

AMERICAN GREETINGS CORP

Form 10-Q

October 05, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended August 26, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-13859**

**AMERICAN GREETINGS CORPORATION**

(Exact name of registrant as specified in its charter)

**Ohio**

**34-0065325**

(State or other jurisdiction of incorporation or organization)

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

**One American Road, Cleveland, Ohio**

**44144**

(Address of principal executive offices)

(Zip Code)

**(216) 252-7300**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes  No

As of October 3, 2011, the number of shares outstanding of each of the issuer's classes of common stock was:

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Class A Common	37,116,563
Class B Common	2,781,131

---

**AMERICAN GREETINGS CORPORATION  
INDEX**

	<b>Page Number</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	27
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	27
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6. Exhibits</u>	29
<b><u>SIGNATURES</u></b>	30
<b><u>EXHIBITS</u></b>	
<u>EX-31.A</u>	
<u>EX-31.B</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

---

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**AMERICAN GREETINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Thousands of dollars except share and per share amounts)

	(Unaudited)			
	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
Net sales	\$ 359,741	\$ 333,339	\$ 756,517	\$ 725,444
Other revenue	9,052	9,480	14,625	13,683
<b>Total revenue</b>	<b>368,793</b>	<b>342,819</b>	<b>771,142</b>	<b>739,127</b>
Material, labor and other production costs	158,198	145,713	316,127	303,726
Selling, distribution and marketing expenses	125,089	112,318	248,381	229,869
Administrative and general expenses	60,926	62,193	126,224	128,225
Other operating income net	(5,122)	(936)	(6,045)	(1,530)
<b>Operating income</b>	<b>29,702</b>	<b>23,531</b>	<b>86,455</b>	<b>78,837</b>
Interest expense	5,763	6,718	11,887	12,920
Interest income	(310)	(197)	(631)	(410)
Other non-operating income net	(704)	(3)	(544)	(1,703)
<b>Income before income tax expense</b>	<b>24,953</b>	<b>17,013</b>	<b>75,743</b>	<b>68,030</b>
Income tax expense	10,477	8,481	28,674	28,659
<b>Net income</b>	<b>\$ 14,476</b>	<b>\$ 8,532</b>	<b>\$ 47,069</b>	<b>\$ 39,371</b>
Earnings per share basic	\$ 0.36	\$ 0.21	\$ 1.16	\$ 0.99
Earnings per share assuming dilution	\$ 0.35	\$ 0.21	\$ 1.12	\$ 0.96
Average number of shares outstanding	40,696,961	40,026,649	40,598,659	39,832,609
Average number of shares outstanding assuming dilution	41,688,787	40,875,329	41,842,760	40,861,761
Dividends declared per share	\$ 0.15	\$ 0.14	\$ 0.30	\$ 0.28

See notes to consolidated financial statements (unaudited).

**Table of Contents**

**AMERICAN GREETINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(Thousands of dollars)

	(Unaudited) August 26, 2011	(Note 1) February 28, 2011	(Unaudited) August 27, 2010
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 209,326	\$ 215,838	\$ 133,834
Trade accounts receivable, net	111,691	119,779	89,408
Inventories	248,805	179,730	189,366
Deferred and refundable income taxes	45,029	50,051	61,742
Assets held for sale	5,282	7,154	13,711
Prepaid expenses and other	110,598	128,372	113,112
Total current assets	730,731	700,924	601,173
Goodwill	29,044	28,903	29,929
Other assets	430,344	436,137	413,808
Deferred and refundable income taxes	129,594	124,789	153,775
Property, plant and equipment at cost	872,455	849,552	845,497
Less accumulated depreciation	620,875	607,903	607,215
Property, plant and equipment net	251,580	241,649	238,282
	\$ 1,571,293	\$ 1,532,402	\$ 1,436,967
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities			
Accounts payable	\$ 118,162	\$ 87,105	\$ 88,668
Accrued liabilities	56,056	58,841	59,283
Accrued compensation and benefits	47,916	72,379	48,287
Income taxes payable	15,812	10,951	23,052
Other current liabilities	97,602	102,286	87,872
Total current liabilities	335,548	331,562	307,162
Long-term debt	233,970	232,688	231,525
Other liabilities	184,259	187,505	190,457
Deferred income taxes and noncurrent income taxes payable	32,740	31,736	32,194
Shareholders equity			
Common shares Class A	37,561	37,470	37,137

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Common shares Class B	2,781	2,937	2,923
Capital in excess of par value	507,256	492,048	482,035
Treasury stock	(962,747)	(952,206)	(951,682)
Accumulated other comprehensive income (loss)	764	(2,346)	(30,815)
Retained earnings	1,199,161	1,171,008	1,136,031
Total shareholders equity	784,776	748,911	675,629
	\$ 1,571,293	\$ 1,532,402	\$ 1,436,967

See notes to consolidated financial statements (unaudited).

4

---

**Table of Contents**

**AMERICAN GREETINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Thousands of dollars)

	(Unaudited)	
	Six Months Ended	
	August 26, 2011	August 27, 2010
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 47,069	\$ 39,371
Adjustments to reconcile net income to cash flows from operating activities:		
Stock-based compensation	5,362	6,261
Net gain on dispositions	(4,500)	(254)
Net gain on disposal of fixed assets	(484)	(1,268)
Depreciation and intangible assets amortization	19,986	20,463
Deferred income taxes	4,039	10,618
Other non-cash charges	1,814	1,949
Changes in operating assets and liabilities, net of acquisitions:		
Trade accounts receivable	12,829	44,279
Inventories	(64,515)	(24,908)
Other current assets	4,258	(2,169)
Income taxes	2,785	15,125
Deferred costs net	16,400	27,905
Accounts payable and other liabilities	(8,751)	(54,639)
Other net	(63)	5,814
<b>Total Cash Flows From Operating Activities</b>	<b>36,229</b>	<b>88,547</b>
<b>INVESTING ACTIVITIES:</b>		
Property, plant and equipment additions	(26,951)	(14,128)
Cash payments for business acquisitions, net of cash acquired	(5,992)	
Proceeds from sale of fixed assets	2,567	2,997
Proceeds from escrow related to party goods transaction		25,151
Proceeds from sale of intellectual properties	4,500	
<b>Total Cash Flows From Investing Activities</b>	<b>(25,876)</b>	<b>14,020</b>
<b>FINANCING ACTIVITIES:</b>		
Net decrease in long-term debt		(98,250)
Net decrease in short-term debt		(1,000)
Sale of stock under benefit plans	12,222	16,540
Excess tax benefits from share-based payment awards	2,370	2,485
Purchase of treasury shares	(20,791)	(13,052)
Dividends to shareholders	(12,176)	(11,127)
Debt issuance costs		(2,917)
<b>Total Cash Flows From Financing Activities</b>	<b>(18,375)</b>	<b>(107,321)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>1,510</b>	<b>639</b>



DECREASE IN CASH AND CASH EQUIVALENTS	(6,512)	(4,115)
Cash and Cash Equivalents at Beginning of Year	215,838	137,949
Cash and Cash Equivalents at End of Period	\$ 209,326	\$ 133,834

See notes to consolidated financial statements (unaudited).

5

---

**Table of Contents**

**AMERICAN GREETINGS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Three and Six Months Ended August 26, 2011 and August 27, 2010**

**Note 1 Basis of Presentation**

The accompanying unaudited consolidated financial statements of American Greetings Corporation and its subsidiaries (the Corporation) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present financial position, results of operations and cash flows for the periods have been included.

The Corporation's fiscal year ends on February 28 or 29. References to a particular year refer to the fiscal year ending in February of that year. For example, 2011 refers to the year ended February 28, 2011.

These interim financial statements should be read in conjunction with the Corporation's financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended February 28, 2011, from which the Consolidated Statement of Financial Position at February 28, 2011, presented herein, has been derived. Certain amounts in the prior year financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no material impact on financial position, earnings or cash flows.

The Corporation's investments in less than majority-owned companies in which it has the ability to exercise significant influence over the operation and financial policies are accounted for using the equity method except when they qualify as variable interest entities (VIE) and the Corporation is the primary beneficiary, in which case, the investments are consolidated. Investments that do not meet the above criteria are accounted for under the cost method.

The Corporation holds an approximately 15% equity interest in Schurman Fine Papers (Schurman), which is a VIE as defined in Accounting Standards Codification (ASC) topic 810, (ASC 810) Consolidation. Schurman owns and operates specialty card and gift retail stores in the United States and Canada. The stores are primarily located in malls and strip shopping centers. During the current period, the Corporation assessed the variable interests in Schurman and determined that a third party holder of variable interests has the controlling financial interest in the VIE and thus, the third party, not the Corporation, is the primary beneficiary. In completing this assessment, the Corporation identified the activities that it considers most significant to the future economic success of the VIE and determined that it does not have the power to direct those activities. As such, Schurman is not consolidated in the Corporation's results. The Corporation's maximum exposure to loss as it relates to Schurman as of August 26, 2011 includes:

- the investment in the equity of Schurman of \$1.9 million;
- the Liquidity Guaranty of Schurman's indebtedness of \$12 million;
- normal course of business trade accounts receivable due from Schurman of \$12.6 million, the balance of which fluctuates throughout the year due to the seasonal nature of the business;
- the operating leases currently subleased to Schurman, the aggregate lease payments for the remaining life of which was \$28.5 million, \$36.0 million and \$43.3 million as of August 26, 2011, February 28, 2011 and August 27, 2010, respectively;
- the subordinated credit facility (the Subordinated Credit Facility) that provides Schurman with up to \$10 million of subordinated financing.

The Corporation provides Schurman limited credit support through the provision of a Liquidity Guaranty in favor of the lenders under Schurman's senior revolving credit facility (the Senior Credit Facility). Pursuant to the terms of the Liquidity Guaranty, the Corporation has guaranteed the repayment of up to \$12 million of Schurman's borrowings under the Senior Credit Facility to help ensure that Schurman has sufficient borrowing availability under

**Table of Contents**

this facility. The Liquidity Guaranty is required to be backed by a letter of credit for the term of the Liquidity Guaranty, which is currently anticipated to end in January 2014. The Corporation's obligations under the Liquidity Guaranty generally may not be triggered unless Schurman's lenders under its Senior Credit Facility have substantially completed the liquidation of the collateral under Schurman's Senior Credit Facility, or 91 days after the liquidation is started, whichever is earlier, and will be limited to the deficiency, if any, between the amount owed and the amount collected in connection with the liquidation. There was no triggering event or liquidation of collateral as of August 26, 2011 requiring the use of the guaranty.

The Subordinated Credit Facility that the Corporation provides to Schurman had an initial term of nineteen months expiring on November 17, 2010, however, unless either party provides the appropriate written notice prior to the expiration of the applicable term, the facility automatically renews for periods of one year, except in the case of the last renewal, in which case the facility can only renew for the partial year ending on the facility's expiration date of June 25, 2013. Schurman can only borrow under the facility if it does not have other sources of financing available, and borrowings under the Subordinated Credit Facility may only be used for specified purposes. Borrowings under the Subordinated Credit Facility are subordinate to borrowings under the Senior Credit Facility, and the Subordinated Credit Facility includes affirmative and negative non-financial covenants and events of default customary for such financings. As of August 26, 2011, the facility was in its first annual renewal and Schurman had not borrowed under the Subordinated Credit Facility.

The April 2009 transaction with Schurman also included a \$12 million limited Bridge Guaranty in favor of the lenders under the Senior Credit Facility, which remained in effect until Schurman was able to include inventory and other assets of the retail stores it acquired from the Corporation in its borrowing base. As previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended February 28, 2011, on April 1, 2011, the Bridge Guaranty was terminated.

In addition to the investment in the equity of Schurman, as previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended February 28, 2011, the Corporation holds an investment in the common stock of AAH Holdings Corporation, Amscan's ultimate parent corporation. These two investments, totaling approximately \$12.5 million, are accounted for under the cost method. The Corporation is not aware of any events or changes in circumstances that had occurred during the six months ended August 26, 2011 that the Corporation believes are reasonably likely to have had a significant adverse effect on the carrying amount of these investments.

**Note 2 Seasonal Nature of Business**

A significant portion of the Corporation's business is seasonal in nature. Therefore, the results of operations for interim periods are not necessarily indicative of the results for the fiscal year taken as a whole.

**Note 3 Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-06 ("ASU 2010-06"), Improving Disclosures about Fair Value Measurements. ASU 2010-06 provides amendments to ASC Topic 820, Fair Value Measurements and Disclosures, that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements in addition to the presentation of purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 also provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation, and inputs and valuation techniques. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements, which become effective for interim and annual periods beginning after December 15, 2010. The Corporation's adoption of this standard did not have a material effect on its financial statements.

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04"), Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 improves comparability of fair value measurements presented and disclosed in financial statements prepared with U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement

**Table of Contents**

requirements including (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, and (3) quantitative information required for fair value measurements categorized within Level 3. ASU 2011-04 also provides guidance on measuring the fair value of financial instruments managed within a portfolio, and application of premiums and discounts in a fair value measurement. In addition, ASU 2011-04 requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The amendments in this guidance are to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The Corporation does not expect that the adoption of this standard will have a material effect on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05 (ASU 2011-05), Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity, and requires the presentation of components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. ASU 2011-05 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2011. The Corporation does not expect the adoption of this standard will have a material impact on its results of operations and financial condition, but it will affect how the Corporation presents its other comprehensive income.

**Note 4 Acquisitions**

Continuing the strategy of focusing on growing its core greeting card business, on March 1, 2011, the Corporation's European subsidiary, UK Greetings Ltd., acquired Watermark Publishing Limited and its wholly owned subsidiary Watermark Packaging Limited (Watermark). Watermark is a privately held company located in Corby, England, and is considered a leader in the United Kingdom in the innovation and design of greeting cards. Under the terms of the transaction, the Corporation acquired 100% of the equity interests of Watermark for approximately \$17.1 million in cash. Cash paid for Watermark, net of cash acquired, was approximately \$6.0 million and is reflected in investing activities in the Consolidated Statement of Cash Flows.

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based upon their estimated fair values at the date of the acquisition. The estimated purchase price allocation is preliminary and subject to revision as valuation work is still being conducted. The following represents the preliminary purchase price allocation:

Purchase price (in millions):	
Cash paid	\$ 17.1
Cash acquired	(11.1)
	\$ 6.0
Allocation (in millions):	
Current assets	\$ 8.7
Property, plant and equipment	0.4
Intangible assets	2.7
Goodwill	1.4
Liabilities assumed	(7.2)
	\$ 6.0

The financial results of this acquisition are included in the Corporation's consolidated results from the date of acquisition. Pro forma results of operations have not been presented because the effect of this acquisition was not deemed material. The Watermark business is included in the Corporation's International Social Expression Products segment.



**Table of Contents****Note 5 Expenses Associated with Royalty Revenue**

The Corporation has agreements for licensing the Care Bears and Strawberry Shortcake characters and other intellectual property. These license agreements provide for royalty revenue to the Corporation, which is recorded in Other revenue. These license agreements may include the receipt of upfront advances, which are recorded as deferred revenue and earned during the period of the agreement. Expenses associated with the servicing of these agreements, primarily relating to the licensing activities included in non-reportable segments, are summarized as follows:

	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
<b>(In thousands)</b>				
Material, labor and other production costs	\$ 2,566	\$ 3,083	\$ 4,992	\$ 5,148
Selling, distribution and marketing expenses	3,379	4,295	4,724	5,724
Administrative and general expenses	472	422	861	855
	\$ 6,417	\$ 7,800	\$ 10,577	\$ 11,727

**Note 6 Other Income and Expense**

	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
<b>(In thousands)</b>				
Gain on sale of intellectual properties	\$ (4,500)	\$	\$ (4,500)	\$
Miscellaneous	(622)	(936)	(1,545)	(1,530)
Other operating income net	\$ (5,122)	\$ (936)	\$ (6,045)	\$ (1,530)

In June 2011, the Corporation sold certain minor character properties and recognized a gain of \$4.5 million. The proceeds of \$4.5 million were included in Proceeds from sale of intellectual properties on the Consolidated Statement of Cash Flows.

	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
<b>(In thousands)</b>				
Foreign exchange loss	\$ 152	\$ 1,441	\$ 869	\$ 388
Rental income	(268)	(235)	(739)	(761)
Gain on asset disposal	(570)	(1,117)	(484)	(1,268)
Miscellaneous	(18)	(92)	(190)	(62)
Other non-operating income net	\$ (704)	\$ (3)	\$ (544)	\$ (1,703)

Miscellaneous includes, among other things, income/loss from equity securities.

In June 2011, the Corporation sold the land, building and certain equipment associated with a distribution facility in the International Social Expression Products segment that were previously included in Assets held for sale on the Consolidated Statement of Financial Position and recorded a gain of approximately \$0.5 million. The cash proceeds of approximately \$2.4 million received from the sale of the assets are included in Proceeds from sale of fixed assets on the Consolidated Statement of Cash Flows.

In August 2010, the Corporation sold the land and building associated with its Mexican operations that were previously included in *Assets held for sale* on the Consolidated Statement of Financial Position and recorded a gain of approximately \$1.0 million. The cash proceeds of \$2.0 million received from the sale of the Mexican assets are included in *Proceeds from sale of fixed assets* on the Consolidated Statement of Cash Flows.

**Table of Contents****Note 7 Earnings Per Share**

The following table sets forth the computation of earnings per share and earnings per share - assuming dilution:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August</b>	<b>August</b>	<b>August</b>	<b>August</b>
	<b>26,</b>	<b>27,</b>	<b>26,</b>	<b>27,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Numerator (in thousands):</b>				
Net income	\$ 14,476	\$ 8,532	\$ 47,069	\$ 39,371
<b>Denominator (in thousands):</b>				
Weighted average shares outstanding	40,697	40,027	40,599	39,833
Effect of dilutive securities:				
Stock options and awards	992	848	1,244	1,029
Weighted average shares outstanding assuming dilution	41,689	40,875	41,843	40,862
Earnings per share	\$ 0.36	\$ 0.21	\$ 1.16	\$ 0.99
Earnings per share assuming dilution	\$ 0.35	\$ 0.21	\$ 1.12	\$ 0.96

Certain stock options were excluded from the computation of earnings per share assuming dilution because the options exercise prices were greater than the average market price of the common shares. The stock options excluded from the computation of earnings per share-assuming dilution were approximately 2.5 million and 2.2 million in the three and six month periods ended August 26, 2011, respectively (3.7 million and 3.2 million in the three and six month periods ended August 27, 2010, respectively).

The Corporation issued approximately 0.2 million Class A common shares upon exercise of employee stock options and vesting of equity awards during the three months ended August 26, 2011 (0.1 million Class A common shares in the three months ended August 27, 2010). The Corporation issued approximately 0.7 million and 0.3 million Class A and Class B common shares, respectively, upon exercise of employee stock options and vesting of equity awards during the six months ended August 26, 2011 (0.9 million and 0.2 million Class A and Class B common shares, respectively, in the six months ended August 27, 2010).

**Note 8 Comprehensive Income**

The Corporation's total comprehensive income is as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August</b>	<b>August</b>	<b>August</b>	<b>August</b>
	<b>26,</b>	<b>27,</b>	<b>26,</b>	<b>27,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>(In thousands)</b>				
Net income	\$ 14,476	\$ 8,532	\$ 47,069	\$ 39,371
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,444)	10,082	3,038	1,084
Pension and postretirement benefit adjustments, net of tax	87	(639)	71	(2,084)



Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Unrealized (loss) gain on securities, net of tax		(1)	1	
Total comprehensive income	\$ 13,119	\$ 17,974	\$ 50,179	\$ 38,371

10

---

**Table of Contents****Note 9 Customer Allowances and Discounts**

Trade accounts receivable is reported net of certain allowances and discounts. The most significant of these are as follows:

<b>(In thousands)</b>	<b>August 26, 2011</b>	<b>February 28, 2011</b>	<b>August 27, 2010</b>
Allowance for seasonal sales returns	\$ 25,015	\$ 34,058	\$ 21,450
Allowance for outdated products	13,405	8,264	10,249
Allowance for doubtful accounts	7,579	5,374	3,336
Allowance for cooperative advertising and marketing funds	31,477	25,631	25,259
Allowance for rebates	29,537	24,920	20,573
	<b>\$ 107,013</b>	<b>\$ 98,247</b>	<b>\$ 80,867</b>

Certain customer allowances and discounts are settled in cash. These accounts, primarily rebates, which are classified as Accrued liabilities on the Consolidated Statement of Financial Position, totaled \$13.1 million, \$11.9 million and \$12.8 million as of August 26, 2011, February 28, 2011 and August 27, 2010, respectively.

**Note 10 Inventories**

<b>(In thousands)</b>	<b>August 26, 2011</b>	<b>February 28, 2011</b>	<b>August 27, 2010</b>
Raw materials	\$ 23,906	\$ 21,248	\$ 17,651
Work in process	12,875	6,476	10,982
Finished products	272,948	212,056	219,265
	309,729	239,780	247,898
Less LIFO reserve	80,356	78,358	75,781
	229,373	161,422	172,117
Display materials and factory supplies	19,432	18,308	17,249
	<b>\$ 248,805</b>	<b>\$ 179,730</b>	<b>\$ 189,366</b>

The valuation of inventory under the Last-In, First-Out ( LIFO ) method is made at the end of each fiscal year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations, by necessity, are based on estimates of expected fiscal year-end inventory levels and costs, and are subject to final fiscal year-end LIFO inventory calculations.

Inventory held on location for retailers with scan-based trading arrangements, which is included in finished products, totaled \$51.3 million, \$42.1 million and \$36.7 million as of August 26, 2011, February 28, 2011 and August 27, 2010, respectively.

**Note 11 Deferred Costs**

Deferred costs and future payment commitments for retail supply agreements are included in the following financial statement captions:

<b>(In thousands)</b>	<b>August 26, 2011</b>	<b>February 28, 2011</b>	<b>August 27, 2010</b>
Prepaid expenses and other	\$ 75,016	\$ 88,352	\$ 73,624
Other assets	316,099	327,311	295,902

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Deferred cost assets	391,115	415,663	369,526
Other current liabilities	(63,846)	(64,116)	(53,802)
Other liabilities	(68,323)	(76,301)	(55,405)
Deferred cost liabilities	(132,169)	(140,417)	(109,207)
Net deferred costs	\$ 258,946	\$ 275,246	\$ 260,319

**Table of Contents**

The Corporation maintains an allowance for deferred costs related to supply agreements of \$10.3 million, \$10.7 million and \$11.6 million at August 26, 2011, February 28, 2011 and August 27, 2010, respectively. This allowance is included in Other assets in the Consolidated Statement of Financial Position.

**Note 12 Deferred Revenue**

Deferred revenue, included in Other current liabilities and Other liabilities on the Consolidated Statement of Financial Position, totaled \$33.6 million, \$39.4 million and \$34.0 million at August 26, 2011, February 28, 2011 and August 27, 2010, respectively. The amounts relate primarily to subscription revenue in the Corporation's AG Interactive segment and the licensing activities included in non-reportable segments.

**Note 13 Debt**

As of August 26, 2011, the Corporation was party to an amended and restated \$350 million secured credit agreement and to an amended and restated receivables purchase agreement that has available financing of up to \$80 million. On September 21, 2011, the amended and restated receivables purchase agreement was further amended to decrease the amount of available financing under the agreement from \$80 million to \$70 million. Also, on September 21, 2011, the liquidity commitments under the receivables purchase agreement were renewed for an additional 364-day period. There were no balances outstanding under the Corporation's credit facility or receivables purchase agreement at August 26, 2011, February 28, 2011 and August 27, 2010. The Corporation had, in the aggregate, \$31.8 million outstanding under letters of credit under these borrowing agreements, which reduces the total credit available to the Corporation thereunder.

There was no debt due within one year as of August 26, 2011, February 28, 2011 and August 27, 2010.

Long-term debt and their related calendar year due dates, net of unamortized discounts which totaled \$20.9 million, \$22.2 million and \$23.3 million as of August 26, 2011, February 28, 2011 and August 27, 2010, respectively, were as follows:

<b>(In thousands)</b>	<b>August 26, 2011</b>	<b>February 28, 2011</b>	<b>August 27, 2010</b>
7.375% senior notes, due 2016	\$ 213,593	\$ 213,077	\$ 212,609
7.375% notes, due 2016	20,196	19,430	18,735
6.10% senior notes, due 2028	181	181	181
	\$ 233,970	\$ 232,688	\$ 231,525

The total fair value of the Corporation's publicly traded debt, based on quoted market prices, was \$237.8 million (at a carrying value of \$234.0 million), \$237.5 million (at a carrying value of \$232.7 million) and \$231.3 million (at a carrying value of \$231.5 million) at August 26, 2011, February 28, 2011 and August 27, 2010, respectively.

At August 26, 2011, the Corporation was in compliance with the financial covenants under its borrowing agreements.

**Table of Contents****Note 14 Retirement Benefits**

The components of periodic benefit cost for the Corporation's defined benefit pension and postretirement benefit plans are as follows:

	<b>Defined Benefit Pension</b>			
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
<b>(In thousands)</b>	<b>August</b>	<b>August</b>	<b>August</b>	<b>August</b>
	<b>26,</b>	<b>27,</b>	<b>26,</b>	<b>27,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Service cost	\$ 211	\$ 250	\$ 415	\$ 501
Interest cost	2,145	2,206	4,291	4,418
Expected return on plan assets	(1,671)	(1,654)	(3,343)	(3,314)
Amortization of prior service cost	64	44	123	88
Amortization of actuarial loss	558	524	1,127	1,050
	<b>\$ 1,307</b>	<b>\$ 1,370</b>	<b>\$ 2,613</b>	<b>\$ 2,743</b>
	<b>Postretirement Benefit</b>			
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
<b>(In thousands)</b>	<b>August</b>	<b>August</b>	<b>August</b>	<b>August</b>
	<b>26,</b>	<b>27,</b>	<b>26,</b>	<b>27,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Service cost	\$ 362	\$ 575	\$ 725	\$ 1,150
Interest cost	1,210	1,550	2,420	3,100
Expected return on plan assets	(1,097)	(1,125)	(2,195)	(2,250)
Amortization of prior service credit	(637)	(1,850)	(1,275)	(3,700)
Amortization of actuarial loss		250		500
	<b>\$ (162)</b>	<b>\$ (600)</b>	<b>\$ (325)</b>	<b>\$ (1,200)</b>

The Corporation has a discretionary profit-sharing plan with a 401(k) provision covering most of its United States employees. The profit-sharing plan expense for the six months ended August 26, 2011 was \$5.2 million, compared to \$4.5 million in the prior year period. The Corporation also matches a portion of 401(k) employee contributions. The expenses recognized for the three and six month periods ended August 26, 2011 were \$1.2 million and \$2.6 million (\$1.0 million and \$2.1 million for the three and six month periods ended August 27, 2010), respectively. The profit-sharing plan and 401(k) matching expenses for the six month periods are estimates as actual contributions are determined after fiscal year-end.

At August 26, 2011, February 28, 2011 and August 27, 2010, the liability for postretirement benefits other than pensions was \$27.9 million, \$24.1 million and \$49.2 million, respectively, and is included in Other liabilities on the Consolidated Statement of Financial Position. At August 26, 2011, February 28, 2011 and August 27, 2010, the long-term liability for pension benefits was \$60.0 million, \$60.1 million and \$58.9 million, respectively, and is included in Other liabilities on the Consolidated Statement of Financial Position.

**Note 15 Fair Value Measurements**

Assets and liabilities measured at fair value are classified using the fair value hierarchy based upon the transparency of inputs as of the measurement date. The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. The three levels are defined as follows:

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities.

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Valuation is based upon unobservable inputs that are significant to the fair value measurement.

**Table of Contents**

The following table shows the Corporation's assets and liabilities measured at fair value as of August 26, 2011:

	<b>August 26, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets measured on a recurring basis:				
Active employees' medical plan trust assets	\$ 3,296	\$ 3,296	\$	\$
Deferred compensation plan assets (1)	8,251	8,251		
<b>Total</b>	<b>\$ 11,547</b>	<b>\$ 11,547</b>	<b>\$</b>	<b>\$</b>
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,282	\$	\$ 5,282	\$
<b>Total</b>	<b>\$ 5,282</b>	<b>\$</b>	<b>\$ 5,282</b>	<b>\$</b>

The following table shows the Corporation's assets and liabilities measured at fair value as of February 28, 2011:

	<b>February 28, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets measured on a recurring basis:				
Active employees' medical plan trust assets	\$ 3,223	\$ 3,223	\$	\$
Deferred compensation plan assets (1)	6,871	6,871		
<b>Total</b>	<b>\$ 10,094</b>	<b>\$ 10,094</b>	<b>\$</b>	<b>\$</b>
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,282	\$	\$ 5,282	\$
<b>Total</b>	<b>\$ 5,282</b>	<b>\$</b>	<b>\$ 5,282</b>	<b>\$</b>

The following table shows the Corporation's assets and liabilities measured at fair value as of August 27, 2010:

	<b>August 27, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets measured on a recurring basis:				
Active employees' medical plan trust assets	\$ 4,118	\$ 4,118	\$	\$
Deferred compensation plan assets (1)	5,662	5,662		
<b>Total</b>	<b>\$ 9,780</b>	<b>\$ 9,780</b>	<b>\$</b>	<b>\$</b>
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,557	\$	\$ 5,557	\$
<b>Total</b>	<b>\$ 5,557</b>	<b>\$</b>	<b>\$ 5,557</b>	<b>\$</b>

(1) There is an offsetting liability for the obligation to its employees on the Corporation's books.

The fair value of the investments in the active employees' medical plan trust was considered a Level 1 valuation as it is based on the quoted market value per share of each individual security investment in an active market.

The deferred compensation plan includes mutual fund assets. Assets held in mutual funds were recorded at fair value, which was considered a Level 1 valuation as it is based on each fund's quoted market value per share in an active market. Although the Corporation is under no obligation to fund employees' non-qualified accounts, the fair value of the related non-qualified deferred compensation liability is based on the fair value of the mutual fund.



**Table of Contents**

Certain assets are measured at fair value on a nonrecurring basis and are subject to fair value adjustments only in certain circumstances. During the fourth quarter of 2010, assets held for sale relating to the Corporation's party goods product lines, including land and buildings, were written down to fair value of \$5.9 million, less cost to sell of \$0.3 million, or \$5.6 million. During the fourth quarter of 2011, these assets were subsequently re-measured and an additional impairment charge of \$0.3 million was recorded. Re-assessment in the current period indicated no change to the fair value of these assets. The fair value of the assets held for sale was considered a Level 2 valuation as it was based on observable selling prices for similar assets that were sold within the past twelve to eighteen months. The assets included in Assets held for sale are expected to sell within one year.

**Note 16 Income Taxes**

The Corporation's provision for income taxes in interim periods is computed by applying its estimated annual effective tax rate against income before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur. The magnitude of the impact that discrete items have on the Corporation's quarterly effective tax rate is dependent on the level of income in the period. The effective tax rate was 42.0% and 37.9% for the three and six months ended August 26, 2011, respectively, and 49.9% and 42.1% for the three and six months ended August 27, 2010, respectively. The higher than statutory rate in the current period is due to an increase in estimated accruals and settlements associated with anticipated settlements related to open years which are currently under Internal Revenue Service examination. In the prior year, the higher than statutory rate was due primarily to the impact of unfavorable settlements of audits in foreign jurisdictions, the release of insurance reserves that generated taxable income and the recognition of the deferred tax effects of the reduced deductibility of the postretirements prescription drug coverage due to the enacted U.S. Patient Protection and Affordability Care Act.

At February 28, 2011, the Corporation had unrecognized tax benefits of \$43.3 million that, if recognized, would have a favorable effect on the Corporation's income tax expense of \$32.8 million. There were no significant changes to this amount during the six months ended August 26, 2011. It is reasonably possible that the Corporation's unrecognized tax positions as of February 28, 2011 could decrease approximately \$9.5 million during 2012 due to anticipated settlements and resulting cash payments related to open years after 1996, which are currently under examination.

The Corporation recognizes interest and penalties accrued on unrecognized tax benefits and refundable income taxes as a component of income tax expense. During the six months ended August 26, 2011, the Corporation recognized net expense of \$3.1 million for interest and penalties on unrecognized tax benefits and refundable income taxes. As of August 26, 2011, the total amount of gross accrued interest and penalties related to unrecognized tax benefits less refundable income taxes was a net payable of \$20.0 million.

The Corporation is subject to examination by the U.S. Internal Revenue Service and various U.S. state and local jurisdictions for tax years 1996 to the present. The Corporation is also subject to tax examination in various international tax jurisdictions, including Canada, the United Kingdom, Australia, France, Italy, Mexico and New Zealand for tax years 2006 to the present.

**Note 17 Business Segment Information**

The Corporation has North American Social Expression Products, International Social Expression Products, AG Interactive and non-reportable segments. The North American Social Expression Products and International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution with mass merchandise retailers as the primary channel. AG Interactive distributes social expression products, including electronic greetings and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals, instant messaging services and electronic mobile devices. The Corporation's non-reportable operating segments primarily include licensing activities and the design, manufacture and sale of display fixtures.

During the current year, certain items that were previously considered corporate expenses are now included in the calculation of segment earnings for the North American Social Expression Products segment. This change is the

**Table of Contents**

result of modifications to organizational structures, and is intended to better align the segment financial results with the responsibilities of segment management and the way management evaluates the Corporation's operations. In addition, segment results are now reported using actual foreign exchange rates for the periods presented. Previously, segment results were reported at constant exchange rates to eliminate the impact of foreign currency fluctuations. Prior year segment results have been presented to be consistent with the current methodologies.

(In thousands)	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
<b>Total Revenue:</b>				
North American Social Expression Products	\$ 262,944	\$ 252,158	\$ 566,280	\$ 560,467
International Social Expression Products	75,891	54,736	146,096	112,309
AG Interactive	16,177	18,167	32,786	36,721
Non-reportable segments	13,781	17,758	25,980	29,630
	\$ 368,793	\$ 342,819	\$ 771,142	\$ 739,127
<b>Segment Earnings (Loss):</b>				
North American Social Expression Products	\$ 25,699	\$ 28,627	\$ 84,993	\$ 92,690
International Social Expression Products	2,468	1,325	5,771	4,159
AG Interactive	4,597	2,886	7,233	5,258
Non-reportable segments	10,493	3,317	15,099	5,469
Unallocated				
Interest expense	(5,748)	(6,700)	(11,855)	(12,888)
Profit sharing expense	(1,543)	(921)	(5,230)	(4,451)
Stock-based compensation expense	(2,700)	(3,611)	(5,362)	(6,261)
Corporate overhead expense	(8,313)	(7,910)	(14,906)	(15,946)
	(18,304)	(19,142)	(37,353)	(39,546)
	\$ 24,953	\$ 17,013	\$ 75,743	\$ 68,030

Corporate overhead expense includes costs associated with corporate operations including, among other costs, senior management, corporate finance, legal and insurance programs.

**Termination Benefits**

Termination benefits are primarily considered part of an ongoing benefit arrangement, accounted for in accordance with ASC Topic 712, Compensation - Nonretirement Postemployment Benefits, and are recorded when payment of the benefits is probable and can be reasonably estimated.

The balance of the severance accrual was \$4.2 million, \$8.0 million and \$9.0 million at August 26, 2011, February 28, 2011 and August 27, 2010, respectively. The payments expected within the next twelve months are included in

Accrued liabilities while the remaining payments beyond the next twelve months are included in Other liabilities on the Consolidated Statement of Financial Position.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited consolidated financial statements. This discussion and analysis, and other statements made in this Report, contain forward-looking statements, see Factors That May Affect Future Results at the end of this discussion and analysis for a description of the uncertainties, risks and assumptions associated with these statements. Unless otherwise indicated or the context otherwise requires, the Corporation, we, our, us and American Greetings used in this Report to refer to the businesses of American Greetings Corporation and its consolidated subsidiaries.

**Overview**

We reported diluted earnings per share of \$0.35 for the second quarter, on an increase to revenues of \$26.0 million, or 7.6%, and an increase to operating income of \$6.2 million, or 26.2%, compared to the prior year period. The higher revenues were driven by higher net sales of greeting cards and the impact of favorable foreign currency translation. The increase in greeting card net sales was driven by additional distribution with existing customers in the International Social Expression Products segment and North American Social Expression Products segment, as well as the acquisition of Watermark Publishing Limited ( Watermark ) during the current year first quarter. Partially offsetting these favorable items were lower revenues from our fixtures business and on-line advertising.

Operating income in the current year quarter benefited from a \$4.5 million gain on the sale of certain minor characters in our intellectual property portfolio. In addition, the prior year second quarter included approximately \$5 million of expenses related to the integration of Papyrus-Recycled Greetings, Inc. ( PRG ) that did not recur in the current year period. Compared to the prior year quarter, operating income was favorably impacted by the increased revenue, but unfavorably impacted by costs associated with the rollout of additional distribution in both our North American Social Expression Products segment and our International Social Expression Products segment.

**Results of Operations*****Three months ended August 26, 2011 and August 27, 2010***

Net income was \$14.5 million, or \$0.35 per share, in the second quarter compared to net income of \$8.5 million, or \$0.21 per share, in the prior year second quarter (all per-share amounts assume dilution).

Our results for the three months ended August 26, 2011 and August 27, 2010 are summarized below:

<b>(Dollars in thousands)</b>	<b>2011</b>	<b>% Total Revenue</b>	<b>2010</b>	<b>% Total Revenue</b>
Net sales	\$ 359,741	97.5%	\$ 333,339	97.2%
Other revenue	9,052	2.5%	9,480	2.8%
<b>Total revenue</b>	<b>368,793</b>	<b>100.0%</b>	<b>342,819</b>	<b>100.0%</b>
Material, labor and other production costs	158,198	42.9%	145,713	42.5%
Selling, distribution and marketing expenses	125,089	33.9%	112,318	32.8%
Administrative and general expenses	60,926	16.5%	62,193	18.1%
Other operating income net	(5,122)	(1.4%)	(936)	(0.3%)
<b>Operating income</b>	<b>29,702</b>	<b>8.1%</b>	<b>23,531</b>	<b>6.9%</b>
Interest expense	5,763	1.6%	6,718	2.0%
Interest income	(310)	(0.0%)	(197)	(0.1%)
Other non-operating income net	(704)	(0.2%)	(3)	(0.0%)
<b>Income before income tax expense</b>	<b>24,953</b>	<b>6.7%</b>	<b>17,013</b>	<b>5.0%</b>
Income tax expense	10,477	2.8%	8,481	2.5%

Net income	\$ 14,476	3.9%	\$ 8,532	2.5%
	17			

---

**Table of Contents**

For the three months ended August 26, 2011, consolidated net sales were \$359.7 million, an increase of \$26.4 million, or 7.9%, from \$333.3 million in the prior year second quarter. The increase was primarily due to an approximate \$25 million increase in net sales of greeting cards, particularly everyday cards in both our International Social Expression Products segment and our North American Social Expression Products segment, and the impact of approximately \$9 million of favorable foreign currency translation. The increase in card sales was driven by additional distribution with existing customers within both of our segments. Also, the Watermark acquisition favorably impacted net sales by approximately \$7 million in our International Social Expression Products segment. Partially offsetting these increases were decreased sales in our fixtures business of approximately \$4 million, lower net sales in our AG Interactive segment of approximately \$2 million due to lower advertising revenue and the impact of winding down the Photoworks website, and decreased sales of other ancillary products of approximately \$2 million.

**Wholesale Unit and Pricing Analysis for Greeting Cards**

Unit and pricing comparatives (on a sales less returns basis) for the three months ended August 26, 2011 and August 27, 2010 are summarized below:

	<b>Increase (Decrease) From the Prior Year</b>				<b>Total Greeting Cards</b>	
	<b>Everyday Cards</b>		<b>Seasonal Cards</b>		<b>2011</b>	<b>2010</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>		
Unit volume	10.1%	(1.9%)	24.6%	14.2%	12.7%	0.7%
Selling prices	(3.0%)	(2.1%)	(10.4%)	(6.2%)	(4.5%)	(2.8%)
Overall increase / (decrease)	6.8%	(4.0%)	11.6%	7.1%	7.7%	(2.1%)

During the second quarter, combined everyday and seasonal greeting card sales less returns increased 7.7% compared to the prior year quarter, including an increase in unit volume of 12.7% which was partially offset by a decrease in selling prices of 4.5%. The overall increase was driven by unit growth in both our North American Social Expression Products segment and International Social Expression Products segment.

Everyday card sales less returns for the second quarter increased 6.8% with improvements in unit volume of 10.1%. Both of our greeting card segments contributed to the unit volume increases during the second quarter as a result of additional distribution with existing customers. The unit volume improvements within our International Social Expression Products segment were also driven by the Watermark acquisition. Partially offsetting the strong unit performance are decreases in selling prices of 3.0% as a result of the continued shift to a higher mix of our value line cards.

Seasonal card sales less returns improved 11.6% during the second quarter including 24.6% unit growth partially offset by a 10.4% decline in selling prices. The increase in unit volume during the current year quarter was primarily driven by our Fall, Father's Day and Graduation programs. In addition, since the second quarter has the fewest holidays, the change in unit volume during the quarter appears large on a percentage basis. The decrease in selling prices was driven by the continued shift to a higher mix of value line cards in the period.

**Expense Overview**

Material, labor and other production costs ( MLOPC ) for the three months ended August 26, 2011 were \$158.2 million, compared to \$145.7 million in the prior year three months. As a percentage of total revenue, these costs were 42.9% in the current period compared to 42.5% for the three months ended August 27, 2010. The approximate \$13 million increase in expense was driven by the impact of higher sales volume of approximately \$4 million, increased inventory scrap expense of approximately \$3 million, and higher product related display costs of approximately \$2.0 million. Also, foreign currency translation unfavorably impacted MLOPC by approximately \$4 million.

**Table of Contents**

Selling, distribution and marketing (SDM) expenses for the three months ended August 26, 2011 were \$125.1 million, increasing approximately \$13 million from the prior year second quarter. The increase was driven by a combination of increased supply chain expenses and unfavorable foreign currency translation of approximately \$10 million and \$3 million, respectively. The increased supply chain costs of approximately \$10 million, specifically merchandiser, field sales, freight, and distribution costs, were primarily the result of both higher sales volume and initial store setup activities.

Administrative and general expenses were \$60.9 million for the three months ended August 26, 2011, a decrease of \$1.3 million from \$62.2 million for the three months ended August 27, 2010. Driving the slight overall improvement was approximately \$5 million of PRG integration costs in the prior year which did not recur and savings of approximately \$1 million achieved through the completion of the PRG integration. These benefits were partially offset by increases in bad debt expense, additional operating costs as a result of the Watermark acquisition, and unfavorable foreign currency translation impacts.

Other operating income net was \$5.1 million for the three months ended August 26, 2011 compared to \$0.9 million for the prior year second quarter. The current year period included a \$4.5 million gain on the sale of certain minor characters in our intellectual property portfolio.

The effective tax rate was 42.0% and 49.9% for the three months ended August 26, 2011 and August 27, 2010, respectively. The higher than statutory rate in the current period is due to an increase in estimated accruals and settlements associated with anticipated settlements related to open years which are currently under Internal Revenue Service examination. The higher than statutory rate in the prior year period was due primarily to the impact of unfavorable settlements of audits in a foreign jurisdiction and the release of insurance reserves that generated taxable income.

**Results of Operations****Six months ended August 26, 2011 and August 27, 2010**

Net income was \$47.1 million, or \$1.12 per share, in the six months ended August 26, 2011 compared to net income of \$39.4 million, or \$0.96 per share, in the prior year six months.

Our results for the six months ended August 26, 2011 and August 27, 2010 are summarized below:

<b>(Dollars in thousands)</b>	<b>2011</b>	<b>% Total Revenue</b>	<b>2010</b>	<b>% Total Revenue</b>
Net sales	\$ 756,517	98.1%	\$ 725,444	98.1%
Other revenue	14,625	1.9%	13,683	1.9%
<b>Total revenue</b>	<b>771,142</b>	<b>100.0%</b>	<b>739,127</b>	<b>100.0%</b>
Material, labor and other production costs	316,127	41.0%	303,726	41.1%
Selling, distribution and marketing expenses	248,381	32.2%	229,869	31.1%
Administrative and general expenses	126,224	16.4%	128,225	17.3%
Other operating income net	(6,045)	(0.8%)	(1,530)	(0.2)%
<b>Operating income</b>	<b>86,455</b>	<b>11.2%</b>	<b>78,837</b>	<b>10.7%</b>
Interest expense	11,887	1.6%	12,920	1.7%
Interest income	(631)	(0.1%)	(410)	(0.0%)
Other non-operating income net	(544)	(0.1%)	(1,703)	(0.2)%
<b>Income before income tax expense</b>	<b>75,743</b>	<b>9.8%</b>	<b>68,030</b>	<b>9.2%</b>
Income tax expense	28,674	3.7%	28,659	3.9%

Net income	\$ 47,069	6.1%	\$ 39,371	5.3%
	19			

---



**Table of Contents**

For the six months ended August 26, 2011, consolidated net sales were \$756.5 million, up from \$725.4 million in the prior year six months. This 4.3%, or \$31.1 million, increase was primarily due to an approximate \$34 million increase in net sales of greeting cards, particularly everyday cards in both our International Social Expression Products segment and our North American Social Expression Products segment, and the impact of approximately \$17 million of favorable foreign currency translation. The increase in card sales was driven by additional distribution with existing customers within both our segments. Also, the Watermark acquisition favorably impacted net sales by approximately \$14 million in our International Social Expression Products segment. Partially offsetting these increases were decreased sales in our fixtures business of approximately \$5 million, lower net sales of combined gift packaging products and party goods of approximately \$4 million, and lower sales of other ancillary products of approximately \$5 million. Net sales in our AG Interactive segment declined by approximately \$4 million due to lower advertising revenue and the impact of winding down the Photoworks website. In addition, scan-based trading ( SBT ) implementations unfavorably impacted net sales by approximately \$2 million.

**Wholesale Unit and Pricing Analysis for Greeting Cards**

Unit and pricing comparatives (on a sales less returns basis) for the six months ended August 26, 2011 and August 27, 2010 are summarized below:

	<b>Increase (Decrease) From the Prior Year</b>					
	<b>Everyday Cards</b>		<b>Seasonal Cards</b>		<b>Total Greeting Cards</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Unit volume	6.4%	(1.7%)	5.2%	0.2%	6.1%	(1.2%)
Selling prices	(1.9%)	(0.3%)	(1.3%)	0.0%	(1.7%)	(0.2%)
Overall increase / (decrease)	4.4%	(2.0%)	3.8%	0.1%	4.2%	(1.4%)

During the six months ended August 26, 2011, combined everyday and seasonal greeting card sales less returns increased 4.2% compared to the prior year six months, driven by an increase in unit volume from both our everyday and seasonal cards of 6.1%.

Everyday card sales less returns were up 4.4% compared to the prior year six months, as a result of improved unit volume of 6.4% partially offset by a decline in selling prices of 1.9%. Both of our greeting card segments contributed to the unit volume increases during the current year six months as a result of additional distribution with existing customers. The unit volume improvements within our International Social Expression Products segment were also driven by the Watermark acquisition. The selling price decline is a result of the continued shift to a higher mix of our value line cards.

Seasonal card sales less returns increased 3.8%, with unit volume improving 5.2% and selling prices declining 1.3%. The increase in unit volume was due to our Fall, Graduation and Easter programs. The decrease in selling prices was driven by the continued shift to a higher mix of value line cards in the period.

**Expense Overview**

MLOPC for the six months ended August 26, 2011 were \$316.1 million, an increase of \$12.4 million from \$303.7 million for the comparable period in the prior year. As a percentage of total revenue, these costs were 41.0% in the current period compared to 41.1% for the six months ended August 27, 2010. The main drivers of this increase were unfavorable foreign currency translation impacts of approximately \$7 million and the impact of higher sales volume of approximately \$3 million. The remaining increased expense of \$2 million was due to higher product related display costs and inventory scrap expenses, which were partially offset by the benefits of our ongoing cost savings initiatives.

SDM expenses for the six months ended August 26, 2011 were \$248.4 million, increasing from \$229.9 million for the comparable period in the prior year. The increase of approximately \$19 million was driven by a combination of increased expenses and unfavorable foreign currency translation of approximately \$13 million and \$6 million, respectively. The increased supply chain costs of approximately \$13 million, specifically merchandiser, freight, and

**Table of Contents**

distribution costs, were primarily the result of higher sales volume and initial store setup activities. Also contributing to the increase was higher marketing and product management expenses of approximately \$1 million.

Administrative and general expenses were \$126.2 million for the six months ended August 26, 2011, a decrease from \$128.2 million for the six months ended August 27, 2010. The decrease of approximately \$2 million is primarily related to approximately \$9 million of PRG integration costs in the prior year which did not recur and savings of approximately \$2 million achieved through the completion of the PRG integration. These benefits were substantially offset by increases in bad debt expense of approximately \$3 million, additional operating costs as a result of the Watermark acquisition of approximately \$3 million, and unfavorable foreign currency translation impacts of \$2 million.

Other operating income net was \$6.0 million for the six months ended August 26, 2011 compared to \$1.5 million in the prior period. The current year six months included a gain of \$4.5 million on the sale of certain minor characters in our intellectual property portfolio.

The effective tax rate was 37.9% and 42.1% for the six months ended August 26, 2011 and August 27, 2010, respectively. The higher than statutory rate in the prior period was due primarily to the impact of unfavorable settlements of audits in a foreign jurisdiction, the release of insurance reserves that generated taxable income as well as the recognition of the deferred tax effects of the reduced deductibility of the postretirement prescription drug coverage under the Medicare Part D program.

**Segment Information**

Our operations are organized and managed according to a number of factors, including product categories, geographic locations and channels of distribution. Our North American Social Expression Products and our International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution, with mass retailers as the primary channel. As permitted under Accounting Standards Codification Topic 280, Segment Reporting, certain operating divisions have been aggregated into the International Social Expression Products segment. The aggregated operating divisions have similar economic characteristics, products, production processes, types of customers and distribution methods. The AG Interactive segment distributes social expression products, including electronic greetings, and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals, instant messaging services and electronic mobile devices.

Segment results are currently reported using actual foreign exchange rates for the periods presented. In the prior year, segment results were reported at constant exchange rates to eliminate the impact of foreign currency fluctuations.

Prior year segment results have been presented to be consistent with the current methodologies. Refer to Note 17, Business Segment Information, to the Consolidated Financial Statements for further information and a reconciliation of total segment revenue to consolidated Total revenue and total segment earnings (loss) to consolidated Income before income tax expense.

*North American Social Expression Products Segment*

(Dollars in thousands)	Three Months Ended			Six Months Ended		
	August		%	August		%
	26, 2011	27, 2010	Change	26, 2011	27, 2010	Change
Total revenue	\$ 262,944	\$ 252,158	4.3%	\$ 566,280	\$ 560,467	1.0%
Segment earnings	25,699	28,627	(10.2%)	84,993	92,690	(8.3%)

Total revenue of our North American Social Expression Products segment increased \$10.8 million and \$5.8 million for the three and six months ended August 26, 2011, respectively, compared to the prior year periods. The increase in both periods was primarily driven by approximately \$10 million of higher sales of greeting cards, primarily everyday cards, for each of the three and six month periods. Partially offsetting these improvements were decreases in gift packaging and party goods of approximately \$2 million and \$7 million for the current year three and six months, respectively. In addition, the six month period included unfavorable impacts of SBT implementations of



**Table of Contents**

approximately \$2 million. Foreign currency translation favorably impacted total revenue by approximately \$2 million and \$4 million for the three and six months ended August 26, 2011, respectively.

Segment earnings decreased \$2.9 million in the current year three months compared to the prior year quarter. The decrease was driven by higher supply chain costs of approximately \$7 million and increased inventory scrap expense of approximately \$3 million. The higher supply chain costs were primarily due to both the increased sales volume and continued store set up activities, which resulted in higher merchandiser, field sales, freight, and distribution costs. Increased expenses associated with product related displays of approximately \$2 million, bad debt of approximately \$2 million, and marketing and product management of approximately \$1 million also contributed to the decreased earnings for the quarter. Partially offsetting these unfavorable variances was the favorable impact of higher sales of approximately \$7 million, prior year PRG integration costs of approximately \$5 million which did not recur in the current period, as well as the benefits of PRG integration and other cost savings initiatives of approximately \$1 million.

Segment earnings decreased \$7.7 million in the current year six months compared to the prior year period. The decrease was driven by the higher supply chain costs of approximately \$8 million primarily due to the increase in sales volume and continued store set up activities, which resulted in higher merchandiser, freight and distribution costs. Increased expenses, specifically product related display costs of approximately \$3 million, bad debt expense of approximately \$3 million, marketing and product management costs of approximately \$2 million, and inventory scrap expense of approximately \$1 million also contributed to the decrease in earnings. Partially offsetting these unfavorable variances were prior year PRG integration costs of approximately \$9 million which did not recur in the current period. In addition, the benefits of PRG integration and other cost savings initiatives favorably impacted earnings by approximately \$2 million.

*International Social Expression Products Segment*

(Dollars in thousands)	Three Months Ended			Six Months Ended		
	August		%	August		%
	26, 2011	27, 2010	Change	26, 2011	27, 2010	Change
Total revenue	\$ 75,891	\$ 54,736	38.6%	\$ 146,096	\$ 112,309	30.1%
Segment earnings	2,468	1,325	86.3%	5,771	4,159	38.8%

Total revenue of our International Social Expression Products segment increased \$21.2 million and \$33.8 million for the three and six months ended August 26, 2011, respectively, compared to the prior year periods. These increases were primarily due to the Watermark acquisition during the current year which increased total revenue by approximately \$7 million and \$14 million for the three and six months ended August 26, 2011, respectively. Additional distribution with existing customers also contributed to the increase in revenue. Foreign currency translation favorably impacted revenue by approximately \$6 million and \$12 million for the three and six months ended August 26, 2011, respectively. These increases were partially offset by a decrease in sales of non-card products. Segment earnings increased \$1.1 million and \$1.6 million in the three and six months ended August 26, 2011, respectively, compared to the prior year periods. For both the three and six month periods, the improvement was largely due to the impact of higher sales, partially offset by increased supply chain costs, specifically merchandiser, freight, and distribution costs.

*AG Interactive Segment*

(Dollars in thousands)	Three Months Ended			Six Months Ended		
	August		%	August		%
	26, 2011	27, 2010	Change	26, 2011	27, 2010	Change
Total revenue	\$ 16,177	\$ 18,167	(11.0%)	\$ 32,786	\$ 36,721	(10.7%)
Segment earnings	4,597	2,886	59.3%	7,233	5,258	37.6%



**Table of Contents**

Total revenue of our AG Interactive segment for the three months ended August 26, 2011 was \$16.2 million compared to \$18.2 million in the prior year second quarter. Total revenue of our AG Interactive segment for the six months ended August 26, 2011 was \$32.8 million compared to \$36.8 million in the prior year six months. These decreases in revenue were driven primarily by lower advertising revenue and the continued impact of winding down the Photoworks website during the first quarter of 2012. At the end of the second quarter of 2012 and 2011, AG Interactive had approximately 3.7 million online paid subscriptions.

Segment earnings increased \$1.7 million and \$2.0 million in the three and six months ended August 26, 2011, respectively, compared to the prior year periods. Reduced product management and marketing costs and lower expenses resulting from cost saving initiatives were partially offset by the impact of lower revenues.

**Liquidity and Capital Resources**

The seasonal nature of our business precludes a useful comparison of the current period and the fiscal year-end financial statements; therefore, a Consolidated Statement of Financial Position as of August 27, 2010, has been included.

**Operating Activities**

Operating activities provided \$36.2 million of cash during the six months ended August 26, 2011, compared to \$88.5 million in the prior year period.

Accounts receivable provided \$12.8 million of cash during the six months ended August 26, 2011, compared to \$44.3 million of cash during the prior year period. Strong cash collections during the prior year fourth quarter lead to a relatively lower accounts receivable balance at the beginning of the current year, while higher sales in the current year and variance in year-over-year timing of receipt of customer payments lead to a growth in the accounts receivable balance, and thus provided less cash during the current year compared to prior year. The higher cash inflow in the prior year was primarily the result of a higher accounts receivable balance at the beginning of the prior year, which was the result of strong sales during the fourth quarter ended February 28, 2010. The subsequent collection of these amounts during the first half of the prior year resulted in a higher amount of cash provided during that period.

Inventory used \$64.5 million of cash during the six months ended August 26, 2011, compared to \$24.9 million in the prior year six months. Historically, the first half of our fiscal year is a period of inventory build, and thus a use of cash, in preparation for the fall and winter seasonal holidays. The higher use of cash in the current year is primarily due to the inventory build of cards associated with expanded distribution with existing customers as well as inventory increases across product categories, a portion of which was needed to bring inventory to a more normalized level.

Deferred costs net generally represents payments under agreements with retailers net of the related amortization of those payments. During the six months ended August 26, 2011, amortization exceeded payments by \$16.4 million; in the six months ended August 27, 2010, amortization exceeded payments by \$27.9 million. See Note 11 to the Consolidated Financial Statements for further detail of deferred costs related to customer agreements.

Accounts payable and other liabilities used \$8.8 million of cash during the six months ended August 26, 2011, compared to \$54.6 million in the prior year period. The year-over-year change in cash usage was attributable to both a growth in accounts payable and lower variable compensation payments during the current year compared to the prior year. The growth in accounts payable during the current year was primarily due to the increased inventory associated with the expanded distribution in the value channel and year-over-year timing of payments. The prior year six months included variable compensation payments from the year ended February 28, 2010, which were higher than for the year ended February 28, 2011, thus resulting in a larger use of cash in the prior year.

**Table of Contents**

**Investing Activities**

Investing activities used \$25.9 million of cash during the six months ended August 26, 2011, compared to providing \$14.0 million in the prior year period. The use of cash in the current six months was primarily related to cash payments for business acquisitions as well as capital expenditures of \$27 million. The increase in capital expenditures from the prior year period related primarily to machinery and equipment purchased for our card producing facilities, and assets acquired in connection with our new world headquarters and systems refresh projects. During the current year, cash paid for the Watermark acquisition, net of cash acquired, was \$6.0 million. Partially offsetting these uses of cash in the current period were cash receipts of \$4.5 million from the sale of certain minor characters in our intellectual property portfolio and \$2.4 million from the sale of the land, building and certain equipment associated with a distribution facility in our International Social Expression Products segment during the current period. The source of cash in the prior year was primarily related to \$25.2 million received from the sale of certain assets, equipment and processes of the DesignWare party goods product lines, as well as approximately \$2 million related to the sale of the land and buildings associated with the closure of the Mexico facility. Partially offsetting these sources of cash were cash payments for capital expenditures of \$14.1 million.

**Financing Activities**

Financing activities used \$18.4 million of cash during the current year six months, compared to \$107.3 million during the prior year. The current year use of cash relates primarily to share repurchases and dividend payments. We paid \$10.8 million to repurchase approximately 0.5 million Class A common shares under our repurchase program and \$10.0 million to purchase approximately 0.4 million Class B common shares in accordance with our Amended and Restated Articles of Incorporation. In addition, we paid cash dividends of \$12.2 million. Partially offsetting these uses of cash was our receipt of the exercise price on stock options and excess tax benefits from share-based payment awards, which provided \$14.6 million of cash during the current year six months.

The prior year use of cash relates primarily to the repayment of the term loan in the amount of \$99.0 million as well as share repurchases and dividend payments. During the six months ended August 27, 2010, \$13.1 million was paid to repurchase approximately 0.5 million Class B common shares in accordance with our Amended and Restated Articles of Incorporation and we paid cash dividends of \$11.1 million. Partially offsetting these uses of cash was our receipt of the exercise price on stock options and excess tax benefits from share-based payment awards, which provided \$19.0 million of cash during the prior year six months.

**Credit Sources**

Substantial credit sources are available to us. In total, we had available sources of up to \$430 million at August 26, 2011, which included our \$350 million senior secured credit facility and our \$80 million accounts receivable securitization facility. On September 21, 2011, the amended and restated receivables purchase agreement was further amended to decrease the amount of available financing under the agreement from \$80 million to \$70 million. Also, on September 21, 2011, the liquidity commitments under the accounts receivable securitization facility were renewed for an additional 364-day period. Borrowings under the accounts receivable securitization facility are limited based on our eligible receivables outstanding. At August 26, 2011, we had no borrowings outstanding under the accounts receivable securitization facility or the revolving credit facility. At August 26, 2011, we had, in the aggregate, \$31.8 million outstanding under letters of credit, which reduces the total credit availability under these facilities.

For further information, please refer to the discussion of our borrowing arrangements as disclosed in the Credit Sources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended February 28, 2011.

At August 26, 2011, we were in compliance with our financial covenants under the borrowing agreements described above.

**Table of Contents**

Throughout fiscal 2012, we will continue to consider all options for capital deployment including growth options, acquisitions and other investments in third parties, capital expenditures, the system refresh project, our new world headquarters project, the opportunity to repurchase our own shares, reducing debt and, as appropriate, preserving cash. Consistent with this ongoing objective, in March 2011 we announced that in fiscal 2012 we expect that we will begin to invest in the development of a world headquarters in the Northeast Ohio area. The state of Ohio has committed certain tax credits, loans, and other incentives totaling up to \$93.5 million to assist us in the development of a new headquarters in Ohio. We are required to make certain investments and meet other criteria to receive these incentives over time. We are currently in the early stages of the project and have not yet completed the architectural design for the new building. However, based on preliminary estimates, it is anticipated that the costs associated with a new world headquarters building will be between approximately \$150 million and \$200 million over the next three to four years, with the majority of the spending occurring after the current fiscal year. In addition, as announced in January 2009, our Board of Directors has authorized the repurchase of up to \$75 million of Class A common shares (\$34.5 million remaining at August 26, 2011), that may be made through open market purchases or privately negotiated transactions as market conditions warrant, at prices we deem appropriate, and subject to applicable legal requirements and other factors. There is no set expiration date for this program. We also may, from time to time, seek to retire or purchase our outstanding debt through cash purchases and/or exchanges, through open market purchases, privately negotiated transactions, refinancings, redemptions, or otherwise, including strategically repurchasing our 7.375% senior unsecured notes due in 2016. Such repurchases, refinancings, redemptions or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Over the next five to seven years we expect to allocate resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures all intended to drive efficiencies within the business and add new capabilities. Due to its long-term nature, together with the fact that we are in the early planning stages, currently we cannot reasonably estimate amounts that we will spend over the life of this project; although, amounts could be material in any given fiscal year and over the life of the project. In our first quarter 2012 Quarterly Report on Form 10-Q, we estimated that during fiscal 2012 we will spend \$13 million plus or minus 25%, including both expense and capital, on these system projects. However, there is still uncertainty about the ultimate timing and amount of the expenditures. While we still have many decisions to make, it is reasonable to expect that we may spend more than this range this fiscal year to support the project, although, if incurred, we expect the majority of it would be capital expense.

Our future operating cash flow and borrowing availability under our credit agreement and our accounts receivable securitization facility are expected to meet currently anticipated funding requirements. The seasonal nature of our business results in peak working capital requirements that may be financed through short-term borrowings when cash on hand is insufficient.

**Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Please refer to the discussion of our Critical Accounting Policies as disclosed in our Annual Report on Form 10-K for the year ended February 28, 2011.

**Factors That May Affect Future Results**

Certain statements in this report may constitute forward-looking statements within the meaning of the Federal securities laws. These statements can be identified by the fact that they do not relate strictly to historic or current facts. They use such words as anticipate, estimate, expect, project, intend, plan, believe, and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. These forward-looking statements are based on currently available information, but are subject to a variety of uncertainties, unknown risks and other factors concerning our operations and business environment, which are



**Table of Contents**

difficult to predict and may be beyond our control. Important factors that could cause actual results to differ materially from those suggested by these forward-looking statements, and that could adversely affect our future financial performance, include, but are not limited to, the following:

a weak retail environment and general economic conditions;

competitive terms of sale offered to customers;

retail consolidations, acquisitions and bankruptcies, including the possibility of resulting adverse changes to retail contract terms;

the timing and impact of expenses incurred and investments made to support new retail or product strategies as well as new product introductions and achieving the desired benefits from those investments;

the timing of investments in, together with the ability to successfully implement or achieve the desired benefits associated with, any information systems refresh we may implement;

the timing and impact of converting customers to a scan-based trading model;

the ability to achieve the desired benefits associated with our cost reduction efforts;

Schurman Fine Papers ability to successfully operate its retail operations and satisfy its obligations to us;

The ultimate design of, and building and other construction costs associated with, any new world headquarters building that we build;

consumer acceptance of products as priced and marketed;

the impact of technology, including social media, on core product sales;

escalation in the cost of providing employee health care;

the ability to achieve the desired accretive effect from any share repurchase programs;

the ability to comply with our debt covenants;

fluctuations in the value of currencies in major areas where we operate, including the U.S. Dollar, Euro, U.K. Pound Sterling and Canadian Dollar; and

the outcome of any legal claims known or unknown.

Risks pertaining specifically to AG Interactive include the viability of online advertising, subscriptions as revenue generators, and the ability to adapt to rapidly changing social media and the digital photo sharing space.

The risks and uncertainties identified above are not the only risks we face. Additional risks and uncertainties not presently known to us or that we believe to be immaterial also may adversely affect us. Should any known or unknown risks or uncertainties develop into actual events, or underlying assumptions prove inaccurate, these developments could have material adverse effects on our business, financial condition and results of operations. For further information concerning the risks we face and issues that could materially affect our financial performance related to forward-looking statements, refer to our periodic filings with the Securities and Exchange Commission, including the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended February 28, 2011.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For further information, refer to our Annual Report on Form 10-K for the year ended February 28, 2011. There were no material changes in market risk, specifically interest rate and foreign currency exposure, for us from February 28, 2011, the end of our preceding fiscal year, to August 26, 2011, the end of our most recent fiscal quarter.

**Table of Contents****Item 4. Controls and Procedures**

American Greetings maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

American Greetings carries out a variety of on-going procedures, under the supervision and with the participation of the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of American Greetings concluded that the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in the Corporation's internal control over financial reporting during the Corporation's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

**Electrical Workers Pension Fund, Local 103, I.B.E.W. Litigation.** As previously disclosed, on March 20, 2009, a shareholder derivative complaint was filed in the Court of Common Pleas of Cuyahoga County, Ohio, by the Electrical Workers Pension Fund, Local 103, I.B.E.W., against certain of our current and former officers and directors (the Individual Defendants) and names American Greetings Corporation as a nominal defendant. The suit alleged that the Individual Defendants breached their fiduciary duties to American Greetings Corporation and sought an unspecified amount of damages from the Individual Defendants and modifications to our corporate governance policies. As previously disclosed, the parties agreed to settle the matter, with an immaterial payment to be made to plaintiff's counsel and certain modifications to our corporate governance policies. The plaintiff filed the Stipulation of Settlement with the Court of Common Pleas of Cuyahoga County, Ohio, on June 29, 2011 and on June 30, 2011, the Court granted preliminary approval of the Settlement. On September 16, 2011, the Court held a hearing on final approval of the Settlement and on September 20, 2011, the Court issued final approval of the Settlement Agreement and dismissed the case with prejudice.

**Cookie Jar/MoonScoop Litigation.** As previously disclosed, on May 6, 2009, American Greetings Corporation and its subsidiary, Those Characters From Cleveland, Inc. (TCFC), filed an action in the Cuyahoga County (Ohio) Court of Common Pleas against Cookie Jar Entertainment Inc. (Cookie Jar) and its affiliates, Cookie Jar Entertainment (USA) Inc. (formerly known as DIC Entertainment Corporation) (DIC), and Cookie Jar Entertainment Holdings (USA) Inc. (formerly known as DIC Entertainment Holdings, Inc.) relating to the July 20, 2008 Binding Letter Agreement between American Greetings Corporation and Cookie Jar (the Cookie Jar Agreement) for the sale of the Strawberry Shortcake and Care Bears properties (the Properties). On May 7, 2009, Cookie Jar removed the case to the United States District Court for the Northern District of Ohio. Simultaneously, Cookie Jar filed an action against American Greetings Corporation, TCFC, Mike Young Productions, LLC (Mike Young Productions) and MoonScoop SAS (MoonScoop) in the Supreme Court of the State of New York, County of New York. Mike Young Productions and MoonScoop were named as defendants in the action in connection with the binding term sheet between American Greetings Corporation and MoonScoop dated March 24, 2009 (the MoonScoop Binding Agreement), providing for the sale to MoonScoop of the Properties.

On May 7, 2010, the legal proceedings involving American Greetings Corporation, TCFC, Cookie Jar and DIC were settled, without a payment to any of the parties. As part of the settlement, on May 7, 2010, the Cookie Jar Agreement was amended to, among other things, terminate American Greetings Corporation's obligation to sell to

**Table of Contents**

Cookie Jar, and Cookie Jar's obligation to purchase, the Properties. As part of the settlement, Cookie Jar Entertainment (USA) Inc. will continue to represent the Strawberry Shortcake property on behalf of American Greetings Corporation, and will become an international agent for the Care Bears property. On May 19, 2010, the Northern District of Ohio court granted the parties' joint motion to dismiss all claims and counterclaims without prejudice. On August 11, 2009, MoonScoop filed an action against American Greetings Corporation and TCFC in the United States District Court for the Northern District of Ohio, alleging breach of contract and promissory estoppel relating to the MoonScoop Binding Agreement. On MoonScoop's request, the court agreed to consolidate this lawsuit with the first Ohio lawsuit (described above) for all pretrial purposes. The parties filed motions for summary judgment on various claims. On April 27, 2010, the court granted American Greetings Corporation's motion for summary judgment on MoonScoop's breach of contract and promissory estoppel claims, dismissing these claims with prejudice. On the same day, the court also ruled that American Greetings Corporation must indemnify MoonScoop against Cookie Jar's claims in this lawsuit. On May 21, 2010, MoonScoop appealed the court's summary judgment ruling to the United States Court of Appeals for the Sixth Circuit. On June 4, 2010, American Greetings Corporation and TCFC appealed to the United States Court of Appeals for the Sixth Circuit the court's ruling that it must indemnify MoonScoop against the cross claims asserted against it. The appeal has been briefed and oral arguments were held on October 4, 2011. We believe that the allegations in the lawsuit against American Greetings Corporation and TCFC are without merit and intend to continue to defend the actions vigorously. We currently do not believe that the impact of the lawsuit against American Greetings Corporation and TCFC, if any, will have a material adverse effect on our financial position, liquidity or results of operations.

In addition to the foregoing, we are involved in certain legal proceedings arising in the ordinary course of business. We, however, do not believe that any of the other litigation in which we are currently engaged, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations.

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

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information with respect to our purchases of our common shares during the three months ended August 26, 2011.

<b>Period</b>	<b>Total Number of Shares Repurchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans</b>
June 2011	Class A 80,000	\$ 22.84(2)	80,000(3)	\$ 43,834,190
July 2011	Class A 30,000 21,862(1)	\$ 22.99(2) \$ 23.85	30,000(3)	\$ 43,144,607

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

	Class B					
August 2011	Class A	434,435	\$	19.86(2)	434,435(3)	\$ 34,515,706
	Class B					
Total	Class A	544,435			544,435(3)	
	Class B	21,862(1)				

(1) There is no public market for our Class B common shares. Pursuant to our Articles of Incorporation, a holder of Class B common shares may not transfer such Class B common shares (except to permitted transferees, a group that generally includes members of the holder's extended family, family trusts and charities) unless such holder first offers such shares to the Corporation for purchase at the most recent closing price for the

**Table of Contents**

Corporation's Class A common shares. If the Corporation does not purchase such Class B common shares, the holder must convert such shares, on a share for share basis, into Class A common shares prior to any transfer. It is the Corporation's general policy to repurchase Class B common shares, in accordance with the terms set forth in our Amended and Restated Articles of Incorporation, whenever they are offered by a holder, unless such repurchase is not otherwise permitted under agreements to which the Corporation is a party. All of the shares were repurchased by American Greetings for cash pursuant to this right of first refusal.

- (2) Excludes commissions paid, if any, related to the share repurchase transactions.
- (3) On January 13, 2009, American Greetings announced that its Board of Directors authorized a program to repurchase up to \$75 million of its Class A common shares. There is no set expiration date for this repurchase program and these repurchases are made through a 10b5-1 program in open market or privately negotiated transactions which are intended to be in compliance with the SEC's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors.

**Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K

<b>Exhibit Number</b>	<b>Description</b>
31 (a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31 (b)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Corporation's quarterly report on Form 10-Q for the quarter ended August 26, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Operations for the quarters ended August 26, 2011 and August 27, 2010, (ii) Consolidated Statement of Financial Position at August 26, 2011, February 28, 2011 and August 27, 2010, (iii) Consolidated Statement of Cash Flows for the quarters ended August 26, 2011 and August 27, 2010, and (iv) Notes to the Consolidated Financial Statements for the quarter ended August 26, 2011 tagged in summary and detail.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Table of Contents**

SIGNATURES

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

AMERICAN GREETINGS CORPORATION

By: /s/ Joseph B. Cipollone  
Joseph B. Cipollone  
Vice President and Chief Accounting  
Officer \*

October 5, 2011

\* (Signing on behalf of Registrant as a duly authorized officer of the Registrant and signing as the chief accounting officer of the Registrant.)