

AMERICAN GREETINGS CORP
Form 10-Q/A
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(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

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(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization) One American Road, Cleveland, Ohio (Address of principal executive offices)	34-0065325 (I.R.S. Employer Identification No.) 44144 (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 ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

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

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

This Amendment No. 1 (this Form 10-Q/A) amends the Quarterly Report on Form 10-Q for the fiscal quarter ended August 26, 2011 of American Greetings Corporation (the Corporation). The Unaudited Consolidated Financial Statements of the Corporation previously reported on Form 10-Q for the fiscal quarter ended August 26, 2011 have been amended and restated in order to reflect certain adjustments to the Corporation's consolidated financial statements as of August 26, 2011, February 28, 2011 and August 27, 2010, relating to the impact of an understatement of a deferred tax asset that occurred in the fiscal year ended February 29, 2004. The impact of the restatement is more fully described in Note 1a to the Unaudited Consolidated Financial Statements contained in this Amendment No. 1. Please refer also to Note 1A to the Consolidated Financial Statements contained in the Corporation's Amended Annual Report on Form 10-K/A filed with the SEC on November 14, 2011 for additional discussion on the nature of the restatement adjustments. The restatements to the affected financial statements were non-cash in nature. All referenced amounts in this Form 10-Q/A for prior periods and prior-period comparisons reflect the balances and amounts on a restated basis, as applicable.

This Form 10-Q/A amends and restates in their entireties Items 1 and 4 of Part I and Item 6 of Part II of the Corporation's original Quarterly Report on Form 10-Q, filed with the SEC on October 5, 2011, and no other information included in that report is amended hereby. This Amendment No. 1 continues to speak as of the date of the filing of that original Quarterly Report on Form 10-Q, and the Corporation has not updated the disclosures contained herein to reflect any events that occurred at a later date.

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
Total revenue	368,793	342,819	771,142	739,127
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)
Operating income	29,702	23,531	86,455	78,837
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)
Income before income tax expense	24,953	17,013	75,743	68,030
Income tax expense	10,477	8,481	28,674	28,659
Net income	\$ 14,476	\$ 8,532	\$ 47,069	\$ 39,371
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).

AMERICAN GREETINGS CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Thousands of dollars)

	(Unaudited) August 26, 2011 (Restated)	(Note 1) February 28, 2011 (Restated)	(Unaudited) August 27, 2010 (Restated)
ASSETS			
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	59,876	64,898	76,589
Assets held for sale	5,282	7,154	13,711
Prepaid expenses and other	110,598	128,372	113,111
Total current assets	745,578	715,771	616,019
Goodwill	29,044	28,903	29,929
Other assets	430,343	436,137	413,809
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
	\$ 1,586,139	\$ 1,547,249	\$ 1,451,814
LIABILITIES AND SHAREHOLDERS' EQUITY			
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	184,258	187,505	190,458
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
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	1,214,008	1,185,855	1,150,877
Total shareholders' equity	799,623	763,758	690,475
	\$ 1,586,139	\$ 1,547,249	\$ 1,451,814

See notes to consolidated financial statements (unaudited).

AMERICAN GREETINGS CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of dollars)

	(Unaudited) Six Months Ended	
	August 26, 2011	August 27, 2010
OPERATING ACTIVITIES:		
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
Total Cash Flows From Operating Activities	36,229	88,547
INVESTING ACTIVITIES:		
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	
Total Cash Flows From Investing Activities	(25,876)	14,020
FINANCING ACTIVITIES:		
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)
Total Cash Flows From Financing Activities	(18,375)	(107,321)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,510	639
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).

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.

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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

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 1a Restatement

On November 14, 2011, the Corporation amended its Annual Report on Form 10-K for the fiscal year ended February 28, 2011. The Corporation is also restating herein its previously issued consolidated financial statements for the three months ended August 26, 2011 to correct an error in its accounting for income taxes.

The Corporation identified an understatement of a deferred tax asset in connection with a review of certain calculations used in determining the tax basis of its inventory. During this review, it was discovered that the deferred tax asset related to this matter as reflected on the Corporation's consolidated statement of financial position did not appropriately reflect certain differences between the basis of the Corporation's inventory used for financial reporting purposes and the basis of the Corporation's inventory used for tax purposes. The amount of the understatement of the deferred tax asset was \$14.8 million. The Corporation determined that the difference occurred as a result of an adjustment to the deferred tax asset in the fiscal year ended February 29, 2004, which resulted in the understatement of net income, deferred and refundable income taxes, current assets, total assets and total shareholders' equity by \$14.8 million for the fiscal year ended February 29, 2004. The effect of restatement had no impact on reported cash flows or any results of operations in the subsequent periods.

To correct the understatement of the deferred tax asset described above, the Corporation has recorded an increase in a deferred tax asset of \$14.8 million with a corresponding increase to retained earnings as of March 1, 2008. The correction of the error also has the effect of increasing current assets, total assets and total shareholders' equity. Accordingly, the restatement corrects the following line items in the Corporation's consolidated financial statements as reported in this Form 10-Q/A:

Date	As Previously Reported	As Restated
(Thousands of dollars)		
<i>As of August 26, 2011</i>		
Deferred and refundable income taxes	\$ 45,029	\$ 59,876
Total current assets	730,731	745,578
Total assets	1,571,293	1,586,139
Retained earnings	1,199,161	1,214,008
Total shareholders' equity	784,776	799,623

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As of February 28, 2011

Deferred and refundable income taxes	\$ 50,051	\$ 64,898
Total current assets	700,924	715,771
Total assets	1,532,402	1,547,249
Retained earnings	1,171,008	1,185,855
Total shareholders' equity	748,911	763,758

As of August 27, 2010

Deferred and refundable income taxes	\$ 61,742	\$ 76,589
Total current assets	601,173	616,019
Total assets	1,436,967	1,451,814
Retained earnings	1,136,031	1,150,877
Total shareholders' equity	675,629	690,475

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

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.

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:

(In thousands)	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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

(In thousands)	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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.

(In thousands)	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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.

Note 7 Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
Numerator (in thousands):				
Net income	\$ 14,476	\$ 8,532	\$ 47,069	\$ 39,371
Denominator (in thousands):				
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:

	Three Months Ended		Six Months Ended	
(In thousands)	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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)
Unrealized (loss) gain on securities, net of tax		(1)	1	
Total comprehensive income	\$ 13,119	\$ 17,974	\$ 50,179	\$ 38,371

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:

(In thousands)	August 26, 2011	February 28, 2011	August 27, 2010
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
	\$ 107,013	\$ 98,247	\$ 80,867

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

(In thousands)	August 26, 2011	February 28, 2011	August 27, 2010
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
	\$ 248,805	\$ 179,730	\$ 189,366

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:

(In thousands)	August 26, 2011	February 28, 2011	August 27, 2010
Prepaid expenses and other	\$ 75,016	\$ 88,352	\$ 73,624
Other assets	316,099	327,311	295,902
Deferred cost assets	391,115	415,663	369,526
Other current liabilities	(63,846)	(64,116)	(53,802)

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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

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:

(In thousands)	August 26, 2011	February 28, 2011	August 27, 2010
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.

Note 14 Retirement Benefits

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

(In thousands)	Defined Benefit Pension			
	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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
	\$ 1,307	\$ 1,370	\$ 2,613	\$ 2,743

(In thousands)	Postretirement Benefit			
	Three Months Ended		Six Months Ended	
	August 26, 2011	August 27, 2010	August 26, 2011	August 27, 2010
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
	\$ (162)	\$ (600)	\$ (325)	\$ (1,200)

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.

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.

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

	August 26, 2011	Level 1	Level 2	Level 3
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		
Total	\$ 11,547	\$ 11,547	\$	\$
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,282	\$	\$ 5,282	\$
Total	\$ 5,282	\$	\$ 5,282	\$

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

	February 28, 2011	Level 1	Level 2	Level 3
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		
Total	\$ 10,094	\$ 10,094	\$	\$
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,282	\$	\$ 5,282	\$
Total	\$ 5,282	\$	\$ 5,282	\$

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

	August 27, 2010	Level 1	Level 2	Level 3
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		
Total	\$ 9,780	\$ 9,780	\$	\$
Assets measured on a nonrecurring basis:				
Assets held for sale	\$ 5,557	\$	\$ 5,557	\$
Total	\$ 5,557	\$	\$ 5,557	\$

(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.

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 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
Total Revenue:				
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
Segment Earnings (Loss):				
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.

Item 4. Controls and Procedures

Evaluation of Disclosure 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 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.

Prior to the filing of our original Quarterly Report on Form 10-Q for the quarter ended August 26, 2011, American Greetings carried out a variety of 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 had concluded that the Corporation's disclosure controls and procedures were effective as of August 26, 2011. Subsequently, during the third quarter of the fiscal year ending February 29, 2012, we identified a deficiency in controls relating to the accounting for income taxes resulting in the understatement of a deferred tax asset related to inventory. We have concluded that such deficiency represented a material weakness in internal control over financial reporting. As a result of this discovery, our Chief Executive Officer and Chief Financial Officer have now concluded that our disclosure controls and procedures were not effective as of August 26, 2011, the last day of the period covered by this Report.

This material weakness resulted in an error in our accounting for income taxes and contributed to our restatement of previously issued financial statements more fully described in Note 1a to the Unaudited Consolidated Financial Statements included herein. Based on our assessment, management has now concluded that, as of August 26, 2011, our internal control over the accounting for income taxes was not effective due to the identification of a material weakness.

Planned Remediation Efforts to Address Material Weakness

In order to remediate this material weakness discussed above and further strengthen the overall controls surrounding the Corporation's accounting for income taxes, we have taken or will take the following steps to improve the overall processes and controls in its tax function:

place a senior accounting professional in a leadership position within the tax department and hire additional tax professionals to spread workloads and facilitate additional levels of review;

review the tax department to ensure that the areas of responsibilities are properly matched to the staff competencies and that the lines of communication, processes, procedures and controls are effective; and

enhance the documentation of all deferred tax items.

However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We intend that the remediation of the material weakness related to controls over the accounting for income taxes will be completed as of February 29, 2012. However, we cannot make any assurances that we will successfully remediate this material weakness within the anticipated timeframe and thus reduce to remote the likelihood that material misstatements concerning accounting for income taxes will not be prevented or detected in a timely manner.

Changes in Internal Control Over Financial Reporting

As previously reported, except for the material weakness described above, management did not identify any change in internal control over financial reporting occurring during the second quarter that materially affected, or was reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K

Exhibit Number	Description
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/A 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/A 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.

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 *

November 14, 2011

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