quota-free immediately if they meet the agreement's rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement will also give duty-free benefits to some apparel made in Central America that contains certain fabrics

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from NAFTA partners Mexico and Canada. Alstyle sources approximately 20% of its sewing to a contract manufacturer in El Salvador, Nicaragua, and Honduras and we do not anticipate that challenges to CAFTA would have a material effect on our operations.

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

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

Environmental regulations may impact our future operating results.

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

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

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

Cautionary Statements

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

and changes in government regulations.

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

Results of Operations**Consolidated Statements of Earnings Data**

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2007		2006		2007		2006	
Net sales	\$ 158,215	100.0%	\$ 151,743	100.0%	\$ 461,075	100.0%	\$ 448,574	100.0%
Cost of goods sold	118,971	75.2	113,770	75.0	344,644	74.7	334,545	74.6
Gross profit	39,244	24.8	37,973	25.0	116,431	25.3	114,029	25.4
Selling, general and administrative	19,323	12.2	18,450	12.1	57,054	12.4	54,850	12.2
Income from operations	19,921	12.6	19,523	12.9	59,377	12.9	59,179	13.2
Other income (expense)	(1,561)	(1.0)	(2,346)	(1.5)	(6,200)	(1.3)	(5,537)	(1.2)
Earnings before income taxes	18,360	11.6	17,177	11.4	53,177	11.6	53,642	12.0
Provision for income taxes	6,792	4.3	6,355	4.3	19,675	4.3	19,847	4.5
Net earnings	\$ 11,568	7.3%	\$ 10,822	7.1%	\$ 33,502	7.3%	\$ 33,795	7.5%

Critical Accounting Policies and Judgments

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

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

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

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

impairment, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of our goodwill and other intangibles. If these estimates or the related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. We believe our businesses will generate sufficient undiscounted cash flow to more than recover the investments we have made in property, plant and equipment, as well as the goodwill and other intangibles recorded as a result of our acquisitions. We cannot predict

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the occurrence of future impairment triggering events nor the impact such events might have on our reported asset values.

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, Ennis prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately \$5.4 million and \$15.1 million of revenue were recognized under these agreements during the three and nine months ended November 30, 2007 as compared to \$5.2 million and \$15.4 million during the three and nine months ended November 30, 2006. Sales in foreign countries were not significant for either the three and nine months ended November 30, 2007 or November 30, 2006.

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.

Results of Operations - Consolidated

Three Months ended November 30, 2007 compared to Three Months ended November 30, 2006

Net Sales. Net sales for the three months ended November 30, 2007 were \$158.2 million compared to \$151.7 million for the three months ended November 30, 2006, an increase of \$6.5 million, or 4.3%. The increase in our sales for the quarter related primarily to an increase in our Apparel Segment sales which increased \$3.4 million during the quarter, or 5.1%. Our Print Segment sales for the quarter increased \$3.0 million or 3.5%. See Results of Operation Segments of this Report for further discussion on our Segment sales.

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Gross profit. Our gross profit for the three months ended November 30, 2007 was \$39.2 million, or 24.8% of sales, compared to \$38.0 million, or 25.0% of sales for the three months ended November 30, 2006. Our gross margins increased in our Print Segment from 25.6% to 26.8% for the three months ended November 30, 2006 and 2007, respectively. Our Apparel Segment margins decreased from 24.2% to 22.2% for the three months ended November 30, 2006 and 2007, respectively. See Results of Operations Segments of this Report for further discussion on the fluctuations in our Segment margins.

Selling, general and administrative expenses. For the three months ended November 30, 2007, our selling, general and administrative expenses were \$19.3 million, or 12.2% of sales, compared to \$18.5 million, or 12.1% of sales, for the three months ended November 30, 2006. The dollar increase in our selling, general and administrative expenses during the period related primarily to our acquisitions of B&D and Trade which were acquired October 5, 2007, and September 17, 2007, respectively and accounted for approximately \$.8 million of the increase.

Income from operations. Our income from operations was \$19.9 million, or 12.6% of sales for the three months ended November 30, 2007 and \$19.5 million, or 12.9% of sales for the three months ended November 30, 2006.

Other income and expense. For the three months ended November 30, 2007, our interest expense decreased from \$1.9 million for the three months ended November 30, 2006 to \$1.4 million, due to less debt on average being outstanding. Our other income (expense) items decreased from expense of \$493,000 to expense of \$163,000 for the three months ended November 30, 2006 and 2007, respectively. During the current period a gain of approximately \$325,000 was recognized on sale of a building.

Earnings before income taxes. As a result of the above, our earnings before income taxes for the three months ended November 30, 2007 was \$18.4 million, or 11.6% of sales, compared to \$17.2 million, or 11.4% of sales for the three months ended November 30, 2006. See Results of Operation Segments of this Report for further discussion.

Provision for income taxes. Our effective tax rate was 37.0% for both the three months ended November 30, 2007 and 2006.

Net earnings. Our net earnings for the three months ended November 30, 2007 was \$11.6 million, or 7.3% of sales, compared to \$10.8 million, or 7.1% of sales for the three months ended November 30, 2006. Our basic earnings per share for the three months ended November 30, 2007 was \$0.45 per share compared to \$0.42 per share for the three months ended November 30, 2006. Our diluted earnings per share was \$0.45 per share for the three months ended November 30, 2007 compared to \$0.42 per share for the three months ended November 30, 2006.

Nine months ended November 30, 2007 compared to Nine months ended November 30, 2006.

Net Sales. Net sales for the nine months ended November 30, 2007 were \$461.1 million compared to \$448.6 million for the nine months ended November 30, 2006, an increase of \$12.5 million, or 2.8%. The increase in our sales for the period related to an increase in our Print Segment sales of \$12.4 million, or 5.1%, as our Apparel Segment sales were approximately \$203.6 million for both periods. See Results of Operations Segments of this Report for further discussion.

Gross profit. Our gross profit for the nine months ended November 30, 2007 was \$116.4 million, or 25.3% of sales, compared to \$114.0 million, or 25.4% of sales for the nine months ended November 30, 2006. Our gross margins increased in our Print Segment from 25.2% to 27.0% for the nine months ended November 30, 2006 and 2007, respectively. Our Apparel Segment margins decreased from 25.7% to 23.0% for the nine months ended November 30, 2006 and 2007, respectively. See Results of Operations Segments of this Report for further discussion.

Selling, general and administrative expenses. For the nine months ended November 30, 2007, our selling, general and administrative expenses were \$57.1 million, or 12.4% of sales, compared to \$54.9 million, or 12.2% of

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sales, for the nine months ended November 30, 2006. The dollar increase in our selling, general and administrative expenses during the period related primarily to our acquisition of B&D, Trade and Block, which were acquired October 5, 2007, September 17, 2007 and August 8, 2006, respectively and accounted for approximately \$1.8 of the increase.

Income from operations. Our income from operations was \$59.4 million, or 12.9% for the nine months ended November 30, 2007, compared to \$59.2 million, or 13.2% of sales for the nine months ended November 30, 2006.

Other income and expense. For the nine months ended November 30, 2007, our interest expense decreased from \$5.4 million for the nine months ended November 30, 2006 to \$4.3 million for the nine months ended November 30, 2007 due to less debt on average being outstanding. Our other income (expense) items increased from expense of \$174,000 to expense of \$1.9 million for the nine months ended November 30, 2006 and 2007, respectively. During the current period we had less interest income and incurred more foreign currency exchange losses and more miscellaneous other expenses when compared to the same period last year.

Earnings before income taxes. As a result of the above, our earnings before income taxes for the nine months ended November 30, 2007 was \$53.2 million, or 11.6% of sales, compared to \$53.6 million, or 12.0% of sales for the nine months ended November 30, 2006. See Results of Operation Segments of this Report for further discussion.

Provision for income taxes. Our effective tax rate was 37.0% for both the nine months ended November 30, 2007 and 2006.

Net earnings. Our net earnings for the nine months ended November 30, 2007 was \$33.5 millions or 7.3% of sales compared to \$33.8 million, or 7.5% of sales for the nine months ended November 30, 2006. Our basic earnings per share for the nine months ended November 30, 2007 was \$1.31 per share compared to \$1.32 per share for the nine months ended November 30, 2006. Our diluted earnings per share \$1.30 for the nine months ended November 30, 2007 compared to \$1.31 per share for the nine months ended November 30, 2006.

Results of Operations Segments

Net Sales by Segment (in thousands)	Three months ended		Nine months ended	
	November 30, 2007	2006	November 30, 2007	2006
Print	\$ 88,734	\$ 85,665	\$ 257,432	\$ 245,016
Apparel	69,481	66,078	203,643	203,558
Total	\$ 158,215	\$ 151,743	\$ 461,075	\$ 448,574

Print Segment. Our net sales for our Print Segment, which represented 56.1% and 55.8% of our consolidated net sales during the three and nine months ended November 30, 2007, were approximately \$88.7 million and \$257.4 million compared to approximately \$85.7 million and \$245.0 million for the three and nine months ended November 30, 2006, an increase of \$3.0 million and \$12.4 million, or 3.5% and 5.1%, respectively. The increase in the Print Segment's net sales for the three and nine months ended November 30, 2007 related primarily to our acquisition of B&D, Trade and Block, which were acquired October 5, 2007, September 17, 2007 and August 8, 2006, respectively. Net sales for the acquired entities were \$15.6 million and \$35.4 million for the three and nine months ended November 30, 2007 as compared to \$10.5 million and \$14.9 million for the three and nine months ended November 30, 2006 (as the Ennis Portland facility was consolidated with the Block facility during fiscal year 2008, the results for the Ennis Portland facility for fiscal year 2007 have been included with the Block results for comparability purposes). The impact of the increase in sales from our acquired entities was offset by the planned attrition of low margin print sales and the decline in our commercial print operations over comparable periods last year due to the impact of the loss of two large promotional customers. While this has impacted our sales to date, we feel the impact associated with these accounts matured during the third quarter as the sales in our commercial print

operations were above same quarter sales levels last year.

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Apparel Segment. Our net sales for the Apparel Segment, which represented 43.9% and 44.2% of our consolidated net sales for both the three and nine months ended November 30, 2007, were approximately \$69.5 million and \$203.6 million for the current period, as compared to approximately \$66.1 million and \$203.6 million for the three and nine months ended November 30, 2006, or an increase of \$3.4 million or 5.1% for the comparable three month periods. Sales remained flat for the comparable nine month periods. The Apparel Segment's net sales increased for the three months ended November 30, 2007 by adding new customers and increasing sales to existing customers. Management continues to believe that Apparel's year to date sales were negatively impacted during the first six months by inventory levels at the beginning of the fiscal year, which hindered the Apparel Segment's ability to capture certain opportunity sales during this period. Traditionally, the Apparel Segment rebuilds its inventory levels in the last half of the fiscal year for the upcoming summer buying season due to the normal falloff of demand during the winter season. However, during the second half of last fiscal year demand was at or above forecasted sales levels. As a result, production levels were only able to stay abreast of then current sales levels, which resulted in inventory levels not being as robust in the fourth quarter of fiscal year 2007 as it was during the same period last fiscal year. Consequently, several initiatives were implemented during the first and second quarters of this fiscal year to improve the Apparel Segment's inventory levels and to meet their forecasted demand. Significant progress was made on these initiatives during the second and third quarters of this fiscal year and the Apparel Segment's inventory levels during this quarter were significantly improved (\$65.7 million at February 28, 2007 and \$78.9 million at November 30, 2007), which management believes allowed the apparel sales to return to more expected levels during the current quarter.

Gross Profit by Segment (in thousands)	Three months ended		Nine months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Print	\$ 23,797	\$ 21,973	\$ 69,590	\$ 61,785
Apparel	15,447	16,000	46,841	52,244
Total	\$ 39,244	\$ 37,973	\$ 116,431	\$ 114,029

Print Segment. Our Print gross profit increased approximately \$1.8 million and \$7.8 million, or 8.3% and 12.6%, from \$22.0 million and \$61.8 million for the three and nine months ended November 30, 2006 to \$23.8 million and \$69.6 million for the three and nine months ended November 30, 2007, respectively. As a percentage of sales, our Print margin was 26.8% and 27.0% for the three and nine months ended November 30, 2007, as compared to 25.6% and 25.2% for the three and nine months ended November 30, 2006, respectively. Our Print margin, as a percentage of sales, increased primarily as a result of improved operational efficiencies and planned attrition of low margin sales.

Apparel Segment. Our Apparel gross profit decreased approximately \$0.6 million and \$5.4 million, or 3.5% and 10.3% from \$16.0 million and \$52.2 million for the three and nine months ended November 30, 2006 to \$15.4 million and \$46.8 million for the three and nine months ended November 30, 2007. As a percent of sales, our Apparel margin was 22.2% and 23.0% for the three and nine months ended November 30, 2007, as compared to 24.2% and 25.7% for the three and nine months ended November 30, 2006, respectively. Our Apparel margins this quarter were impacted mainly by the increased costs associated with our apparel inventory build, and to a lesser extent by slightly higher cotton prices and lower selling prices on certain products due to competitive pressures. Our fiscal year apparel margins have been impacted by increased yarn and cut/sew costs and reduced selling margins on certain products due to competitive pressures (for further discussion on the increased cut/sew costs and changes made, please see our Form 10-Q filed for the first and second quarters of this fiscal year with the Securities and Exchange Commission).

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	Three months ended		Nine months ended	
	November 30,		November 30,	
Profit by Segment (in thousands)	2007	2006	2007	2006
Print	\$ 14,172	\$ 12,681	\$ 41,168	\$ 35,336
Apparel	8,072	8,271	24,046	28,601
Total	22,244	20,952	65,214	63,937
Less corporate expenses	3,884	3,775	12,037	10,295
Earnings before income taxes	\$ 18,360	\$ 17,177	\$ 53,177	\$ 53,642

Print Segment. Our Print profit increased approximately \$1.5 million and \$5.9 million, or 11.8% and 16.5%, from \$12.7 million and \$35.3 million for the three and nine months ended November 30, 2006, to \$14.2 million and \$41.2 million for the three and nine months ended November 30, 2007, respectively. As a percent of sales, our Print profits were 16.0% for the three and nine months ended November 30, 2007, as compared to 14.8% and 14.4% for the three and nine months ended November 30, 2006, respectively. The increase in our Print profit, as a percent of sales is related to the increase in sales and gross profit margin as previously discussed.

Apparel Segment. Our Apparel profit decreased approximately \$0.2 million and \$4.6 million, or 2.4% and 15.9%, from \$8.3 million and \$28.6 for the three and nine months ended November 30, 2006, to \$8.1 million and \$24.0 million for the three and nine months ended November 30, 2007. As a percent of sales, our Apparel profit decreased from 12.5% and 14.1% for the three and nine months ended November 30, 2006 to 11.6% and 11.8% for the three and nine months ended November 30, 2007. The decrease in our Apparel profit during the current period is primarily due to the decrease in gross profit margin as previously discussed.

Liquidity and Capital Resources

(Dollars in thousands)	November	February 28,	Change
	30, 2007	2007	
Working Capital	\$ 132,836	\$ 102,269	29.9%
Cash and cash equivalents	\$ 2,156	\$ 3,582	-39.8%

Working Capital. Our working capital increased by approximately \$30.6 million, or 29.9% from \$102.3 million at February 28, 2007 to \$132.8 million at November 30, 2007. The increase in our working capital during the period related primarily to an increase in our receivables and inventories. Our current ratio, calculated by dividing our current assets by our current liabilities was 3.4-to-1.0 at November 30, 2007 and 3.1-to-1.0 at February 28, 2007.

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

(Dollars in thousands)	Nine months ended November 30,		
	2007	2006	Change
Net cash provided by operating activities	\$ 17,615	\$ 37,128	-52.5%
Net cash used in investing activities	\$(16,243)	\$(18,060)	-10.1%
Net cash used in financing activities	\$ (2,987)	\$(25,236)	-88.2%

Cash flows from operating activities. Cash provided by our operating activities decreased by \$19.5 million, or 52.5% to \$17.6 million for the nine months ending November 30, 2007 as compared to \$37.1 million for the nine

months ended November 30, 2006. During the nine months ended November 30, 2007, approximately 39.3% of our Apparel credit sales were factored compared to 72.5% for the same period last year. As a result, approximately \$22.0 million of operational cash during the period was used to fund the transition of these previously factored sales to in-house credit (see Credit Facility following for further discussion). In addition, we used operational cash during the period to increase our apparel inventory levels by approximately \$13.0 million, see Results of

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Operations Segments for further discussion. We were able to offset these uses of our operational cash during the period by increased management of our print inventory levels, accounts receivable and payables.

Cash flows from investing activities. Cash used for our investing activities decreased by \$1.8 million, or 10.1% to \$16.2 million for the nine months ended November 30, 2007, as compared to \$18.1 million for the nine months ended November 30, 2006. During the nine months ended November 30, 2007 we acquired two businesses, B&D and Trade for \$14.5 million. During the nine months ended November 30, 2006, we acquired two businesses, Specialized Printed Forms and Block Graphics for \$17.6 million.

Cash flows from financing activities. We used \$22.2 million less in cash associated with our financing activities this period when compared to the same period last year. We repaid debt in the amount of \$10.1 million during the nine months ended November 30, 2007 as compared to \$28.9 million during the same period of 2006 which was offset by the addition of \$15.0 million in debt to finance the acquisition of Block on August 8, 2006. We borrowed \$11.8 million to finance the acquisition of B&D on October 5, 2007 and \$6.2 million to finance the increase in accounts receivable.

Credit Facility - On March 31, 2006, we entered into an amended and restated credit agreement with a group of lenders led by LaSalle Bank N.A. (the Facility). The Facility provides us access to \$150 million in revolving credit and matures on March 31, 2010. The facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from .50% to 1.50% (LIBOR + .50% or 5.65% at 11/30/07), depending on our total funded debt to EBITDA ratio, as defined. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants. As of November 30, 2007, we had \$97.0 million of borrowings under the revolver and \$4.2 million outstanding under standby letters of credit arrangements, leaving us availability of approximately \$48.8 million. The Facility is secured by substantially all of our personal and investment property.

During the nine months ended in November 30, 2007, we repaid \$9.5 million on the revolver and \$0.6 million on other debt and borrowed \$18.0 million, mainly for acquisitions. It is anticipated that the available line of credit is sufficient to cover, should it be required, working capital requirements for the foreseeable future.

Our Apparel segment continues to sell a portion of their accounts receivable to factors (for the nine months ended November 30, 2006 and 2007 72.5% and 39.3%, respectively) based upon agreements in place with these factors. As previously discussed, due to potential cost savings, we are continuing with our plans to reduce the amount of receivables we factor each year through the utilization of our existing bank line or from working capital generated by our Apparel Segment over the next couple of years.

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

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

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

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Contractual Obligations & Off-Balance Sheet Arrangements - There have been no significant changes in our contractual obligations since February 28, 2007 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of November 30, 2007.

Recent Accounting Pronouncements

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

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

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

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

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

FAS 141R. In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business combinations (FAS 141R), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (our Fiscal year ended February 28, 2010). We have not completed our evaluation of the

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potential impact, if any, of the adoption of FAS 141R on our consolidated financial position, results of operations and cash flows.

FAS 160. In December 2007, Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51 (FAS 160). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008, (our Fiscal year ended February 28, 2010). We have not completed our evaluation of the potential impact, if any, of the adoption of FAS 160 on our consolidated financial position, results of operations and cash flows.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Interest Rates

We are exposed to market risk from changes in interest rates on debt. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. Our variable rate financial instruments, including the outstanding credit facilities, totaled \$97.0 million at November 30, 2007. The impact on our results of operations of a one-point interest rate change on the outstanding balance of the variable rate financial instruments as of November 30, 2007 would be approximately \$1.0 million.

Foreign Exchange

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

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of November 30, 2007 are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as

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**ENNIS, INC. AND SUBSIDIARIES
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appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

During the current quarter ending November 30, 2007 there were changes in our internal control over our financial reporting related to implementing our new ERP System. Our management, with the participation of our President and Chief Executive Officer and Chief Financial Officer, have evaluated such changes in our internal control over financial reporting and determined that such changes did not materially affect, or are not reasonably likely to materially affect, our internal control over financial reporting. We continually modify and enhance our ERP System and believe the future enhancements or modifications will not have a material affect on our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Reference is made to page 24 of this Report on Form 10-Q. There have been no material changes in our Risk Factors as previously discussed in our Annual Report on Form 10-K for the year ended February 28, 2007.

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

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

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

Item 6. Exhibits

The following exhibits are filed as part of this report.

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

* Filed herewith

** Furnished
herewith

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**ENNIS, INC. AND SUBSIDIARIES
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SIGNATURES

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

ENNIS, INC.

Date: December 28, 2007

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

Date: December 28, 2007

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

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