ENNIS, INC.
Form 10-K
May 11, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended February 29, 2012

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	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

2441 Presidential Pkwy., Midlothian, Texas	**76065**
(Address of Principal Executive Offices)	**(Zip code)**

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $2.50 per share	New York Stock Exchange

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

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

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

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 x No ¨

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of August 31, 2011 was approximately $401.0 million. Shares of voting stock held by executive officers, directors and holders of more than 10% of the outstanding voting stock have been excluded from this calculation because such persons may be deemed to be affiliates. Exclusion of such shares should not be construed to indicate that any of such persons possesses the power, direct or indirect, to control the Registrant, or that any such person is controlled by or under common control with the Registrant.

The number of shares of the Registrant s Common Stock, par value $2.50, outstanding at April 30, 2012 was 26,152,863.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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ENNIS, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE PERIOD ENDED FEBRUARY 29, 2012

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PART I

ITEM 1. BUSINESS

Overview

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

On February 10, 2012, we acquired certain assets of PrintXcel and Printegra Corporation (Printegra) for $40.0 million plus assumed certain trade liabilities. The acquisition was funded by a draw down on our line of credit facility. The combined sales of the purchased operations were $74.4 million during the most recent twelve month period ended December 31, 2011. The acquisition will continue its operations under their respective trade names of PrintXcel and Printegra. The acquisition will expand our pressure seal capabilities and will also expand our high color commercial print capabilities and business check product lines which will be sold through our independent distributor network.

On September 30, 2011, we purchased all of the outstanding stock of PrintGraphics, LLC (PrintGraphics), as well as the associated land and buildings for $6.0 million in cash. PrintGraphics has locations in Vandalia, Ohio and Nevada, Iowa, The sales of the purchased operations were $15.1 million during the twelve month period ended December 31, 2010. The acquisition of PrintGraphics continues the strategy of targeted growth in our print segment of products to further service our existing customer base.

Business Segment Overview

We are one of the largest providers of business forms to independent distributors in the United States and are also one of the largest providers of blank t-shirts in North America to the activewear market. We operate in two reportable segments Print and Apparel. For additional financial information concerning segment reporting, please see Note 15 of the Notes to the Consolidated Financial Statements beginning on page F-26 included elsewhere herein, which information is incorporated herein by reference.

Print Segment

The Print Segment, which represented 54%, 50%, and 55% of our consolidated net sales for the fiscal years ended February 29, 2012, February 28, 2011, and February 28, 2010, respectively, is in the business of manufacturing, designing and selling business forms and other printed business products primarily to distributors located in the United States. The Print Segment operates 50 manufacturing locations throughout the United States in 20 strategically located domestic states. Approximately 97% of the business products manufactured by the Print Segment are custom and semi-custom products, constructed in a wide variety of sizes, colors, and quantities on an individual job basis depending upon the customers specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal Business Forms®, Block Graphics®, Specialized Printed Forms®, 360º Custom Labels℠, Enfusion®, Uncompromised Check Solutions®, VersaSeal®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphics℠, Calibrated Forms®, PrintXcel and Printegra®. 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); Atlas Tag & Label® (which provides tags and labels); Trade Envelopes® and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

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The Print Segment sells predominantly through private printers and independent distributors. Northstar also sells direct to a small number of customers, generally large banking organizations (where a distributor is not acceptable or available to the end-user), as does Adams-McClure, where sales are generally through advertising agencies.

The printing industry generally sells its products either through sales made predominantly to end users, a market dominated by a few large manufacturers, such as Moore Wallace (a subsidiary of R.R. Donnelley), Standard Register, and Cenveo, or, like the Company, 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. We believe our strategic locations and buying power permit us to compete on a favorable basis within the distributor market on competitive factors, such as service, quality, and price.

Distribution of business forms and other business products throughout the United States is primarily 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 46%, 50%, and 45% of our consolidated net sales for the fiscal years ended February 29, 2012, February 28, 2011, and February 28, 2010, respectively, and operates under the name of Alstyle Apparel (Alstyle). Alstyle markets high quality knitted activewear (t-shirts, tank tops and fleece) across all market segments. The main products of Alstyle are standardized shirts manufactured in a variety of sizes and colors. Approximately 98% of Alstyle s revenues are derived from t-shirt sales, with 92% domestic sales. Alstyle s branded product lines are sold mainly under the AAA® and Murina® brands.

Effective July 2011, the Apparel Segment operates in an owned manufacturing facility located in Agua Prieta, Mexico. Previously, the Apparel Segment operated in a leased manufacturing facility located in Anaheim, CA, The Apparel Segment also has three cut/sew facilities in Mexico (1 in Agua Prieta, 1 in Ensenada, and 1 in Hermosillo). In addition to its own cut and sew facilities, Alstyle also uses outsourced manufacturers located in El Salvador from time to time to supplement a portion of the cut and sew needs. After sewing and packaging is completed, the product is shipped to one of Alstyle s nine distribution centers located across the United States, Canada, and Mexico.

Alstyle utilizes a customer-focused internal sales team comprised of 20 sales representatives assigned to specific geographic territories in the United States, Canada, and Mexico. Sales representatives are allocated performance objectives for their respective territories and are provided financial incentives for achievement of their target objectives. Sales representatives are responsible for developing business with large accounts and spend approximately 60% of their time in the field.

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

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

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

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

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

Raw materials of the Apparel Segment principally consist of cotton and polyester yarn purchased from a number of major suppliers at prevailing market prices, although we purchase 60% of our cotton and yarn from one supplier.

Patents, Licenses, Franchises and Concessions

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

Intellectual Property

We market our products under a number of trademarks and tradenames. We have registered trademarks in the United States for Ennis®, EnnisOnline℠, Alstyle®, A Alstyle Apparel®, AA Alstyle Apparel & Activewear®, AAA Alstyle Apparel & Activewear®, B&D Litho of AZ®, B&D Litho®, ACR®, Block Graphics®, Classic by Alstyle Apparel®, Enfusion®, Murina®, 360º Custom Labels℠, Admore®, CashManagementSupply.com℠, Securestar®, Northstar®, MICRLink®, MICR Connection™, Ennisstores.com™, General Financial Supply®, Calibrated Forms®, PrintXcel , Printegra®, Trade Envelopes®, Witt Printing®, Genforms®, Royal Business Forms®, Crabar/GBF℠, BF&S℠, Adams McClure®, Advertising Concepts™, ColorWorx®, Atlas Tag & Label®, Printgraphics℠, Uncompromised Check Solutions®, VersaSeal®, Star Award Ribbon®, Canu℠, Platinum Canoe℠, EOSTouchpoint™, and Printersmall.com℠, and variations of these brands as well as other trademarks. We have similar trademark registrations internationally. The protection of our trademarks is important to our business. We believe that our registered and common law trademarks have significant value and these trademarks are instrumental to our ability to create and sustain demand for our products.

Customers

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

Backlog

At February 29, 2012, our backlog of orders was approximately $23.3 million as compared to approximately $33.8 million at February 28, 2011. The decline in our backlog at February 29, 2012 related to the decline in our Apparel backlog. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations section of this report on factors impacting our Apparel sales.

Research and Development

While we seek new products to sell through our distribution channel, there have been no material amounts spent on research and development in the fiscal year ended February 29, 2012.

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Environment

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

Employees

At February 29, 2012, we had approximately 5,816 employees. Approximately 3,383 of the employees are in Mexico, and approximately 22 employees are in Canada. Of the domestic employees, approximately 328 are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Three unions represent all of our hourly employees in Mexico with contracts expiring at various times.

Available Information

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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Declining economic conditions could negatively impact our business.

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

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

The terms and conditions of our credit facility impose certain restrictions on our ability to incur additional debt, make capital expenditures, acquisitions, asset dispositions, as well as other customary covenants, such as minimum equity level and total funded debt to EBITDA, as defined. Our ability to comply with the covenants may be affected by events beyond our control, such as distressed and volatile financial markets which could trigger an impairment charge to our recorded intangible assets. A breach of any of these covenants could result in a default under our credit facility. In the event of a default, the bank could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable. As of February 29, 2012, we were in compliance with all terms and conditions of our credit facility, which matures on August 18, 2016.

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

We maintain a defined-benefit pension plan covering approximately 10% of our employees. Included in our financial results are pension costs that are measured using actuarial valuations. The actuarial assumptions used may differ from actual results. In addition, as our pension assets are invested in marketable securities, severe fluctuations in market values could potentially negatively impact our funding status, recorded pension liability, and future required minimum contribution levels.

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is the excess of the purchase price over the net identifiable tangible assets acquired. The annual impairment test is based on several factors requiring judgment. A decline in market conditions may indicate a potential impairment of goodwill. An impairment test was completed for our fiscal year February 29, 2012, and we concluded that no impairment charge was necessary. At February 29, 2012, our goodwill and other intangible assets were approximately $121.6 million and $87.4 million, respectively.

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

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

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

In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, and we aren t able to increase our market share, our sales and profits will be affected. Decreases in sales of our standardized business forms and

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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 February 29, 2012, approximately 12% of our domestic employees are represented by labor unions under collective bargaining agreements, which are subject to periodic renegotiations. Three unions represent all of our hourly employees in Mexico. While we feel we have a good working relationship with all the unions, there can be no assurance that any future labor negotiations will prove successful, which may result in a significant increase in the cost of labor, or may break down and result in the disruption of our business or operations.

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

Cotton yarn is the primary raw material used in Alstyle s manufacturing processes. Cotton accounts for approximately 47.3% of the manufactured product cost at current pricing levels. Alstyle acquires its yarn from three major sources that meet stringent quality and on-time delivery requirements. The largest supplier provided 60% of Alstyle s yarn requirements during the year and has an entire yarn mill dedicated to Alstyle s production. To maintain our high standard of color control associated with our apparel products, we purchase our dyeing chemicals from limited sources. If Alstyle s relations with its suppliers are disrupted, Alstyle may not be able to enter into arrangements with substitute suppliers on terms as favorable as its current terms, and our results of operations could be materially adversely affected.

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

Both cotton and paper are commodities that are subject to periodic increases or decreases in price, sometimes quite significant. There is no effective market to cost-effectively insulate us against unexpected changes in price of paper, and corporate negotiated purchase contracts provide only limited protection against price increases. We generally acquire our cotton yarn under short-term purchase contracts with our suppliers. While we generally do not use derivative instruments, including cotton option contracts, to manage our exposure to movements in cotton market prices, we believe we are competitive with other companies in the United States apparel industry in negotiating the price of cotton. During fiscal year 2010, spot cotton prices increased significantly, however, manufacturers were able to insulate themselves from some of these increases with forward purchase contracts. However, because spot cotton prices remained at these levels for a sustained period of time, these favorable forward contracts expired and were replaced with higher-priced contracts which are now significantly higher than current spot cotton prices. These higher-priced contracts are what have been and will continue to be flowing into large manufacturer s cost of goods sold over the next several quarters. Generally, when cotton or paper prices are increased, we attempt to recover the higher costs by raising the prices of our products to our customers. In the price-competitive

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marketplaces in which we operate, we may not always be able to pass through any or all of the higher costs. As such, any significant increase in the price of paper or cotton or shortages in the availability of either, could have a material adverse effect on our results of operations.

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

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

The apparel industry is heavily influenced by general economic cycles.

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

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

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

In addition, all Alstyle s knit and dye operations are now located in one facility in Agua Prieta, Mexico. Any disruptions in operations through any of the above factors, as well as others, could have a material adverse effect on the Company s operational results.

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

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

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

The Central American Free Trade Agreement (CAFTA) became effective May 28, 2004 and retroactive to January 1, 2004 for textiles and apparel. It creates a free trade zone similar to NAFTA by and between the United

States and Central American countries (El Salvador, Honduras, Costa Rica, Nicaragua, and Dominican Republic.) Textiles and apparel are duty-free and quota-free immediately if they meet the agreement s rule of origin, promoting new opportunities for U.S. and Central American fiber, yarn, fabric and apparel manufacturing. The agreement gives duty-free benefits to some apparel made in Central America that contains certain fabrics from NAFTA partners Mexico and Canada. Alstyle did not outsource any of its production to outside contract manufacturers in the last two quarters of this fiscal year, and we do not anticipate that alteration or subsequent repeal of CAFTA would have a material effect on our operations, other than improvement over our competitive capabilities.

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

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

Environmental regulations may impact our future operating results.

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

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

Our new manufacturing facility was built to capture anticipated future growth and savings in production costs over our cost structure in Anaheim, CA. Should such growth or production savings not materialize, such events may impact our ability to achieve our expected return and/or could negatively impact our operational results and financial condition.

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

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

Our business incurs significant freight and transportation costs.

We incur significant freight costs to transport our goods, especially as it relates to our Apparel Segment where we transport yarn from our domestic suppliers to our textile facility in Mexico. The internal freight from the textile to the sewing facilities, as well as the logistic cost of keeping our product in the distribution centers to maintain our product close to the customer and on time to market is also significant. In addition, we incur transportation expenses to ship our products to our customers. Significant increases in the costs of freight and transportation could have a material adverse effect on our results of operations, as there can be no assurance that we could pass these increased costs to our customers.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 2. PROPERTIES

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

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

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

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

All of the rented property is held under leases with original terms of one or more years, expiring at various times through January 2018. No difficulties are presently foreseen in maintaining or renewing such leases as they expire.

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

		Approximate Square Footage	
Location	**General Use**	**Owned**	**Leased**
Print Segment			
Ennis, Texas	Three Manufacturing Facilities	325,118	
Chatham, Virginia	Two Manufacturing Facilities	127,956	
Paso Robles, California	Manufacturing	94,120	
DeWitt, Iowa	Two Manufacturing Facilities	95,000	
Knoxville, Tennessee	Manufacturing	48,057	
Ft. Scott, Kansas	Manufacturing	86,660	
Portland, Oregon	Manufacturing		103,402
Wolfe City, Texas	Two Manufacturing Facilities	119,259	
Moultrie, Georgia	Manufacturing	25,000	
Coshocton, Ohio	Manufacturing	24,750	
Macomb, Michigan	Manufacturing	56,350	
Anaheim, California	Three Manufacturing Facilities		49,000
Bellville, Texas	Leasing	70,196	
Denver, Colorado	Four Manufacturing Facilities	60,000	101,600
Oklahoma City, Oklahoma	Sales Office		460
San Antonio, Texas	Manufacturing	47,426	
Brooklyn Park, Minnesota	Manufacturing	94,800	
Roseville, Minnesota	Manufacturing		42,500
Arden Hills, Minnesota	Warehouse		31,684
Nevada, Iowa	Two Manufacturing	290,752	
Bridgewater, Virginia	Manufacturing		27,000
Columbus, Kansas	Manufacturing	201,000	
Leipsic, Ohio	Manufacturing	83,216	
El Dorado Springs, Missouri	Manufacturing	70,894	
Princeton, Illinois	Two Manufacturing Facilities		74,340
Arlington, Texas	Two Manufacturing Facilities	69,935	30,700
Tullahoma, Tennessee	Manufacturing	24,950	
Caledonia, New York	Manufacturing	138,730	
Sun City, California	Manufacturing	52,617	
Phoenix, Arizona	Manufacturing and Warehouse		59,000
Neenah, Wisconsin	Manufacturing		57,786
West Chester, Pennsylvania	Sales Office		1,150
Vandalia, Ohio	Manufacturing	47,820	
Fairport, New York	Manufacturing		40,800
Jaffrey, New Hampshire	Sales Office		647
Greensboro, North Carolina	Manufacturing		44,183
Indianpolis, Indiana	Manufacturing		24,754
Livermore, California	Manufacturing		21,568
Smyrna, Georgia	Manufacturing		65,000
Clarksville, Tennessee	Manufacturing	51,900	
Fairhope, Alabama	Manufacturing,Office, Warehouse	65,000	11,168
Toledo, Ohio	Manufacturing	51,900	
Visalia, California	Manufacturing		56,000
		2,423,406	842,742
Apparel Segment			
Anaheim, California	Office and Distribution Center		151,000
Chicago, Illinois	Distribution Center		82,100

Atlanta, Georgia	Distribution Center	31,958
Carrollton, Texas	Distribution Center	26,136
Bensalem, Pennsylvania	Distribution Center	60,848
Mississauga, Canada	Distribution Center	53,982
Los Angeles, California	Distribution Center	31,600

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Location	General Use	Approximate Square Footage Owned	Leased
Agua Prieta, Mexico	Manufacturing	700,000	
Ensenada, Mexico	Manufacturing	87,145	
Ensenada, Mexico	Car Parking		37,125
Ensenada, Mexico	Warehouse		16,146
Hermosillo, Mexico	Manufacturing		76,145
Hermosillo, Mexico	Yard Space		19,685
Hermosillo, Mexico	Vacant		8,432
Hermosillo, Mexico	Storage for Machines		1,640
		787,145	596,797
Corporate Offices			
Ennis, Texas	Administrative Offices	9,300	
Midlothian, Texas	Executive and Administrative Offices	28,000	
		37,300	
	Totals	3,247,851	1,439,539

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	Common Stock Price Range High	Low	Common Stock Trading Volume (number of shares in thousands)	Dividends per share of Common Stock
Fiscal Year Ended February 29, 2012				
First Quarter	$ 20.23	$ 14.91	2,660	$ 0.155
Second Quarter	19.04	13.81	3,109	$ 0.155
Third Quarter	16.43	12.08	3,575	$ 0.155
Fourth Quarter	17.74	12.80	2,171	$ 0.155

Fiscal Year Ended February 28, 2011				
First Quarter	$ 19.35	$ 15.52	3,134	$ 0.155
Second Quarter	18.12	14.33	4,779	$ 0.155
Third Quarter	19.61	15.60	3,208	$ 0.155
Fourth Quarter	19.10	15.46	3,001	$ 0.155

The last reported sale price of our common stock on NYSE on April 30, 2012 was $15.76. As of that date, there were approximately 973 shareholders of record of our common stock. Cash dividends may be paid or repurchases of our common stock may be made from time to time, as our Board of Directors deems appropriate, after considering our growth rate, operating results, financial condition, cash requirements, restrictive lending covenants, and such other factors as the Board of Directors may deem appropriate.

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On October 20, 2008, our Board of Directors authorized the repurchase of up to $5.0 million of our common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been repurchased during the last two fiscal years, there have been 96,000 shares of common stock that have been purchased under the repurchase program since its inception at an average price per share of $10.45. On April 20, 2012, the Board increased the authorized amount available to repurchase our shares by an additional $5.0 million, bringing the total available to approximately $9.0 million. Unrelated to the stock repurchase program, the Company purchased 100 and 91 shares of common stock during the fiscal years ended February 29, 2012 and February 28, 2011, respectively.

Stock Performance Graph

The graph below matches our cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S & P 500 index and the Russell 2000 index. The graph tracks the performance of a $100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from February 28, 2007 to February 29, 2012.

	2007	2008	2009	2010	2011	2012
Ennis, Inc.	$ 100.00	$ 63.68	$ 34.18	$ 67.36	$ 73.89	$ 79.33
S&P 500	100.00	96.40	54.64	83.93	102.88	108.15
Russell 2000	100.00	87.56	50.45	82.71	109.67	109.50

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

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited consolidated financial statements. Our consolidated financial statements and notes thereto as of February 29, 2012 and February 28, 2011, and for the three years in the period ended February 29, 2012, and the reports of Grant Thornton LLP are included in Item 15 of this Report. The selected financial data should be read in conjunction with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in Item 15 of this Report.

	Fiscal Years Ended				
	2012	2011	2010	2009	2008
	(Dollars and shares in thousands, except per share amounts)				
Operating results:					
Net sales	$ 517,014	$ 549,999	$ 517,738	$ 584,029	$ 610,610
Gross profit margin	130,513	154,498	135,319	143,476	163,874
SG&A expenses	78,962	83,678	76,738	86,217	88,851
Impairment of goodwill and trademarks				67,851	
Net earnings (loss)	31,358	44,631	35,206	(32,768)	44,590
Earnings (loss) and dividends per share:					
Basic	$ 1.21	$ 1.73	$ 1.37	$ (1.27)	$ 1.74
Diluted	1.21	1.72	1.36	(1.27)	1.72
Dividends	0.62	0.62	0.62	0.62	0.62
Weighted average shares outstanding:					
Basic	25,946	25,855	25,769	25,724	25,697
Diluted	25,968	25,888	25,797	25,790	25,860
Financial Position:					
Working capital	$ 168,969	$ 135,300	$ 116,638	$ 138,374	$ 133,993
Current assets	219,210	182,398	166,439	182,254	185,819
Total assets	531,962	473,728	432,699	436,380	513,131
Current liabilities	50,241	47,098	49,801	43,880	51,826
Long-term debt	90,000	50,000	41,817	76,185	90,710
Total liabilities	172,087	126,045	119,439	144,374	164,652
Equity	359,875	347,683	313,260	292,006	348,479
Current ratio	4.36 to 1.0	3.87 to 1.0	3.34 to 1.0	4.15 to 1.0	3.59 to 1.0
Long-term debt to equity	.25 to 1.0	.14 to 1.0	.13 to 1.0	.26 to 1.0	.26 to 1.0

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

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

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

This Management s Discussion and Analysis includes the following sections:

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

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

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

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

References to 2012, 2011 and 2010 refer to the fiscal years ended February 29, 2012, February 28, 2011 and February 28, 2010, respectively.

Overview

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

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

Transformation of our portfolio of products

Excess production capacity and price competition within our industry

Continued economic uncertainties

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

Transformation of our portfolio of products Traditional business documents are essential in order to conduct business. However, many are being replaced or devalued with advances in digital technologies, causing steady

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

Excess production capacity and price competition within our industry Paper mills continue to adjust production capacity through downtime and closures to attempt to keep supply in line with demand. Due to the limited number of paper mills, paper prices have been and are expected to remain fairly volatile. In 2010, we saw our material prices stabilize due to the depressed economic conditions. However, during fiscal year 2011 paper mills returned to their past practices of increasing paper prices and this trend continued throughout fiscal year 2012.

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

Continued economic uncertainties As a result of the past recessionary conditions of 2009 and 2010, the economic climate has been volatile and challenging. Decreased demand and intense price competition resulted in a significant decline in our revenue during fiscal years 2010 and 2011. Although we have seen slight improvements in some economic indicators within our markets, a generally weak domestic job market, global economic instabilities and the rather anemic domestic economic recovery continue to present a challenging environment for revenue growth. As we cannot predict the pace or continuance of the domestic economic recovery or the impact of continued global economic instability, we continue to be focused on customer retention, expanding our growth targeted products and continuing to develop new market niches. In addition, we have a proven history of managing our costs during tough economic times and wouldn t expect this to change in the future.

Our Apparel Business Challenges In our Apparel segment, our market niche is highly competitive, commodity driven and is generally dominated by a limited number of players. The downturn in the economy and turmoil in the credit markets in 2009 and 2010 created an over-supply situation which further increased competitive pressures in this market. While the economic environment has improved some, which led to increased demand for our product during the later part of fiscal year 2011 and the start of fiscal year 2012, we have seen some recent softness in the market due to destocking strategies and current economic uncertainties both domestically and internationally. Whether the current softness in the market is just a temporary situation or one we will have to manage through for an extended period of time is unknown. However, such uncertainty and volatility in the marketplace could have unanticipated adverse effects on our business beyond this past fiscal year. In addition, the current spot price of cotton has contributed negatively to an already competitive marketplace and made it even more difficult for large manufacturers to maintain their margins given the high cost of cotton in their finished goods inventory. While current spot prices on various input costs are down somewhat from comparable periods, most larger manufacturers costs in finished goods inventory are at considerably higher costs. We, and other large manufacturers, have been and will continue to work though these higher input costs over the next several quarters before the current lower costs will have a positive impact on our operational results. Currently, pricing in the marketplace is not commensurate with the manufacturer s higher costs in their finished goods inventory. The duration of this imbalance will be impacted by any continued softness in the market. As such, our operating costs are subject to significant swings, which may or may not be passed on to the marketplace due to competitive or current economic conditions, competitors pricing strategies, etc. Thus, we believe we are facing the following challenges in our Apparel Segment business in fiscal 2013:

- Cotton prices and market pricing
- New manufacturing facility
- Continued economic uncertainties

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Cotton prices Cotton, which represents a significant portion of our cost, is a commodity product and subject to volatile fluctuations in price. Over the past several years we have seen cotton prices reach levels never before seen in its history and over the past 6 months have seen the prices recede back to levels, while still high from a historical perspective, are significantly off the highs reached this past fiscal year. Whether or not prices will stay at current levels for a sustained period of time, or continue to recede, is unknown. For the current quarter, our effective cost of cotton flowing into our operational results was 98.1% higher than during the comparable period last year. Costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, commodities market speculation, currency fluctuations, international actions and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can be affected by dramatic movements in cotton prices. Due to the high price of cotton during calendar year 2010, Alstyle, like most large manufacturers, was relatively short with respect to their cotton purchases entering calendar year 2011. However, during the middle part of the calendar year 2011 we locked in cotton contracts in order to guarantee an uninterrupted supply of cotton and price stability. Unfortunately, these locked in prices are significantly higher than the current spot price of cotton. While we believe we are competitive with other large apparel manufacturers in the United States, with the current spot pricing in the market, many of the smaller manufacturers who do not have the financial capacity to enter into longer term contracts are now able to compete on a favorable basis due to their lower input cost. As the costs incurred for materials are capitalized into inventory and impact a company s operating results as the inventory is sold, our peak cotton costs have been flowing into our operational results during the past several quarters. We believe this is a situation that all large manufacturers like Alstyle will need to continue to manage through over the next several quarters. One way to manage through the higher material cost is to manage selling price to be consistent with these higher costs. Unfortunately, while the market has absorbed a certain level of price increase, it has never reached a level that would effectively offset the current level of cotton costs. In addition, due to recent softness in the market, competitive pressures have started to have a negative impact on even these levels of market pricing. Some of our competitors have instituted stock/restock programs and have announced price decreases, which have put further downward pressure on current market pricing. These factors, along with domestic and international economic uncertainties, will make the next quarter or two extremely challenging to navigate through, and with margin compression expected until the current spot cotton pricing starts to flow through cost of sales.

New manufacturing facility The new manufacturing facility in Agua Prieta, Mexico (AP) is fully operational and all production has now been transitioned from our Anaheim, CA (Anaheim) facility to the AP facility. We began producing fabric from this facility during the first quarter of fiscal 2012 and current production levels are on target with our original estimates. The negative impact associated with the start-up/ramp-up of the new facility and the shut-down of the Anaheim facility was in line with our previous estimates of approximately $7.5 to $8.5 million ($3.2 to $3.9 million impacting the current year s operational results). The negative operational impact of this facility during the current quarter was minimal. While the transition from Anaheim to AP has been completed, much still needs to be accomplished, such as the installation of transitioned equipment and improving the operational efficiency factors, which we believe will continue to occur over the coming quarters as experience and production levels increase.

Continued economic uncertainties As a result of the recessionary conditions of 2009 and 2010, the economic climate has been and continues to be volatile and challenging both domestically and internationally. Decreased demand and intense price competition resulted in significant declines in revenues during fiscal year 2009 and 2010. Although we saw an increase in our apparel revenues during fiscal year 2011 due to improving economic conditions we saw a significant fall off in our sales this fiscal year due to competitive pricing pressures which we attributed to a softness in the market. International instability and continued domestic economic issues (i.e., high unemployment, housing sector weakness, etc.) have taken a toll on the domestic economic environment. In addition, the decline in spot pricing of cotton has also given some retailers/distributors/screen-printers reason to pause or be judicious with their replenishment orders. As such, we saw some softness in the market this fiscal year. Whether these market conditions are temporary or ones we will have to manage through for sometime is unknown. A prolonged softness in the market could have a negative impact on our revenues, operational results and lengthen the time it takes us to see through the higher cotton prices currently in our finished goods inventory.

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Critical Accounting Policies and Estimates

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

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

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

We exercise judgment in evaluating our long-lived assets for impairment. We assess the impairment of long-lived assets that include other intangible assets, goodwill, and property, plant, and equipment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In performing tests of impairment, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the recoverability of our long lived assets. If these estimates or the related assumptions change, we may be required to record impairment charges for these assets in the future. Actual results could differ from assumptions made by management. At February 29, 2012, our goodwill and other intangible assets were approximately $121.6 million and $87.4 million, respectively. No impairment charge was required for the year ended February 29, 2012 based on the results of our annual impairment test conducted as of November 30, 2011. The carrying value of invested capital for each reporting unit as compared to their fair value at November 30, 2011 was as follows:

Goodwill

Reporting Unit	Carrying Value of Invested Capital	Fair Value of Invested Capital
Apparel	$ 315.9 million	$ 340 million to $385 million
Print	$ 132.7 million	$ 226 million to $275 million

Trademarks/Tradenames

Reporting Unit	Carrying Value of Invested Capital	Fair Value of Invested Capital
Apparel	$ 56.3 million	$ 70.2 million
Print	$ 2.2 million	$ 4.7 million

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

Revenue is generally recognized upon shipment of products. Net sales consist of gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, we print and store custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss from obsolescence passes to the customer, the customer is invoiced under normal credit terms and revenue is recognized when manufacturing is complete. Approximately $10.5 million, $10.5 million, and $12.4 million of revenue were recognized under these agreements during fiscal years ended February 29, 2012, February 28, 2011, and February 28, 2010, respectively.

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

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

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

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

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued further additional authoritative guidance related to fair value measurements and disclosures. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between accounting principles generally accepted in the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS). The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011, which will be the Company s fiscal year beginning March 1, 2012.

In June 2011, the FASB issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. The Company will be required to incorporate the provisions of this new standard effective with its first quarter filing for fiscal year 2013.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. The new guidance will be effective for annual goodwill impairment tests performed for fiscal years beginning after December 31, 2011, which will be the Company s fiscal year beginning March 1, 2012.

The Company does not expect the adoption of these standards will have a material impact on the Company s financial statements.

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Results of Operations

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

Consolidated Summary this section provides an overview of our consolidated results of operations for fiscal years 2012, 2011 and 2010.

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

Consolidated Summary

Consolidated Statements of Earnings Data	Fiscal Years Ended 2012		2011		2010	
Net sales	$ 517,014	100.0%	$ 549,999	100.0%	$ 517,738	100.0%
Cost of goods sold	386,501	74.8	395,501	71.9	382,419	73.9
Gross profit margin	130,513	25.2	154,498	28.1	135,319	26.1
Selling, general and administrative	78,962	15.3	83,678	15.2	76,738	14.8
Gain from disposal of assets	(137)		(1)		(1)	
Income from operations	51,688	9.9	70,821	12.9	58,582	11.3
Other expense, net	(2,308)	(0.4)	(1,404)	(0.3)	(2,913)	(0.5)
Earnings before income taxes	49,380	9.5	69,417	12.6	55,669	10.8
Provision for income taxes	18,022	3.5	24,786	4.5	20,463	4.0
Net earnings	$ 31,358	6.0%	$ 44,631	8.1%	$ 35,206	6.8%

Net Sales. Our consolidated net sales decreased from $550.0 million for the fiscal year ended February 28, 2011 to $517.0 million for the fiscal year ended February 29, 2012, or a decrease of 6.0%. Our sales decline for the year related primarily to the decline in our apparel sales which were off $38.3 million, or 13.8% due to softness in the market and continued pricing pressures. Net sales increased by $32.3 million, or 6.2% from $517.7 million to $550.0 for fiscal years ended February 28, 2010 and February 28, 2011, respectively. The increase in our sales during fiscal year 2011 related to our apparel sales, which increased $41.9 million, or 17.8% due to improving economic conditions.

Cost of Goods Sold. Our manufacturing costs decreased by $9.0 million from $395.5 million for fiscal year 2011 to $386.5 million for fiscal year 2012, or 2.3.%. Our gross profit margin (net sales less cost of goods sold) decreased from 28.1% for fiscal year 2011 to 25.2% for fiscal year 2012 due to the decline in our apparel margin during the period which decreased from 27.9% to 21.6% from the comparable period last year. The decline in our apparel margin was caused by higher input costs (i.e., mainly cotton) and competitive pressures on selling prices.

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

Selling, general, and administrative expenses. For fiscal year 2012, our selling, general and administrative expenses decreased approximately $4.7 million, or 5.6% from $83.7 million, or 15.2% of sales for fiscal year 2011 to $79.0 million, or 15.3% of sales for fiscal year 2012. The decrease in our selling, general and administrative expenses in addition to being volume related, was caused by a decrease in our bad debt expense, due to improved aging of our accounts receivable, and a reduction in our performance incentive costs for the year.

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

Gain from disposal of assets. The gain from disposal of assets of $137,000 for fiscal year ended February 29, 2012 resulted from sale of vehicles and equipment. The gain from disposal of assets of $1,000 for fiscal year ended February 28, 2011 resulted from sale of equipment.

Income from operations. Our income from operations for fiscal year 2012 decreased $19.1 million from operational earnings of $70.8 million, or 12.9% of sales for fiscal year 2011, to operational earnings of $51.7 million, or 10.0% of sales for fiscal year 2012. The decrease in our operational earnings during fiscal year 2012 was primarily related to our decreased apparel sales and apparel gross profit margin.

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

Other income and expense. Our interest expense was $2.3 million, $1.2 million and $2.6 million for fiscal years 2012, 2011 and 2010, respectively. Our interest expense increased in fiscal year 2012 due mainly to the fact that we did not capitalize any interest related to our Agua Prieta facility as construction was completed. During fiscal year 2011, we capitalized interest expense relating to our Agua Prieta, Mexico construction project of $1.7 million compared to $0.3 million for fiscal year 2010.

Provision for income taxes. Our effective tax rates for fiscal years 2012, 2011 and 2010 were 36.5%, 35.7% and 36.8%, respectively. The increase in our effective tax rate for fiscal year 2012 related to a reduction in the benefit associated with our Domestic Production Activities Deduction, which was caused by the moving of our apparel manufacturing from the United States to Mexico. Our rate for fiscal year 2011 decreased over our rate for fiscal year 2010 due to an increase in our Domestic Production Activities Deduction credit.

Net earnings. Due to the above factors, our net earnings decreased from $44.6 million, or 8.1% of sales for fiscal year 2011 to earnings of $31.4 million, or 6.1% of sales for fiscal year 2012. Basic earnings per share decreased from earnings of $1.73 per share for fiscal year 2011 to earnings of $1.21 per share for fiscal year 2012. Diluted earnings per share decreased from earnings of $1.72 per share for fiscal year 2011 to earnings of $1.21 per share for fiscal year 2012.

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

Segment Operating Results

	Fiscal Years Ended		
Net Sales by Segment (in thousands)	**2012**	**2011**	**2010**
Print	$ 277,988	$ 272,689	$ 282,308
Apparel	239,026	277,310	235,430
Total	$ 517,014	$ 549,999	$ 517,738

Print Segment. The print segment net sales represented 54.0%, 50.0%, and 55.0% of our consolidated net sales for fiscal years 2012, 2011, and 2010, respectively.

Our print sales increased by $5.3 million, or 1.9% during the fiscal year 2012 while print sales declined $9.6 million, or 3.4% during fiscal year 2011, when compared to the preceding fiscal year. While our print sales continue to be challenged by technological and economic factors, we have seen revenue growth in this segment on both a sequential and comparative basis over the past several quarters. While our growth has related principally to our acquisitions this fiscal year, we have seen stability in our underlying existing business.

The decline in our print sales in 2011 was primarily due to the continued economic recession from fiscal year 2010. In addition to the general impact of the economic recession on our sales, the adoption of digital technologies continues to erode revenues from our traditional print business. The evolution to digital technology has been

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transpiring for some time now, and is expected to continue into the future. The turbulent economy also led to weaker pricing in an already competitive industry as our customers sought cost savings to improve their own profitability in the light of declining sales.

Apparel Segment. The Apparel Segment net sales represented 46.0%, 50.0%, and 45.0% of our consolidated net sales for fiscal years 2012, 2011 and 2010, respectively.

Our fiscal year 2012 net sales for the Apparel Segment decreased by $38.3 million, or 13.8% over fiscal year 2011, while our 2011 net sales increased by $41.9 million, or 17.8% over fiscal 2010. Our apparel sales decreased in fiscal 2012 due to decreased unit sales resulting from the following: soft market conditions; reduced retail and consumer sentiment attributed to the protracted and volatile economic recovery; the destocking of inventories at the retail/distributor/screen-print levels; a drop in commodity prices and competitors pricing strategies. The drop in commodity prices over the past 4 months has caused some unrealistic expectations with respect to selling prices. These unrealistic expectations caused some destocking of inventories during this time period, which added to the competitive pressures in the marketplace. Competitors motivated to maintain their capacity utilizations or to increase their market share, in an attempt to improve their inventory turns, instituted various rebate programs (stock/restock programs, etc.) or announced price decreases, all during a time when these same competitors were reflecting the high cotton costs in their cost of sales. Due to promotional pricing, products are being sold in the marketplace at prices less than their associated raw material costs. Since our pricing strategy has been to try to cover our costs, we feel this has negatively impacted our top-line results over the past several quarters and may continue to impact our top-line results for the next several quarters. However, as the higher priced inventory in the marketplace are worked through, sales volumes should return to more normalized growth levels, pricing should stabilize as selling prices and the cost of cotton in inventories being consumed are in better alignment, and as such we would envision a better business environment during the second half of fiscal year 2013.

During fiscal year 2011, due to improving economic factors, we were able to increase our unit sales to new and existing customers by approximately 10.5% and increase our average unit selling price by approximately 7.3%.

	Fiscal Years Ended		
Gross Profit by Segment (in thousands)	**2012**	**2011**	**2010**
Print	$ 78,878	$ 77,236	$ 77,789
Apparel	51,635	77,262	57,530
Total	$ 130,513	$ 154,498	$ 135,319

Print Segment. Our print gross profit margin (margin), as a percent of sales, was 28.4%, 28.3% and 27.6% for fiscal years 2012, 2011 and 2010, respectively. In fiscal 2012, our print margins rose slightly over the comparable period last year. In fiscal 2011, we saw our material prices rise; however, we were able to offset these price increases through selling price increases and operational improvements.

Apparel Segment. Our apparel margin, as a percent of sales, was 21.6%, 27.9% and 24.4%, for fiscal years 2012, 2011 and 2010, respectively.

The cost of cotton, our largest input, increased 98.1% over fiscal year 2011. Due to economic slowness, and competitors production, inventory and market strategies, sale side pricing in the marketplace has not been consistent with the high level of cotton costs now flowing out of large manufacturers finished goods inventories and into cost of sales. Hence industry margins, as ours, have been compressed as of late due to these higher input costs and marketplace pressures. In addition, our apparel margins have also been impacted by inefficiencies associated with the start-up of our new manufacturing facility in Agua Prieta, Mexico. This has only had a minimal impact during the last couple of quarters and has been well within our projected levels. We anticipate our apparel margins will continue to be challenged during next fiscal year as we manage our way through the remaining high priced cotton currently in our finished goods. How long this will take, will be dependent upon how quickly we can turn our finished goods inventory which is dependent on many factors some of which are outside of our control.

We were able to increase our margin by 350 basis points during fiscal year 2011 through an increase in our unit sales price and improved operational efficiencies which were able to offset our higher raw material costs. During the previous fiscal year, spot cotton prices increased significantly; however, manufacturers were able to insulate themselves from some of these increases with forward purchase contracts. However, because spot cotton prices remained at these levels for a sustained period of time, most of these favorable forward contracts expired during the first half of fiscal 2012 and were replaced with significantly higher cotton cost contracts. As such, while we were able to offset these higher costs during fiscal 2011, we were extremely concerned with the potential impact of these higher cotton costs entering into our fiscal 2012 year.

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Profit by Segment (in thousands)	Fiscal Years Ended 2012	2011	2010
Print	$ 46,238	$ 46,002	$ 46,047
Apparel	19,345	42,611	24,778
Total	65,583	88,613	70,825
Less corporate expenses	16,203	19,196	15,156
Earnings before income taxes	$ 49,380	$ 69,417	$ 55,669

***Print Segment*.** As a percent of sales, our Print Segment s profits were 16.6%, 16.9%, and 16.3% for fiscal years 2012, 2011 and 2010, respectively. Our Print Segment s profit for fiscal year 2012 increased slightly from $46.0 million to $46.2 million for fiscal years ended 2011 and 2012, respectively. Our Print Segment s profit for both fiscal years 2010 and 2011 remained level at $46.0.

Apparel Segment. As a percent of sales, our Apparel Segment s profits were 8.1%, 15.4%, and 10.5%. The decrease in our Apparel profits for fiscal 2012 are a result of the decrease in our apparel sales and margin as discussed previously. The increase in our Apparel profits during fiscal year 2011 as compared to fiscal year 2010 related primarily to our improved gross profit margins during this time period. In addition to the significant improvement in our gross profits margins, we were able to continue cost cutting in selling, general, and administrative expenses following a review of our advertising and marketing activities during fiscal 2010.

Liquidity and Capital Resources

(Dollars in thousands)	Fiscal Years Ended 2012	2011
Working Capital	$ 168,969	$ 135,300
Cash	$ 10,410	$ 12,305

Working Capital. Our working capital increased by approximately $33.7 million, or 24.9% from $135.3 million at February 28, 2011 to $169.0 million at February 29, 2012. Our current ratio, calculated by dividing our current assets by our current liabilities, increased from 3.9-to-1.0 at February 28, 2011 to 4.4-to-1.0 at February 29, 2012. The increase in both our working capital and current ratio related primarily to the increase in our apparel inventory, which is due to the higher cotton costs in our finished goods inventory and slightly lower unit turns due to decreased sales and an increase in our print inventory, which is associated with our print acquisitions during the year.

(Dollars in thousands)	Fiscal Years Ended 2012	2011
Net Cash provided by operating activities	$ 24,573	$ 32,766
Net Cash used in investing activities	$ (50,810)	$ (35,985)
Net Cash provided by (used in) financing activities	$ 23,691	$ (6,005)

Cash flows from operating activities. Cash flows from operations during fiscal 2012 decreased by $8.2 million over fiscal year 2011, which had decreased by $49.8 million over fiscal year 2010. The decrease in cash flows during fiscal 2012 resulted primarily from a decrease in our earnings and an increase of prepaid expenses, which was offset by a decrease in our accounts receivable and an increase in our pension liability The change in our cash flows for 2011 related primarily to the change in our inventory levels. During fiscal year 2011, we used cash to build our inventories by approximately $24.0 million in anticipation of our move to Agua Prieta, whereas during fiscal year 2010 we generated approximately $27.0 million in cash through reducing our inventory levels to help fund the construction of our new manufacturing facility.

Cash flows from investing activities. Cash used for our investing activities increased by $14.8 million, or 41.2% from $36.0 million for fiscal year 2011 to $50.8 million for fiscal year 2012. This increase was as a result of our two new print acquisitions $46.0 million offset by the reduction in capital expenditures of approximately $28.7 million which related to the construction of our new apparel manufacturing facility in Agua Prieta, Mexico in fiscal 2011. For contractual commitments remaining in connection with the construction of this facility see the Contractual Obligations & Off-Balance Sheet Arrangements section below.

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Cash flows from financing activities. We used $29.7 million less in cash associated with our financing activities in fiscal year 2012 when compared to the same period last year. We borrowed $40.0 million under our revolver during fiscal year 2012 to fund our print acquisitions, whereas we borrowed only $10.0 million under our revolver during fiscal 2011 to build our apparel inventory in connection with the planned move of our apparel manufacturing facilities.

Stock Repurchase On October 20, 2008, our Board of Directors authorized the repurchase of up to $5.0 million of our common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. While no shares have been purchased during the last two fiscal years, there have been a total of 96,000 shares of our common stock that have been purchased under the repurchase program since its inception at an average price per share of $10.45. On April 20, 2012, the Board authorized that an additional $5.0 million be added to our stock repurchase program. Unrelated to the stock repurchase program, we purchased 100 and 91 shares of common stock during the fiscal years ended February 29, 2012 and February 28, 2011, respectively.

Credit Facility On February 22, 2012, we entered into the Second Amendment to Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides us access to $150.0 million in revolving credit, which we may increase to $200.0 million in certain circumstances, and matures on August 16, 2016. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.0% to 2.25% (LIBOR + 1.5% or 1.74% at February 29, 2012 and 2.51% at February 28, 2011), depending on our total funded debt to EBITDA ratio, as defined. As of February 29, 2012, we had $90.0 million of borrowings under the revolving credit line and $3.5 million outstanding under standby letters of credit arrangements, leaving us availability of approximately $56.5 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. We are in compliance with all these covenants as of February 29, 2012. The Facility is secured by substantially all of our domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

We did not pay any additional amounts on the revolver for fiscal year 2012. It is anticipated that the available line of credit is sufficient to cover, should it be required, our working capital needs for the foreseeable future.

On July 7, 2008, we entered into a three-year Interest Rate Swap Agreement (Swap) for a notional amount of $40.0 million which matured on July 22, 2011. The Swap effectively fixed the LIBOR rate at 3.79%. We account for our derivatives as cash flow hedges and record them as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures, at which time the changes in fair value would be recorded in Accumulated Other Comprehensive Income. The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was $(0.6) million, $(0.4) million, net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet as of February 28, 2011 as current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss).

Pension We are required to make contributions to our defined benefit pension plan. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA). We anticipate that we will contribute from $2.0 million to $3.0 million during fiscal 2013. We made contributions of $3.0 million to our pension plan during each of our last 3 fiscal years. As our pension assets are invested in marketable securities, fluctuations in market values could potentially impact our funding status, associated liabilities recorded and future required minimum contributions. At February 29, 2012, we had an unfunded pension liability recorded on our balance sheet of $7.5 million. The increase in our liability during the year related primarily to the decrease in the discount rate used to calculate our benefit obligations and to the performance of our pension assets.

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

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Capital Expenditures We expect our capital requirements for 2013, exclusive of capital required for possible acquisitions will be in line with our historical levels of between $4.0 million and $5.0 million. We expect to fund these expenditures through existing cash flows. We expect to generate sufficient cash flows from our operating activities to cover our operating and other normal capital requirements for the foreseeable future.

Contractual Obligations & Off-Balance Sheet Arrangements There have been no significant changes in our contractual obligations since February 29, 2011 that have, or are reasonably likely to have, a material impact on our results of operations or financial condition. We had no off-balance sheet arrangements in place as of February 29, 2012. The following table represents our contractual commitments as of February 29, 2012 (in thousands).

	Total	2013	2014	2015	2016	2017 to 2022
Debt:						
Revolving credit facility	$ 90,000	$	$	$	$	$ 90,000
Other contractual commitments:						
Estimated pension benefit payments	36,000	3,500	3,800	4,000	4,200	20,500
Letters of credit	3,522	3,522				
Operating leases	14,884	5,407	4,017	2,380	1,806	1,274
Construction contract Agua Prieta	1,551	1,551				
Total other contractual commitments	55,957	13,980	7,817	6,380	6,006	21,774
Total	$ 145,957	$ 13,980	$ 7,817	$ 6,380	$ 6,006	$ 111,774

Subsequent to February 29, 2012 and through May 11, 2012, we made no additional repayments on our revolving credit facility. We expect future interest payments of $1.6 million for each of the next four fiscal years through February 29, 2016, and $0.7 million for fiscal year ending February 28, 2017, assuming interest rates and debt levels remain the same throughout the remaining term of the facility.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Interest Rates

We are exposed to interest rate risk on short-term and long-term financial instruments carrying variable interest rates. We may from time to time utilize interest rate swaps to manage overall borrowing costs and reduce exposure to adverse fluctuations in interest rates. We do not use derivative instruments for trading purposes. Our variable rate financial instruments, including the outstanding credit facilities, totaled $90.0 million at February 29, 2012. We had entered into a $40.0 million interest rate swap designated as a cash flow hedge related to this debt, but this arrangement matured July 22, 2011, as such the entire balance of our line of credit is subject to fluctuations in the LIBOR rate. The impact on our results of operations of a one-point interest rate change on the outstanding balance of the variable rate financial instruments as of February 29, 2012 would be approximately $0.9 million.

Foreign Exchange

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

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
No matter requires disclosure.

ITEM 9A. CONTROLS AND PROCEDURES
Disclosure Controls and Procedures

A review and 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 and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of February 29, 2012. In conducting our evaluation of the effectiveness of internal control over financial reporting, we have excluded the assets and liabilities and results of operations of PrintXcel and Printegra, which we acquired on February 10, 2012, in accordance with the Securities and Exchange Commission s guidance concerning the reporting of internal controls over financial reporting in connection with a material acquisition. The assets and revenues resulting from this acquisition constituted approximately 8 and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended February 29, 2012,

Based upon that review and evaluation, which excluded the internal control over financial reporting of PrintXcel and Printegra, we have concluded that our disclosure controls and procedures were effective as of February 29, 2012.

Management s Report on Internal Control over Financial Reporting

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

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

i. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;

ii. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

iii. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or dispositions of the Company s assets that could have a material effect on the financial statements.

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

Management assessed the design and effectiveness of the Company s internal control over financial reporting as of February 29, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. In conducting our evaluation of the effectiveness of internal control over financial reporting, we have excluded the assets and liabilities and results of operations of PrintXcel and Printegra, which we acquired February 10, 2012, in accordance with the Securities and Exchange Commission s guidance concerning the reporting of internal controls over financial reporting in connection with a material acquisition. The assets and revenues resulting from this acquisition constituted approximately 8 and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended February 29, 2012. Based on management s assessment using those criteria, we believe that, as of February 29, 2012, the Company s internal control over financial reporting is effective.

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Changes in Internal Controls

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

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company for the fiscal year ended February 29, 2012 and has attested to the effectiveness of the Company s internal control over financial reporting as of February 29, 2012. Their report on the effectiveness of internal control over financial reporting is presented on page F-3 of this Report.

ITEM 9B. OTHER INFORMATION

No matter requires disclosure.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Item 10 is incorporated herein by reference to the definitive Proxy Statement for our 2012 Annual Meeting of Shareholders.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2012 Annual Meeting of Shareholders.

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

The information required by Item 12, as to certain beneficial owners and management, is hereby incorporated by reference to the definitive Proxy Statement for our 2012 Annual Meeting of Shareholders.

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

The information required by Item 13 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2012 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated herein by reference to the definitive Proxy Statement for our 2012 Annual Meeting of Shareholders.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Index to Consolidated Financial Statements of the Company

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

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

(3) Exhibits

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ENNIS, INC.
Date: May 11, 2012	/s/ KEITH S. WALTERS Keith S. Walters, Chairman of the Board, Chief Executive Officer and President
Date: May 11, 2012	/s/ RICHARD L. TRAVIS, JR. Richard L. Travis, Jr. Senior Vice President Finance and CFO

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

Date: May 11, 2012	/s/ KEITH S. WALTERS Keith S. Walters, Chairman of the Board, Chief Executive Officer and President
Date: May 11, 2012	/s/ IRSHAD AHMAD Irshad Ahmad, Vice President Apparel Division and Chief Technology Officer and Director
Date: May 11, 2012	/s/ FRANK D. BRACKEN Frank D. Bracken, Director
Date: May 11, 2012	/s/ GODFREY M. LONG, JR. Godfrey M. Long, Jr., Director
Date: May 11, 2012	/s/ THOMAS R. PRICE Thomas R. Price, Director
Date: May 11, 2012	/s/ KENNETH G. PRITCHETT Kenneth G. Pritchett, Director
Date: May 11, 2012	/s/ ALEJANDRO QUIROZ Alejandro Quiroz, Director
Date: May 11, 2012	/s/ MICHAEL J. SCHAEFER Michael J. Schaefer, Director
Date: May 11, 2012	/s/ JAMES C. TAYLOR James C. Taylor, Director
Date: May 11, 2012	/s/ RICHARD L. TRAVIS, JR. Richard L. Travis, Jr., Principal Financial and Accounting Officer

ENNIS, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Ennis, Inc.

We have audited the accompanying consolidated balance sheets of Ennis, Inc. (a Texas corporation) and subsidiaries (the Company) as of February 29, 2012 and February 28, 2011, and the related consolidated statements of earnings, changes in shareholders equity and comprehensive income, and cash flows for each of the three years in the period ended February 29, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ennis, Inc. and subsidiaries as of February 29, 2012 and February 28, 2011, and the results of its operations and its cash flows for each of the three years in the period ended February 29, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of February 29, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO*)* and our report dated May 11, 2012 expressed an unqualified opinion on the effectiveness of Ennis, Inc. and subsidiaries internal control over financial reporting.

/s/ Grant Thornton LLP

Dallas, Texas
May 11, 2012

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Ennis, Inc.

We have audited Ennis Inc. (a Texas corporation) and subsidiaries internal control over financial reporting as of February 29, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ennis Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Ennis Inc. and subsidiaries internal control over financial reporting based on our audit. Our audit of, and opinion on, Ennis Inc. and subsidiaries internal control over financial reporting does not include internal control over financial reporting of PrintXcel and Printegra Corporation, wholly owned subsidiaries, whose combined financial statements reflect total assets and revenues constituting approximately 8 and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended February 29, 2012. As indicated in Management s Report, the assets of PrintXcel and Printegra Corporation were acquired on February 10, 2012 and therefore, management s assertion on the effectiveness of Ennis Inc. and subsidiaries internal control over financial reporting excluded internal control over financial reporting of PrintXcel and Printegra Corporation.

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

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

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

In our opinion, Ennis Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 29, 2012, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ennis, Inc. and subsidiaries as of February 29, 2012 and February 28, 2011 and the related consolidated statements of earnings, changes in shareholders equity and comprehensive income, and cash flows for each of the three years in the period ended February 29, 2012, and our report dated May 11, 2012 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Dallas, Texas
May 11, 2012

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	Fiscal Years Ended 2012	Fiscal Years Ended 2011
Assets		
Current assets		
Cash	$ 10,410	$ 12,305
Accounts receivable, net of allowance for doubtful receivables of $4,403 at February 29, 2012 and $4,814 at February 28, 2011	58,790	58,359
Prepaid expenses	8,091	5,335
Prepaid income taxes	3,854	
Inventories	132,572	100,363
Deferred income taxes	5,493	6,036
Total current assets	219,210	182,398
Property, plant and equipment, at cost		
Plant, machinery and equipment	153,818	156,356
Land and buildings	80,020	73,482
Other	22,997	22,646
Total property, plant and equipment	256,835	252,484
Less accumulated depreciation	157,319	158,823
Net property, plant and equipment	99,516	93,661
Goodwill	121,634	117,341
Trademarks and tradenames, net	63,473	58,765
Customer lists, net	23,188	17,547
Deferred finance charges, net	671	648
Other assets	4,270	3,368
Total assets	$ 531,962	$ 473,728

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)

	Fiscal Years Ended 2012	2011
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 27,924	$ 18,868
Accrued expenses		
Employee compensation and benefits	16,087	16,503
Taxes other than income	547	585
Income taxes payable	1,183	2,935
Other	4,500	7,621
Current installments of long-term debt		586
Total current liabilities	50,241	47,098
Long-term debt	90,000	50,000
Liability for pension benefits	7,494	2,048
Deferred income taxes	23,029	25,379
Other liabilities	1,323	1,520
Total liabilities	172,087	126,045
Commitments and contingencies		
Shareholders equity		
Preferred stock $10 par value, authorized 1,000,000 shares; none issued		
Common stock $2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares in 2012 and 2011	75,134	75,134
Additional paid in capital	121,390	121,306
Retained earnings	249,862	234,636
Accumulated other comprehensive income (loss):		
Foreign currency translation, net of taxes	1,022	1,727
Unrealized loss on derivative instruments, net of taxes		(372)
Minimum pension liability, net of taxes	(13,807)	(9,803)
Total accumulated other comprehensive income (loss)	(12,785)	(8,448)
Treasury stock		
Cost of 4,129,668 shares in 2012 and 4,197,567 shares in 2011	(73,726)	(74,945)
Total shareholders equity	359,875	347,683
Total liabilities and shareholders equity	$ 531,962	$ 473,728

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)

	Fiscal Years Ended 2012	2011	2010
Net sales	$ 517,014	$ 549,999	$ 517,738
Cost of goods sold	386,501	395,501	382,419
Gross profit margin	130,513	154,498	135,319
Selling, general and administrative	78,962	83,678	76,738
Gain from disposal of assets	(137)	(1)	(1)
Income from operations	51,688	70,821	58,582
Other expense			
Interest expense	(2,285)	(1,234)	(2,627)
Other, net	(23)	(170)	(286)
	(2,308)	(1,404)	(2,913)
Earnings before income taxes	49,380	69,417	55,669
Provision for income taxes	18,022	24,786	20,463
Net earnings	$ 31,358	$ 44,631	$ 35,206
Weighted average common shares outstanding			
Basic	25,946,107	25,855,129	25,768,632
Diluted	25,967,677	25,887,995	25,796,553
Per share amounts			
Net earnings - basic	$ 1.21	$ 1.73	$ 1.37
Net earnings - diluted	$ 1.21	$ 1.72	$ 1.36
Cash dividends per share	$ 0.62	$ 0.62	$ 0.62

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE FISCAL YEARS ENDED 2010, 2011, AND 2012

ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND

COMPREHENSIVE INCOME FOR THE FISCAL YEARS ENDED 2010, 2011, AND 2012

(Dollars in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Total
Balance March 1, 2009	30,053,443	$ 75,134	$ 122,448	$ 186,857	$ (14,510)	(4,336,557)	$ (77,923)	$ 292,006
Net earnings				35,206				35,206
Foreign currency translation, net of deferred tax of $754					1,283			1,283
Unrealized gain on derivative instruments, net of deferred tax of $137					233			233
Adjustment to pension, net of deferred tax of $158					(269)			(269)
Comprehensive income								36,453
Dividends declared ($.62 per share)				(16,001)				(16,001)
Excess tax benefit of stock option exercises and restricted stock grants			101					101
Stock based compensation			1,079					1,079
Exercise of stock options and restricted stock grants			(1,650)			93,034	1,758	108
Stock repurchases						(48,557)	(486)	(486)
Balance February 28, 2010	30,053,443	$ 75,134	$ 121,978	$ 206,062	$ (13,263)	(4,292,080)	$ (76,651)	$ 313,260
Net earnings				44,631				44,631
Foreign currency translation, net of deferred tax of $811					1,460			1,460
Unrealized gain on derivative instruments, net of deferred tax benefit of $434					782			782
Adjustment to pension, net of deferred tax of $1,429					2,573			2,573
Comprehensive income								49,446
Dividends declared ($.62 per share)				(16,057)				(16,057)
Excess tax benefit of stock option exercises and restricted stock grants			(49)					(49)
Stock based compensation			982					982
Exercise of stock options and restricted stock grants			(1,605)			94,604	1,708	103
Stock repurchases						(91)	(2)	(2)

Balance February 28, 2011	30,053,443	$ 75,134	$ 121,306	$ 234,636	$ (8,448)	(4,197,567)	$ (74,945)	$ 347,683
Net earnings				31,358				31,358
Foreign currency translation, net of deferred tax of $(436)					(705)			(705)
Unrealized gain on derivative instruments, net of deferred tax benefit of $230					372			372
Adjustment to pension, net of deferred tax of $(2,476)					(4,004)			(4,004)
Comprehensive income								27,021
Dividends declared ($.62 per share)				(16,132)				(16,132)
Excess tax benefit of stock option exercises and restricted stock grants			63					63
Stock based compensation			1,025					1,025
Exercise of stock options and restricted stock grants			(1,004)			67,999	1,221	217
Stock repurchases						(100)	(2)	(2)
Balance February 29, 2012	30,053,443	$ 75,134	$ 121,390	$ 249,862	$ (12,785)	(4,129,668)	$ (73,726)	$ 359,875

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Fiscal Years Ended		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net earnings	$ 31,358	$ 44,631	$ 35,206
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	9,521	8,066	8,976
Amortization of deferred finance charges	432	432	438
Amortization of other intangible assets	2,431	2,399	2,403
Gain from disposal of assets	(137)	(1)	(1)
Bad debt expense	144	1,952	2,182
Stock based compensation	1,025	982	1,079
Excess tax benefit of stock based compensation	(63)	49	(101)
Deferred income taxes	(2,022)	4,365	2,705
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	7,951	(1,643)	(1,614)
Prepaid expenses	(6,134)	1,718	1,867
Inventories	(21,809)	(23,753)	27,096
Other current assets	564	(717)	409
Other assets	(68)	90	(3,927)
Accounts payable and accrued expenses	135	(3,945)	6,177
Other liabilities	(197)	652	(203)
Prepaid pension asset/liability for pension benefits	1,442	(2,511)	(125)
Net cash provided by operating activities	24,573	32,766	82,567
Cash flows from investing activities:			
Capital expenditures	(5,087)	(33,753)	(20,280)
Purchase of businesses, net of cash acquired	(45,956)	(2,237)	
Proceeds from disposal of plant and property	233	5	36
Net cash used in investing activities	(50,810)	(35,985)	(20,244)
Cash flows from financing activities:			
Borrowings on debt	40,000	10,000	
Repayment of debt			(34,210)
Deferred financing charges	(455)		
Dividends	(16,132)	(16,057)	(16,001)
Purchase of treasury stock	(2)	(2)	(486)
Proceeds from exercise of stock options	217	103	108
Excess tax benefit of stock based compensation	63	(49)	101
Net cash provided by (used in) financing activities	23,691	(6,005)	(50,488)
Effect of exchange rate changes on cash	651	466	(58)
Net change in cash	(1,895)	(8,758)	11,777
Cash at beginning of period	12,305	21,063	9,286

Cash at end of period	$ 10,410	$ 12,305	$ 21,063

See accompanying notes to consolidated financial statements.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies and General Matters

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

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company s fiscal years ended on the following days: February 29, 2012, February 28, 2011 and February 28, 2010 (fiscal years ended 2012, 2011, and 2010, respectively).

Accounts Receivable. Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date. The Company s allowance for doubtful receivables reserve is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer credit worthiness, and (iii) review of customer receivable aging and payment trends.

Inventories. With the exception of approximately one sixth of its print segment inventories, which are valued at the lower of last-in, first-out (LIFO) cost or market, the Company values its inventories at the lower of first in, first out (FIFO) cost or market. At fiscal years ended 2012 and 2011, approximately 3.12% and 4.15% of inventories, respectively, are valued at LIFO with the remainder of inventories valued at FIFO. The Company regularly reviews inventories on hand, using specific aging categories, and writes down the carrying value of its inventories for excess and potentially obsolete inventories based on historical usage and estimated future usage. In assessing the ultimate realization of its inventories, the Company is required to make judgments as to future demand requirements. As actual future demand or market conditions may vary from those projected by the Company, adjustments to inventories may be required. The Company provides reserves for excess and obsolete inventory when necessary based upon analysis of quantities on hand, recent sales volumes and reference to market prices. Reserves for excess and obsolete inventory at fiscal years ended 2012 and 2011 were $3.5 million and $2.6 million, respectively.

Property, Plant and Equipment. Depreciation of property, plant and equipment is calculated using the straight-line method over a period considered adequate to amortize the total cost over the useful lives of the assets, which range from 3 to 11 years for plant, machinery and equipment and 10 to 40 years for buildings and improvements. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized and depreciated over the remaining life of the specific property unit. The Company capitalizes all leases that are in substance acquisitions of property.

Goodwill and Other Intangible Assets. Goodwill is the excess of the purchase price paid over the value of net assets of businesses acquired and is not amortized. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets with indefinite lives are not amortized. Goodwill and indefinite-lived intangibles are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the related business unit to its carrying value.

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

Fair Value of Financial Instruments. The carrying amounts of cash, accounts receivables, accounts payable and long-term debt approximate fair value because of the short maturity and/or variable rates associated with these instruments. Derivative financial instruments are recorded at fair value. Refer to Note 8 for additional discussion of fair value measurements.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies and General Matters-continued

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

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

Revenue Recognition. Revenue is generally recognized upon shipment of products. Net sales represent gross sales invoiced to customers, less certain related charges, including sales tax, discounts, returns and other allowances. Returns, discounts and other allowances have historically been insignificant. In some cases and upon customer request, the Company prints and stores custom print product for customer specified future delivery, generally within twelve months. In this case, risk of loss passes to the customer, the customer is invoiced under normal credit terms, and revenue is recognized when manufacturing is complete. Approximately $10.5 million, $10.5 million and $12.4 million of revenue was recognized under these arrangements during fiscal years 2012, 2011, and 2010 respectively.

Advertising Expenses. The Company expenses advertising costs as incurred. Catalog and brochure preparation and printing costs, which are considered direct response advertising, are amortized to expense over the life of the catalog, which typically ranges from three to twelve months. Advertising expense was approximately $1.0 million, $1.3 million, and $1.6 million, during the fiscal years ended 2012, 2011 and 2010, respectively and is included in selling, general and administrative expenses in the Consolidated Statements of Earnings. Included in advertising expense is amortization related to direct response advertising of approximately $436,000, $453,000, and $817,000 for the fiscal years ended 2012, 2011 and 2010, respectively. Unamortized direct advertising costs included in prepaid expenses at fiscal years ended 2012, 2011 and 2010 were approximately $155,000, $99,000, and $104,000, respectively.

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

Earnings Per Share. Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding plus the number of additional shares that would have been outstanding if potentially dilutive securities had been issued, calculated using the treasury stock method. For fiscal years 2012, 2011, and 2010, there were 216,443, 93,700, and 98,950 of options, respectively, not included in the diluted earnings per share computation because their effect was anti-dilutive.

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

Derivative Instruments and Hedging Activities. The Company uses derivative financial instruments to manage its exposures to interest rate fluctuations on its floating debt agreements when the Company deems it prudent to do so. The Company recognizes all derivatives as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures.

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies and General Matters-continued

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

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations in other income (expense), net as incurred. Transaction gains and losses totaled approximately $(81,000), $169,000, and $290,000 for fiscal years ended 2012, 2011 and 2010, respectively.

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

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

Stock Based Compensation. The Company recognizes stock-based compensation expense net of estimated forfeitures (estimated at 4%) over the requisite service period of the individual grants, which generally equals the vesting period. The fair value of all share based awards is estimated on the date of grant. For a further discussion of the impact of stock based compensation on the consolidated financial statements, see Note 11, Stock Option Plan and Stock Based Compensation.

Concentrations of Risk

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

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

(2) Accounts Receivable and Allowance for Doubtful Receivables

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

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

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2012	2011	2010
Balance at beginning of period	$ 4,814	$ 4,446	$ 3,561
Bad debt expense	144	1,952	2,182
Recoveries	109	105	34
Accounts written off	(675)	(1,696)	(1,297)
Foreign currency translation	11	7	(34)
Balance at end of period	$ 4,403	$ 4,814	$ 4,446

(3) Inventories

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

	2012	2011
Raw material	$ 22,217	$ 11,237
Work-in-process	11,194	13,453
Finished goods	99,161	75,673
	$ 132,572	$ 100,363

The excess of current costs at FIFO over LIFO stated values was approximately $5.4 million and $5.6 million at fiscal years ended 2012 and 2011, respectively. There were no significant liquidations of LIFO inventories during the fiscal years ended 2012, 2011 and 2010. Cost includes materials, labor and overhead related to the purchase and production of inventories.

(4) Acquisitions and Disposal

On February 10, 2012, the Company acquired certain assets of PrintXcel and Printegra Corporation (Printegra) for $40.0 million plus assumed trade liabilities. The acquisition was funded by a draw down on the Company s line of credit facility. The combined sales of the purchased operations were $74.4 million during the most recent twelve month period. The acquisition will continue its operations under their respective trade names of PrintXcel and Printegra.

The following is a summary of the preliminary purchase price allocations for PrintXcel and Printegra (in thousands):

Accounts receivable	$ 6,696
Inventories	9,190
Other assets	631

Property, plant & equipment	8,470
Customer lists	7,930
Trademarks	4,840
Patent	773
Goodwill	4,293
Other long-term assets	71
Accounts payable and accrued liabilities	(2,924)
	$ 39,970

ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Acquisitions and Disposal-continued

On September 30, 2011, the Company purchased all of the outstanding stock of PrintGraphics, LLC (PrintGraphics), a privately held company, as well as the associated land and buildings for $6.0 million in cash. PrintGraphics has locations in Vandalia, Ohio and Nevada, Iowa, The sales of the purchased operations were $15.1 million during the twelve month period ended December 31, 2010.

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

Accounts receivable	$ 1,867
Inventories	1,356
Other assets	94
Property, plant & equipment	3,572
Accounts payable and accrued liabilities	(903)
	$ 5,986

The results of operations for PrintXcel, Printegra, and PrintGraphics 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 all companies had been acquired as of March 1, 2010, after the estimated impact of adjustments such as amortization of intangible assets, interest expense, interest income and related tax effects (in thousand except per share amounts):

	Unaudited	
	2012	**2011**
Pro forma net sales	$ 587,316	$ 649,814
Pro forma net earnings	33,933	49,055
Pro forma earnings per share - diluted	1.31	1.89

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

(5) 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 are evaluated for impairment on an annual basis, or more frequently if impairment indicators arise. The Company assesses the recoverability of its definite-lived intangible assets primarily based on its current and anticipated future undiscounted cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Goodwill and Other Intangible Assets-continued

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

As of February 29, 2012	Weighted Average Amortization Period *(in years)*	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (in thousands)				
Tradenames	0.75	$ 1,234	$ 1,139	$ 95
Customer lists	7.21	37,887	14,699	23,188
Noncompete		500	500	
Patent	6.00	773	5	768
Total	7.00	$ 40,394	$ 16,343	$ 24,051
As of February 28, 2011				
Amortized intangible assets (in thousands)				
Tradenames	1.76	$ 1,234	$ 1,007	$ 227
Customer lists	7.46	29,957	12,410	17,547
Noncompete	1.00	500	495	5
Total	7.14	$ 31,691	$ 13,912	$ 17,779

	Fiscal years ended 2012	2011
Non-amortizing intangible assets (in thousands)		
Trademarks	$ 63,378	$ 58,538

Aggregate amortization expense for each of the fiscal years 2012, 2011 and 2010 was approximately $2.4 million.

The Company s estimated amortization expense for the next five years is as follows (in thousands):

2013	$ 3,278
2014	3,180
2015	3,063
2016	3,004
2017	3,004

Changes in the net carrying amount of goodwill for the fiscal years ended are as follows (in thousands):

	Print Segment Total	Apparel Segment Total	Total
Balance as of March 1, 2010	$ 42,792	$ 74,549	$ 117,341
Goodwill acquired			
Goodwill impairment			
Balance as of March 1, 2011	42,792	74,549	117,341
Goodwill acquired	4,293		4,293
Goodwill impairment			
Balance as of February 29, 2012	$ 47,085	$ 74,549	$ 121,634

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) **Other Accrued Expenses**

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

	February 29, 2012	February 28, 2011
Accrued taxes	$ 293	$ 229
Accrued legal and professional fees	852	499
Accrued interest	48	158
Accrued utilities	93	1,038
Accrued repairs and maintenance	775	684
Accrued construction retainage	1,759	2,020
Accrued phantom stock obligation	475	452
Accrued acquisition related obligations	205	243
Other accrued expenses		2,298
	$ 4,500	$ 7,621

(7) Derivative Instruments and Hedging Activities

The Company used derivative financial instruments to manage its exposure to interest rate fluctuations on its floating rate $150.0 million revolving credit facility maturing August 18, 2012. On July 7, 2008, the Company entered into a three-year Interest Rate Swap Agreement (Swap) for a notional amount of $40.0 million which matured on July 22, 2011. The Swap effectively fixed the LIBOR rate at 3.79%.

The Company accounts for its derivatives as cash flow hedges and record them as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures, at which time the changes in fair value would be recorded in Accumulated Other Comprehensive Income. The Swap was designated as a cash flow hedge, and the fair value at February 28, 2011 was $(0.6) million, $(0.4) million, net of deferred taxes. The Swap was reported on the Consolidated Balance Sheet as of February 28, 2011 as current installments of long-term debt with a related deferred charge recorded as a component of other comprehensive income (loss). During fiscal year 2012, the Company incurred an additional $0.6 million in interest expense related to the Swap.

(8) **Fair Value Financial Instruments**

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

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

Level 1 - Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 - Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.

Level 3 - Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Fair Value Financial Instruments-continued

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

The following table summarizes financial liabilities measured at fair value on a recurring basis as of February 28, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands). There were no financial assets or liabilities measured at fair value at February 29, 2012.

Description	February 28, 2011	Fair Value Measurements (Level 1)	(Level 2)	(Level 3)
Derivative liability (Swap)	$ (586)	$	$ (586)	$
	$ (586)	$	$ (586)	$

(9) Long-Term Debt

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

	February 29, 2012	February 28, 2011
Revolving credit facility	$ 90,000	$ 50,000
Interest rate swap		586
Long-term debt	$ 90,000	$ 50,586

On February 22, 2012, the Company entered into the Second Amendment to Second Amended and Restated Credit Agreement (the Facility) with a group of lenders led by Bank of America, N.A. (the Lenders). The Facility provides the Company access to $150.0 million in revolving credit, which the Company may increase to $200.0 million in certain circumstances, and matures on August 16, 2016. The Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.0% to 2.25% (LIBOR + 1.5% or 1.74% at February 29, 2012 and 2.51% at February 28, 2011), depending on the Company s total funded debt to EBITDA ratio, as defined. As of February 29, 2012, the Company had $90.0 million of borrowings under the revolving credit line and $3.5 million outstanding under standby letters of credit arrangements, leaving the Company availability of approximately $56.5 million. The Facility contains financial covenants, restrictions on capital expenditures, acquisitions, asset dispositions, and additional debt, as well as other customary covenants, such as total funded debt to EBITDA ratio, as defined. The Company is in compliance with these covenants as of February 29, 2012. The Facility is secured by substantially all of the Company s domestic assets as well as all capital securities of each Domestic Subsidiary and 65% of all capital securities of each direct Foreign Subsidiary.

The Company capitalized $1.7 million of interest expense for fiscal year 2011 relating to the construction of its apparel manufacturing facility in Agua Prieta, Mexico. There was no interest capitalized for fiscal year 2012 as construction was substantially complete at the beginning of fiscal year 2012.

The Company s long-term debt maturities for the years following February 29, 2012 are as follows (in thousands):

	Debt
2013	$
2014	
2015	
2016	
2017	90,000
	$ 90,000

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Shareholders Equity

On October 20, 2008, the Board of Directors authorized the repurchase of up to $5.0 million of the common stock through a stock repurchase program. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice. There have been a total of 96,000 shares of common stock that have been purchased under the repurchase program since its inception at an average price per share of $10.45. Unrelated to the stock repurchase program, the Company purchased 100 and 91 shares of common stock during the fiscal years ended February 29, 2012 and February 28, 2011, respectively.

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

(11) Stock Option Plan and Stock Based Compensation

The Company grants stock options and restricted stock to key executives and managerial employees and non-employee directors. At fiscal year ended 2012, the Company has one stock option plan: the 2004 Long-Term Incentive Plan of Ennis, Inc., as amended and restated as of June 30, 2011, formerly the 1998 Option and Restricted Stock Plan amended and restated as of May 14, 2008 (Plan). The Company has 1,100,354 shares of unissued common stock reserved under the plan for issuance to officers and directors, and supervisory employees of the Company and its subsidiaries. The exercise price of each stock option granted equals the quoted market price of the Company s common stock on the date of grant, and an option s maximum term is ten years. Stock options and restricted stock may be granted at different times during the year and vest ratably over various periods, from grant date up to five years. The Company uses treasury stock to satisfy option exercises and restricted stock awards.

The Company recognizes compensation expense for stock options and restricted stock grants on a straight-line basis over the requisite service period. For the years ended 2012, 2011 and 2010, the Company included in selling, general and administrative expenses, compensation expense related to share based compensation of $1,025,000 ($651,000 net of tax), $982,000 ($624,000 net of tax) and $1,079,000 ($680,000 net of tax), respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan and Stock Based Compensation-continued

Stock Options

The Company had the following stock option activity for the three years ended February 29, 2012:

	Number of Shares *(exact quantity)*	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life** *(in years)*	**Aggregate Intrinsic Value(a)** *(in thousands)*
Outstanding at March 1, 2009	318,563	$ 10.98	2.4	
Granted	105,000	8.94		
Terminated	(115,000)	8.69		
Exercised	(58,363)	7.06		
Outstanding at February 28, 2010	250,200	$ 12.09	6.0	
Granted	62,500	18.46		
Terminated	(11,300)	10.18		
Exercised	(39,500)	7.99		
Outstanding at February 28, 2011	261,900	$ 14.31	6.5	$ 757
Granted	82,743	17.57		
Terminated	(2,500)	8.94		
Exercised	(31,950)	10.68		
Outstanding at February 29, 2012	310,193	$ 15.60	6.6	$ 626
Exercisable at February 29, 2012	140,782	$ 15.71	4.5	$ 274

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

The following is a summary of the assumptions used and the weighted average grant-date fair value of the stock options granted during fiscal years ended 2012, 2011 and 2010:

	2012	**2011**	**2010**
Expected volatility	43.76%	34.63%	32.35%
Expected term (years)	3	3	4
Risk free interest rate	1.16%	1.58%	2.01%

Dividend yield	3.66%	4.24%	4.74%
Weighted average grant-date fair value	$ 4.24	$ 3.35	$ 1.58

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

	Fiscal years ended		
	2012	**2011**	**2010**
Total cash received	$ 217	$ 103	$ 108
Income tax (expense) benefit	63	(49)	101
Total grant-date fair value	54	38	42
Intrinsic value	200	339	408

ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan and Stock Based Compensation-continued

A summary of the status of the company s unvested stock options at February 29, 2012, and changes during the fiscal year ended February 29, 2012 are presented below:

	Number of Options	Weighted Average Grant Date Fair Value
Unvested at February 28, 2011	133,750	$ 2.41
New grants	82,743	4.24
Vested	(44,582)	2.41
Forfeited	(2,500)	1.58
Unvested at February 29, 2012	169,411	$ 3.31

As of February 29, 2012, there was $358,000 of unrecognized compensation cost related to unvested stock options granted under the Plan. The weighted average remaining requisite service period of the unvested stock options was 1.6 years. The total fair value of shares underlying the options vested during the fiscal year ended February 29, 2012 was $747,000.

The following table summarizes information about stock options outstanding at the end of fiscal year 2012:

	Options Outstanding			**Options Exercisable**	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.9400 to $11.6700	75,250	6.9	$ 9.08	30,250	$ 9.28
13.2800 to 16.4200	58,500	2.4	15.94	58,500	15.94
17.5700 to 19.6900	176,443	7.9	18.26	52,032	19.20
	310,193	6.6	15.60	140,782	15.71

Restricted Stock

The Company had the following restricted stock grants activity for the three fiscal years ended February 29, 2012:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at March 1, 2009	103,091	$ 19.33

Granted	44,800		8.94
Terminated			
Vested	(56,421)		17.48
Outstanding at February 28, 2010	91,470	$	15.38
Granted	57,655		17.34
Terminated	(268)		15.49
Vested	(68,034)		16.79
Outstanding at February 28, 2011	80,823	$	15.59
Granted	93,959		17.57
Terminated			
Vested	(43,449)		15.34
Outstanding at February 29, 2012	131,333	$	17.09

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Stock Option Plan and Stock Based Compensation-continued

As of February 29, 2012, 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 1.8 years. As of February 29, 2012, the Company s outstanding restricted stock had an underlying fair value at date of grant of $2.2 million.

(12) Employee Benefit Plans

The Company and certain subsidiaries have a noncontributory defined benefit retirement plan covering approximately 10% of their employees. Benefits are based on years of service and the employee s average compensation for the highest five compensation years preceding retirement or termination. The Company s funding policy is to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

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

	2012	2011
Equity securities	52%	52%
Debt securities	39%	41%
Cash and cash equivalents	9%	7%
Total	100%	100%

The current asset allocation is being managed to meet the Company s stated objective of asset growth and capital preservation. The factor is based upon the combined judgments of the Company s Administrative Committee and its investment advisors to meet the Company s investment needs, objectives, and risk tolerance. The Company s target asset allocation percentage, by asset class, for the year ended February 29, 2012 is as follows:

Asset Class	Target Allocation Percentage
Cash	2 - 5%
Fixed Income	43 - 53%
Equity	45 - 55%

The Company estimates the long-term rate of return on plan assets will be 8.0% based upon target asset allocation. Expected returns are developed based upon the information obtained from the Company s investment advisors. The advisors provide ten-year historical and five-year expected returns on the fund in the target asset allocation. The return information is weighted based upon the asset allocation at the end of the fiscal year. The expected rate of return at the beginning of the fiscal year ended 2012 was 8.0%, the rate used in the calculation of the current year pension expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Employee Benefit Plans-continued

The following tables presents the Plan s fair value hierarchy for those assets measured at fair value as of February 29, 2012 and 2011 (in thousands):

Description	Assets Measured at Fair Value at 2/29/12	Fair Value Measurements (Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	$ 3,746	$ 3,746	$	$
Government bonds	9,938		9,938	
Corporate bonds	6,441		6,441	
Domestic equities	19,107	19,107		
Foreign equities	2,770	2,770		
	$ 42,002	$ 25,623	$ 16,379	$

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Employee Benefit Plans-continued

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

	2012	2011	2010
Components of net periodic benefit cost			
Service cost	$ 1,214	$ 1,214	$ 1,138
Interest cost	2,523	2,618	2,741
Expected return on plan assets	(3,214)	(3,062)	(2,423)
Amortization of:			
Prior service cost	(145)	(145)	(145)
Unrecognized net loss	1,262	1,344	1,698
Net periodic benefit cost	1,640	1,969	3,009
Other changes in Plan Assets and Projected Benefit Obligation			
Recognized in Other comprehensive Income			
Net actuarial loss (gain)	7,923	(2,854)	1,688
Amortization of net actuarial loss	(1,262)	(1,344)	(1,698)
Amortization of prior service credit	145	145	145
	6,806	(4,053)	135
Total recognized in net periodic pension cost and other comprehensive income	$ 8,446	$ (2,084)	$ 3,144

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

	2012	2011	2010
Weighted average discount rate (net periodic pension cost)	5.85%	6.05%	7.15%
Earnings progression (net periodic pension cost)	3.00%	3.00%	3.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%
Weighted average discount rate (benefit obligations)	5.05%	5.85%	6.05%
Earnings progression (benefit obligations)	3.00%	3.00%	3.00%

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

	2012	2011
Change in benefit obligation		

Projected benefit obligation at beginning of year	$ 43,638	$ 46,254
Service cost	1,214	1,214
Interest cost	2,523	2,618
Actuarial (gain)/loss	6,229	(865)
Benefits paid	(4,108)	(5,583)
Projected benefit obligation at end of year	$ 49,496	$ 43,638
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 41,590	$ 39,122
Company contributions	3,000	3,000
Gains on plan assets	1,520	5,051
Benefits paid	(4,108)	(5,583)
Fair value of plan assets at end of year	$ 42,002	$ 41,590
Funded status (benefit obligation less plan assets)	$ (7,494)	$ (2,048)
Accumulated benefit obligation at end of year	$ 44,997	$ 39,785

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Employee Benefit Plans-continued

The measurement dates used to determine pension and other postretirement benefits is the Company s fiscal year end. The Company expects to contribute from $2.0 million to $3.0 million during fiscal year 2013.

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

Year	Projected Payments
2013	$ 3,500
2014	3,800
2015	4,000
2016	4,200
2017	4,500
2018 - 2022	16,000

Effective February 1, 1994, the Company adopted a Defined Contribution 401(k) Plan (the 401(k) Plan) for its United States employees. The 401(k) Plan covers substantially all full-time employees who have completed sixty days of service and attained the age of eighteen. United States employees can contribute up to 100 percent of their annual compensation, but are limited to the maximum annual dollar amount allowable under the Internal Revenue Code. The 401(k) Plan provides for employer matching contributions or discretionary employer contributions for certain employees not enrolled in the pension plan for employees of the Company. Eligibility for employer contributions, matching percentage, and limitations depends on the participant s employment location and whether the employees are covered by the Company s pension plan, etc. The Company s matching contributions are immediately vested. The Company made matching 401(k) contributions in the amount of $576,000, $376,000 and $313,000 in fiscal years ended 2012, 2011 and 2010, respectively.

In addition, the Northstar Computer Forms, Inc. 401(k) Profit Sharing Plan was merged into the 401(k) Plan on February 1, 2001. The Company declared profit sharing contributions on behalf of the former employees of Northstar Computer Forms, Inc. in accordance with its original plan in the amounts of $268,000, $289,000, and $306,000, in fiscal years ended 2012, 2011 and 2010, respectively.

(13) Income Taxes

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

	2012	2011	2010
Current:			
Federal	$ 12,650	$ 18,167	$ 16,357
State and local	2,575	3,535	3,104
Foreign	1,985	866	857
Total current	17,210	22,568	20,318
Deferred:			
Federal	794	2,085	223
State and local	18	133	71

Foreign			(149)
Total deferred	812	2,218	145
Total provision for income taxes	$ 18,022	$ 24,786	$ 20,463

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Income Taxes-continued

The Company s effective tax rate on earnings from operations for the year ended February 29, 2012, was 36.5%, as compared with a 35.7% and 36.8% in 2011 and 2010, respectively. The following summary reconciles the statutory U.S. Federal income tax rate to the Company s effective tax rate for the fiscal years ended:

	2012	2011	2010
Statutory rate	35.0%	35.0%	35.0%
Provision for state income taxes, net of Federal income tax benefit	3.5	3.1	3.7
Domestic production activities deduction	(2.6)	(3.0)	(2.0)
Other	0.6	0.6	0.1
	36.5%	35.7%	36.8%

Included in other assets on the balance sheet is approximately $2,800,000 of refund receivable related to amended Canadian tax returns for 2006-2008.

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

	2012	2011
Current deferred tax assets related to:		
Allowance for doubtful receivables	$ 1,683	$ 1,833
Inventories	1,952	1,910
Employee compensation and benefits	1,667	1,942
Other	191	351
	$ 5,493	$ 6,036
Noncurrent deferred tax liability (asset) related to:		
Property, plant and equipment	$ 4,362	$ 4,940
Goodwill and other intangible assets	22,280	21,527
Pension and noncurrent employee compensation benefits	(4,101)	(1,955)
Net operating loss and foreign tax credits	(285)	(315)
Property tax	506	881
Interest rate swap		(225)
Currency exchange	633	567
Stock options exercised	(382)	(303)
Valuation allowance		247

Other	16	15
	$ 23,029	$ 25,379

The Company maintained a valuation allowance of approximately $250,000 to adjust the basis of net deferred taxes as of February 28, 2011. In fiscal year 2012, the Company determined it would be able to utilize certain credits and carry forwards and released the valuation reserve. Included in other non-current deferred tax liability (asset) are currency exchange, stock options exercised, and the valuation allowance. The Company has federal net operating loss carry forwards of approximately $681,000 and state net operating loss carry forwards of approximately $937,000 expiring in fiscal years 2019 through 2031. Based on historical earnings, management believes it will be able to fully utilize the net operating loss carry forwards.

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

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Income Taxes-continued

Unrecognized tax benefits, including accrued interest and penalties, at fiscal year end 2012 and 2011 of $95,000 and $163,000, respectively, related to uncertain tax positions are included in other liabilities on the consolidated balance sheets and would impact the effective rate if recognized. For fiscal year 2012, the unrecognized tax benefit includes an aggregate of $6,000 of interest expense. Approximately $32,000 of unrecognized tax benefits relate to items that are affected by expiring statutes of limitations within the next 12 months. A reconciliation of the change in the unrecognized tax benefits for fiscal years ended 2012 and 2011 is as follows (in thousands):

	2012	2011
Balance at beginning of year	$ 141	$ 147
Additions (reductions) based on tax positions related to the current year	243	43
Reductions due to lapses of statutes of limitations	(47)	(49)
Balance at end of year	$ 337	$ 141

The Company is subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The Company has concluded all U.S. federal income tax matters for years through 2007. All material state and local income tax matters have been concluded for years through 2006 and foreign tax jurisdictions through 2008.

The Company recognizes interest expense on underpayments of income taxes and accrued penalties related to unrecognized non-current tax benefits as part of the income tax provision. Other than amounts included in the unrecognized tax benefits, the Company did not recognize any interest or penalties for the fiscal years ended 2012, 2011 and 2010.

(14) 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 fiscal years ended:

	2012	2011	2010
Basic weighted average common shares outstanding	25,946,107	25,855,129	25,768,632
Effect of dilutive options	21,570	32,866	27,921
Diluted weighted average common shares outstanding	25,967,677	25,887,995	25,796,553
Per share amounts:			
Net earnings basic	$ 1.21	$ 1.73	$ 1.37
Net earnings diluted	$ 1.21	$ 1.72	$ 1.36

Cash dividends	$ 0.62	$ 0.62	$ 0.62

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

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Segment Information and Geographic Information

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

The Print Segment, which represented 54% of the Company s consolidated net sales for fiscal year 2012, 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 50 manufacturing locations throughout the United States in 20 strategically located domestic states. Approximately 97% of the business products manufactured by the Print Segment are custom and semi-custom, constructed in a wide variety of sizes, colors, number of parts and quantities on an individual job basis depending upon the customers specifications.

The products sold include snap sets, continuous forms, laser cut sheets, tags, labels, envelopes, integrated products, jumbo rolls and pressure sensitive products in short, medium and long runs under the following labels: Ennis®, Royal Business Forms®, Block Graphics®, Specialized Printed Forms®, 360º Custom Labels℠, Enfusion®, Uncompromised Check Solutions®, VersaSeal®, Witt Printing®, B&D Litho®, Genforms®, PrintGraphics℠, Calibrated Forms®, PrintXcel and Printegra®. 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); Atlas Tag & Label® (which provides tags and labels); Trade Envelopes® and Block Graphics® (which provide custom and imprinted envelopes) and Northstar® and General Financial Supply® (which provide financial and security documents).

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

The Apparel Segment, which accounted for 46% of the Company s fiscal year 2012 consolidated net sales, consists of Alstyle Apparel. This group is primarily engaged in the production and sale of activewear including t-shirts, fleece goods, and other wearables. Alstyle sales are seasonal, with sales in the first and second quarters generally being the highest. Substantially all of the Apparel Segment sales are to customers in the United States.

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

Segment data for the fiscal years ended 2012, 2011 and 2010 were as follows (in thousands):

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
Fiscal year ended February 29, 2012:				
Net sales	$ 277,988	$ 239,026	$	$ 517,014
Depreciation	5,129	3,979	413	9,521
Amortization of identifiable intangibles	964	1,467		2,431
Segment earnings (loss) before income tax	46,238	19,345	(16,203)	49,380
Segment assets	178,504	335,540	17,918	531,962
Capital expenditures	1,958	3,091	38	5,087

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Segment Information and Geographic Information-continued

	Print Segment	Apparel Segment	Corporate	Consolidated Totals
Fiscal year ended February 28, 2011:				
Net sales	$ 272,689	$ 277,310	$	$ 549,999
Depreciation	5,396	1,943	727	8,066
Amortization of identifiable intangibles	933	1,466		2,399
Segment earnings (loss) before income tax	46,002	42,611	(19,196)	69,417
Segment assets	136,255	321,908	15,565	473,728
Capital expenditures	2,176	31,549	28	33,753
Fiscal year ended February 28, 2010:				
Net sales	$ 282,308	$ 235,430	$	$ 517,738
Depreciation	5,970	2,168	838	8,976
Amortization of identifiable intangibles	937	1,466		2,403
Segment earnings (loss) before income tax	46,047	24,778	(15,156)	55,669
Segment assets	140,734	270,680	21,285	432,699
Capital expenditures	2,522	17,661	97	20,280

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

	United States	Canada	Mexico	Total
2012				
Net sales to unaffiliated customers				
Print Segment	$ 277,988	$	$	$ 277,988
Apparel Segment	219,687	18,377	962	239,026
	$ 497,675	$ 18,377	$ 962	$ 517,014
Identifiable long-lived assets				
Print Segment	$ 44,712	$	$	44,712
Apparel Segment	196	29	51,062	51,287
Corporate	3,517			3,517
	$ 48,425	$ 29	$ 51,062	$ 99,516
2011				
Net sales to unaffiliated customers				
Print Segment	$ 272,689	$	$	$ 272,689
Apparel Segment	253,172	22,227	1,911	277,310
	$ 525,861	$ 22,227	$ 1,911	$ 549,999

Identifiable long-lived assets							
Print Segment	$	35,867	$		$		35,867
Apparel Segment		1,901		33		51,968	53,902
Corporate		3,892					3,892
	$	41,660	$	33	$	51,968	$ 93,661

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Segment Information and Geographic Information-continued

	United States	Canada	Mexico	Total
2010				
Net sales to unaffiliated customers				
Print Segment	$ 282,308	$	$	$ 282,308
Apparel Segment	217,442	15,183	2,805	235,430
	$ 499,750	$ 15,183	$ 2,805	$ 517,738
Identifiable long-lived assets				
Print Segment	$ 37,984	$	$	37,984
Apparel Segment	9,508	33	13,602	23,143
Corporate	4,593			4,593
	$ 52,085	$ 33	$ 13,602	$ 65,720

(16) Commitments and Contingencies

The Company leases certain of its facilities under operating leases that expire on various dates through fiscal year ended 2018. Future minimum lease commitments under non-cancelable operating leases for each of the fiscal years ending are as follows (in thousands):

	Operating Lease Commitments
2013	$ 5,407
2014	4,017
2015	2,380
2016	1,806
2017	781
Thereafter	493
	$ 14,884

Rent expense attributable to such leases totaled $7.5 million, $9.0 million, and $9.3 million for the fiscal years ended 2012, 2011 and 2010, respectively.

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

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

(17) Supplemental Cash Flow Information

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

	2012	2011	2010
Interest paid	$ 2,395	$ 4,686	$ 2,921
Income taxes paid	$ 23,346	$ 20,143	$ 15,539

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Quarterly Consolidated Financial Information (Unaudited)

The following table represents the unaudited quarterly financial data of the Company for fiscal years ended 2012 and 2011 (in thousands, except per share amounts and quarter over quarter comparison):

For the Three Months Ended	May 31	August 31	November 30	February 29
Fiscal year ended 2012:				
Net sales	$ 143,258	$ 130,384	$ 121,846	$ 121,526
Gross profit margin	39,701	34,094	30,183	26,535
Net earnings	11,424	9,712	6,892	3,330
Dividends paid	4,020	4,038	4,035	4,039
Per share of common stock:				
Basic net earnings	$ 0.44	$ 0.37	$ 0.27	$ 0.13
Diluted net earnings	$ 0.44	$ 0.37	$ 0.27	$ 0.13
Dividends	$ 0.155	$ 0.155	$ 0.155	$ 0.155
Fiscal year ended 2011:				
Net sales	$ 140,741	$ 143,034	$ 134,817	$ 131,407
Gross profit margin	42,180	39,708	36,519	36,091
Net earnings	13,040	12,129	9,643	9,819
Dividends paid	4,006	4,017	4,017	4,017
Per share of common stock:				
Basic net earnings	$ 0.51	$ 0.47	$ 0.37	$ 0.38
Diluted net earnings	$ 0.50	$ 0.47	$ 0.37	$ 0.38
Dividends	$ 0.155	$ 0.155	$ 0.155	$ 0.155

Current Quarter Compared to Same Quarter Last Year

In each quarters for fiscal year ended February 29, 2012, the Company s net sales and gross profit margin (margin) decreased in comparison to the previous quarter, primarily as a result of the Apparel segment operations. The primary reason for the decrease in Apparel sales throughout the period was as a result of softness in the market and continued pricing pressures. The primary reason for the decrease in Apparel margins throughout the period was due to higher input costs, primarily cotton.

(19) Concentrations of Risk

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

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

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ENNIS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) Concentrations of Risk-continued

For the purposes of the consolidated statements of cash flows, the Company considers cash to include cash on hand and in bank accounts. All funds in a Non interest-bearing transaction account are insured in full by the Federal Deposit Insurance Corporation (FDIC) from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC s general deposit insurance rules. Currently all of the Company s domestic cash balances meet these criteria. At February 29, 2012, the Company had $0.6 million in Canadian and $1.2 million in Mexican bank accounts.

(20) Subsequent Events

On March 30, 2012, the Company declared a quarterly cash dividend of 17 $^1/2$ cents a share on its common stock. The dividend was paid May 1, 2012 to shareholders of record on April 16, 2012. May 1, 2012 also has been set as the record date for shareholders entitled to notice of and to vote at the Annual Meeting of Shareholders to be held on June 28, 2012.

On April 23, 2012, the Company issued a press release announcing that its Board of Directors had authorized an additional $5.0 million to be allocated to the Company s stock repurchase program. With this addition, the Company will have approximately $9.0 million available for share repurchases. Under the repurchase program, shares may be purchased from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

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INDEX TO EXHIBITS

Exhibit Number	Description of Document
Exhibit 3.1(a)	Restated Articles of Incorporation as amended through June 23, 1983 with attached amendments dated June 20, 1985, July 31, 1985 and June 16, 1988 incorporated herein by reference to Exhibit 5 to the Registrant s Annual Report on Form 10-K for the fiscal year ended February 28, 1993.
Exhibit 3.1(b)	Amendment to articles of Incorporation dated June 17, 2004 incorporated herein incorporated herein by reference to Exhibit 3.1(b) to the Registrant s Annual Report on Form 10-K for the fiscal year ended February 28, 2007.
Exhibit 3.2(a)	Bylaws of the Registrant as amended through October 15, 1997 incorporated herein by reference to Exhibit 3(ii) to the Registrant s Quarterly Report on Form 10-Q for the quarter ended November 30, 1997.
Exhibit 3.2(b)	First amendment to Bylaws of the Registrant dated December 20, 2007 incorporated herein by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on December 20, 2007.
Exhibit 10.1	Second Amendment to Second Amended and Restated Credit Agreement between Ennis, Inc., each of the other co-borrowers who are parties, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Regions Bank, as Syndication Agent, Comerica Bank, as Documentation Agent and the other lenders who are parties, dated as of February 22, 2012 herein incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K filed on February 23, 2012.
Exhibit 21	Subsidiaries of Registrant
Exhibit 23	Consent of Independent Registered Public Accounting Firm
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) (Chief Executive Officer)
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) (Chief Financial Officer)
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	The following information from Ennis, Inc. s Annual Report on Form 10-K for the year ended February 29, 2012, filed on May 11, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements, tagged as block of text and in detail.*

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.