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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended February 28, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 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)*

Registrant s telephone number, including area code: (216) 252-7300

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Shares, Par Value $1.00	New York Stock Exchange

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

Class B Common Shares, Par Value $1.00

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ

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 þ NO ¨

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

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

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. (Check one):

Large accelerated filer þ	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 Act) YES ¨ NO þ

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter, August 27, 2010 $729,061,401 (affiliates, for this purpose, have been deemed to be directors, executive officers and certain significant shareholders).

Number of shares outstanding as of April 27, 2011: CLASS A COMMON 37,482,554 CLASS B COMMON 2,937,927

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the American Greetings Corporation Definitive Proxy Statement for the Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year (incorporated into Part III).

EXPLANATORY NOTE

This Amendment No. 1 amends the Annual Report on Form 10-K for the fiscal year ended February 28, 2011 (this Form 10-K/A) of American Greetings Corporation (the Corporation). The Consolidated Financial Statements of the Corporation previously reported on Form 10-K for the fiscal year ended February 28, 2011, have been amended and restated in order to reflect certain adjustments to the Corporation s financial statements for each of the fiscal years ended February 28, 2011, 2010 and 2009, with respect 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 Consolidated Financial Statements contained in this Amendment No. 1. The restatements to the affected financial statements were non-cash in nature. All referenced amounts in this Form 10-K/A for prior periods and prior-period comparisons reflect the balances and amounts on a restated basis, as applicable.

This Form 10-K/A amends and restates in their entirety Items 6, 8 and 9A of Part II and Item 15 of Part IV of the original Form 10-K filed with the SEC on April 29, 2011, and no other information included in the original Form 10-K is amended hereby. This Amendment No. 1 continues to speak as of the date of the filing of the original Form 10-K, and the Corporation has not updated the disclosures contained herein to reflect any events that occurred at a later date.

Item 6. Selected Financial Data
Thousands of dollars except share and per share amounts (Restated)

	2011	2010(1)	2009	2008	2007(2)
Summary of Operations					
Net sales	$ 1,560,213	$ 1,598,292	$ 1,646,399	$ 1,730,784	$ 1,744,798
Total revenue	1,592,568	1,635,858	1,690,738	1,776,451	1,794,290
Goodwill and other intangible asset impairments	-	-	290,166	-	2,196
Interest expense	25,389	26,311	22,854	20,006	34,986
Income (loss) from continuing operations	87,018	81,574	(227,759)	83,320	39,938
(Loss) income from discontinued operations, net of tax	-	-	-	(317)	2,440
Net income (loss)	87,018	81,574	(227,759)	83,003	42,378
Earnings (loss) per share:					
Income (loss) from continuing operations	2.18	2.07	(4.89)	1.54	0.69
(Loss) income from discontinued operations, net of tax	-	-	-	(0.01)	0.04
Earnings (loss) per share	2.18	2.07	(4.89)	1.53	0.73
Earnings (loss) per share assuming dilution	2.11	2.03	(4.89)	1.52	0.71
Cash dividends declared per share	0.56	0.36	0.60	0.40	0.32
Fiscal year end market price per share	21.65	19.07	3.73	18.82	23.38
Average number of shares outstanding	39,982,784	39,467,811	46,543,780	54,236,961	57,951,952
Financial Position					
Inventories	179,730	163,956	194,945	207,629	174,426
Working capital	373,226	325,551	244,663	260,500	448,888
Total assets	1,547,249	1,544,498	1,462,895	1,823,979	1,799,595
Property, plant and equipment additions	36,346	26,550	55,733	56,623	41,716
Long-term debt	232,688	328,723	389,473	220,618	223,915
Shareholders equity(3)	763,758	650,911	544,035	958,257	1,027,421
Shareholders equity per share	18.90	16.49	13.42	19.65	18.64
Net return on average shareholders equity from continuing operations	12.3%	13.7%	(30.3)%	8.4%	3.5%

(1) During 2010, the Corporation incurred a loss of $29.3 million on the disposition of the Retail Operations segment. The Corporation also recorded a gain of $34.2 million related to the party goods transaction and a charge of approximately $15.8 million for asset impairments and severance associated with a facility closure. Also in 2010, the Corporation recognized a cost of $18.2 million in connection with the shutdown of its distribution operations in Mexico. See Notes 2 and 3 to the Corporation s 2011 financial statements.

(2) During 2007, as a result of retailer consolidation, wherein multiple long-term supply agreements were terminated and a new agreement was negotiated with a new legal entity with substantially different terms and sales commitments, a gain of $20.0 million was recorded. Also, in 2007, the Corporation sold substantially all of the assets associated with its candle product lines and recorded a loss of approximately $16.0 million.

(3) The Corporation adopted accounting guidance for convertible debt instruments in 2010. This guidance requires an issuer of certain convertible instruments that may be settled in cash or other assets on conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The impact on shareholders equity of retrospectively applying this guidance related to the Corporation s 7.00% convertible subordinated notes issued in 2002 and settled in 2007 would have been $35 million for 2007. The convertible subordinated notes were not outstanding in the four years ended February 28, 2011.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

of American Greetings Corporation

We have audited the accompanying consolidated statement of financial position of American Greetings Corporation as of February 28, 2011 and February 28, 2010, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended February 28, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Greetings Corporation at February 28, 2011 and February 28, 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1A to the consolidated financial statements each of the three years in the period ended February 28, 2011 have been restated to correct for an error in accounting for income taxes.

As discussed in Note 1 to the consolidated financial statements, in 2010 the Corporation changed its method of accounting for business combinations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Greetings Corporation s internal control over financial reporting as of February 28, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2011, except for the effects of the material weakness described in the sixth paragraph as to which the date is November 14, 2011, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

April 29, 2011, except for Note 1A, as to which the date is November 14, 2011.

CONSOLIDATED STATEMENT OF OPERATIONS

Years ended February 28, 2011, 2010 and 2009

Thousands of dollars except share and per share amounts

	2011	2010	2009
Net sales	$ 1,560,213	$ 1,598,292	$ 1,646,399
Other revenue	32,355	37,566	44,339
Total revenue	1,592,568	1,635,858	1,690,738
Material, labor and other production costs	682,368	713,075	809,956
Selling, distribution and marketing expenses	478,227	507,960	618,899
Administrative and general expenses	260,476	276,031	226,317
Goodwill and other intangible asset impairments			290,166
Other operating income net	(3,205)	(310)	(1,396)
Operating income (loss)	174,702	139,102	(253,204)
Interest expense	25,389	26,311	22,854
Interest income	(853)	(1,676)	(3,282)
Other non-operating (income) expense- net	(5,841)	(6,487)	2,157
Income (loss) before income tax expense (benefit)	156,007	120,954	(274,933)
Income tax expense (benefit)	68,989	39,380	(47,174)
Net income (loss)	$ 87,018	$ 81,574	$ (227,759)
Earnings (loss) per share basic	$ 2.18	$ 2.07	$ (4.89)
Earnings (loss) per share assuming dilution	$ 2.11	$ 2.03	$ (4.89)
Average number of shares outstanding	39,982,784	39,467,811	46,543,780
Average number of shares outstanding assuming dilution	41,244,903	40,159,651	46,543,780
Dividends declared per share	$ 0.56	$ 0.36	$ 0.60

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 2011 and 2010

Thousands of dollars except share and per share amounts

	2011	2010 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 215,838	$ 137,949
Trade accounts receivable, net	119,779	135,758
Inventories	179,730	163,956
Deferred and refundable income taxes	64,898	93,280
Assets held for sale	7,154	15,147
Prepaid expenses and other	128,372	148,048
Total current assets	715,771	694,138
GOODWILL	28,903	31,106
OTHER ASSETS	436,137	428,161
DEFERRED AND REFUNDABLE INCOME TAXES	124,789	148,210
PROPERTY, PLANT AND EQUIPMENT NET	241,649	242,883
	$ 1,547,249	$ 1,544,498
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Debt due within one year	$	$ 1,000
Accounts payable	87,105	95,434
Accrued liabilities	69,824	78,245
Accrued compensation and benefits	72,379	85,092
Income taxes payable	10,951	13,901
Other current liabilities	102,286	94,915
Total current liabilities	342,545	368,587
LONG-TERM DEBT	232,688	328,723
OTHER LIABILITIES	176,522	168,098
DEFERRED INCOME TAXES AND NONCURRENT INCOME TAXES PAYABLE	31,736	28,179
SHAREHOLDERS EQUITY		
Common shares par value $1 per share:		
Class A 82,181,659 shares issued less 44,711,736 treasury shares in 2011 and 80,884,505 shares issued less 44,627,298 treasury shares in 2010	37,470	36,257
Class B 6,066,092 shares issued less 3,128,841 treasury shares in 2011 and 6,066,092 shares issued less 2,843,069 treasury shares in 2010	2,937	3,223
Capital in excess of par value	492,048	461,076
Treasury stock	(952,206)	(946,724)
Accumulated other comprehensive loss	(2,346)	(29,815)
Retained earnings	1,185,855	1,126,894
Total shareholders equity	763,758	650,911
	$ 1,547,249	$ 1,544,498

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 28, 2011, 2010 and 2009

Thousands of dollars

	2011	**2010**	**2009**
OPERATING ACTIVITIES:			
Net income (loss)	$ 87,018	$ 81,574	$ (227,759)
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Goodwill and other intangible asset impairments			290,166
Stock-based compensation	13,017	5,870	4,506
Net gain on dispositions	(254)	(6,507)	
Net (gain) loss on disposal of fixed assets	(3,463)	59	1,215
Depreciation and intangible assets amortization	41,048	45,165	50,016
Deferred income taxes	28,642	25,268	(29,438)
Fixed asset impairments	119	13,005	5,465
Other non-cash charges	3,663	12,419	3,764
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Trade accounts receivable	15,296	(56,105)	(6,504)
Inventories	(13,097)	14,923	2,877
Other current assets	(1,922)	16,936	17,309
Income taxes	19,947	18,863	(5,934)
Deferred costs net	14,262	18,405	27,596
Accounts payable and other liabilities	(31,015)	(633)	(68,154)
Other net	6,538	8,248	7,915
Total Cash Flows From Operating Activities	179,799	197,490	73,040
INVESTING ACTIVITIES:			
Property, plant and equipment additions	(36,346)	(26,550)	(55,733)
Cash payments for business acquisitions, net of cash acquired	(500)	(19,300)	(37,882)
Proceeds from sale of fixed assets	14,242	1,124	433
Proceeds from escrow related to party goods transaction	25,151		
Other net	5,663	4,713	(44,153)
Total Cash Flows From Investing Activities	8,210	(40,013)	(137,335)
FINANCING ACTIVITIES:			
Net (decrease) increase in long-term debt	(98,250)	(62,350)	118,991
Net decrease in short-term debt	(1,000)		
Sale of stock under benefit plans	16,620	6,557	525
Excess tax benefit from share-based payment awards	4,512	148	
Purchase of treasury shares	(13,521)	(11,848)	(73,983)
Dividends to shareholders	(22,354)	(19,049)	(22,566)
Debt issuance costs	(3,199)		
Total Cash Flows From Financing Activities	(117,192)	(86,542)	22,967
EFFECT OF EXCHANGE RATE CHANGES ON CASH	7,072	6,798	(21,956)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,889	77,733	(63,284)
Cash and Cash Equivalents at Beginning of Year	137,949	60,216	123,500
Cash and Cash Equivalents at End of Year	$ 215,838	$ 137,949	$ 60,216

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Years ended February 28, 2011, 2010 and 2009

Thousands of dollars except per share amounts

	Common Shares Class A	Common Shares Class B	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE MARCH 1, 2008 (Restated)	$ 45,324	$ 3,434	$ 445,696	$ (872,949)	$ 21,244	$ 1,315,508	$ 958,257
Net loss						(227,759)	(227,759)
Other comprehensive loss:							
Foreign currency translation adjustment					(80,845)		(80,845)
Pension and postretirement adjustments recognized in accordance with ASC 715 (net of tax of $6,839)					(7,674)		(7,674)
Unrealized loss on available-for-sale securities (net of tax of $0)					(3)		(3)
Comprehensive loss							(316,281)
Cash dividends $0.60 per share						(27,491)	(27,491)
Sale of shares under benefit plans, including tax benefits	26		384				410
Purchase of treasury shares	(8,311)	(10)		(67,158)			(75,479)
Stock compensation expense			4,369				4,369
Stock grants and other	4	75	(1,364)	2,021		(486)	250
BALANCE FEBRUARY 28, 2009 (Restated)	37,043	3,499	449,085	(938,086)	(67,278)	1,059,772	544,035
Net income						81,574	81,574
Other comprehensive income:							
Foreign currency translation adjustment					22,467		22,467
Reclassification of currency translation adjustment for amounts recognized in income (net of tax of $0)					8,627		8,627
Pension and postretirement adjustments recognized in accordance with ASC 715 (net of tax of $5,837)					6,366		6,366
Unrealized gain on available-for-sale securities (net of tax of $0)					3		3
Comprehensive income							119,037
Cash dividends $0.36 per share						(14,124)	(14,124)
Sale of shares under benefit plans, including tax benefits	336		6,172				6,508
Purchase of treasury shares	(1,125)	(292)		(9,111)			(10,528)
Stock compensation expense			5,819				5,819
Stock grants and other	3	16		473		(328)	164
BALANCE FEBRUARY 28, 2010 (Restated)	36,257	3,223	461,076	(946,724)	(29,815)	1,126,894	650,911
Net income						87,018	87,018
Other comprehensive income:							
Foreign currency translation adjustment					15,165		15,165
Pension and postretirement adjustments recognized in accordance with ASC 715 (net of tax of $8,083)					12,303		12,303
Unrealized gain on available-for-sale securities (net of tax of $0)					1		1

Comprehensive income							114,487
Cash dividends $0.56 per share						(22,354)	(22,354)
Sale of shares under benefit plans, including tax benefits	1,213	257	17,951	7,366		(5,652)	21,135
Purchase of treasury shares		(547)		(12,974)			(13,521)
Stock compensation expense			13,017				13,017
Stock grants and other		4	4	126		(51)	83
BALANCE FEBRUARY 28, 2011 (Restated)	$ 37,470	$ 2,937	$ 492,048	$ (952,206)	$ (2,346)	$ 1,185,855	$ 763,758

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2011, 2010 and 2009

Thousands of dollars except per share amounts

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation: The consolidated financial statements include the accounts of American Greetings Corporation and its subsidiaries (American Greetings or the Corporation). All significant intercompany accounts and transactions are eliminated. 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.

The Corporation s investments in less than majority-owned companies in which it has the ability to exercise significant influence over operating 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 in accordance with Accounting Standards Codification (ASC) Topic 810, Consolidation. 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 ASC Topic 810, Consolidation. Schurman owns and operates approximately 430 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 February 28, 2011 includes:

- the investment in the equity of Schurman of $1,935;
- the Liquidity Guaranty of Schurman s indebtedness of $12,000 and the Bridge Guaranty of Schurman s indebtedness of $12,000, see Note 11 for further information;
- normal course of business trade accounts receivable due from Schurman, 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 $35,985 and $50,854 as of February 28, 2011 and 2010, respectively.

The Corporation and Schurman are also party to a Subordinated Credit Facility that provides Schurman with up to $10,000 of subordinated financing for an initial term of nineteen months, subject to up to three automatic one-year renewal periods (or partial-year, in the case of the last renewal), unless either party provides the appropriate written notice prior to the expiration of the applicable term. 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 covenants and events of default customary for such financings. In addition, availability under the Subordinated Credit Facility is limited as long as the Bridge Guaranty is in place to the difference between $10,000 and the current maximum amount of the Bridge Guaranty. Because the Bridge Guaranty remained at $12,000 as of February 28, 2011, there were no loans outstanding, or available under the Subordinated Credit Facility, as of February 28, 2011.

In accordance with its terms, on April 1, 2011, the Bridge Guaranty was terminated. As a result of the termination of the Bridge Guaranty, beginning on April 2, 2011, Schurman may now borrow up to $10,000 under the Subordinated Credit Facility. Because the Liquidity Guaranty described above remains in place but Schurman

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is now able to borrow under the Subordinated Credit Facility, the Corporation s net exposure under guaranties and available financing to Schurman decreased by $2,000 due to the termination of the Bridge Guaranty.

In addition to the investment in the equity of Schurman, the Corporation holds an investment in the common stock of AAH Holdings Corporation (AAH). These two investments, totaling $12,546, are accounted for under the cost method. The Corporation is not aware of any events or changes in circumstances that had occurred during 2011 that the Corporation believes are reasonably likely to have had a significant adverse effect on the carrying amount of these investments. See Note 2 for further information.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the 2011 presentation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to sales returns, allowance for doubtful accounts, customer allowances and discounts, recoverability of intangibles and other long-lived assets, deferred tax asset valuation allowances, deferred costs and various other allowances and accruals, based on currently available information. Changes in facts and circumstances may alter such estimates and affect the results of operations and the financial position in future periods.

Cash Equivalents: The Corporation considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

Allowance for Doubtful Accounts: The Corporation evaluates the collectibility of its accounts receivable based on a combination of factors. In circumstances where the Corporation is aware of a customer s inability to meet its financial obligations, a specific allowance for bad debts against amounts due is recorded to reduce the receivable to the amount the Corporation reasonably expects will be collected. In addition, the Corporation recognizes allowances for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs. See Note 6 for further information.

Customer Allowances and Discounts: The Corporation offers certain of its customers allowances and discounts including cooperative advertising, rebates, marketing allowances and various other allowances and discounts. These amounts are recorded as reductions of gross accounts receivable or included in accrued liabilities and are recognized as reductions of net sales when earned. These amounts are earned by the customer as product is purchased from the Corporation and are recorded based on the terms of individual customer contracts. See Note 6 for further information.

Concentration of Credit Risks: The Corporation sells primarily to customers in the retail trade, including those in the mass merchandise, drug store, discount retailer, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand and Mexico. Net sales to the Corporation s five largest customers accounted for approximately 42%, 39% and 36% of total revenue in 2011, 2010 and 2009, respectively. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 15%, 14% and 15% of total revenue in 2011, 2010 and 2009, respectively. Net sales to Target Corporation accounted for approximately 14% and 13% of total revenue in 2011 and 2010, respectively, and less than 10% in 2009.

The Corporation conducts business based on periodic evaluations of its customers financial condition and generally does not require collateral to secure their obligation to the Corporation. While the competitiveness of the retail industry presents an inherent uncertainty, the Corporation does not believe a significant risk of loss exists from a concentration of credit.

Inventories: Finished products, work in process and raw materials inventories are carried at the lower of cost or market. The last-in, first-out (LIFO) cost method is used for certain domestic inventories, which approximate 80% of the total pre-LIFO consolidated inventories at February 28, 2011 and 2010, respectively. International inventories and the remaining domestic inventories principally use the first-in, first-out (FIFO) method except for display material and factory supplies which are carried at average cost. The Corporation allocates fixed production overhead to inventory based on the normal capacity of the production facilities. Abnormal amounts of idle facility expense, freight, handling costs and wasted material are treated as a current period expense. See Note 7 for further information.

Deferred Costs: In the normal course of its business, the Corporation enters into agreements with certain customers for the supply of greeting cards and related products. The Corporation classifies the total contractual amount of the incentive consideration committed to the customer but not yet earned as a deferred cost asset at the inception of an agreement, or any future amendments. Deferred costs estimated to be earned by the customer and charged to operations during the next twelve months are classified as Prepaid expenses and other on the Consolidated Statement of Financial Position and the remaining amounts to be charged beyond the next twelve months are classified as Other assets. Such costs are capitalized as assets reflecting the probable future economic benefits obtained as a result of the transactions. Future economic benefit is further defined as cash inflow to the Corporation. The Corporation, by incurring these costs, is ensuring the probability of future cash flows through sales to customers. The amortization of such deferred costs over the stated term of the agreement or the minimum purchase volume commitment properly matches the cost of obtaining business over the periods to be benefited. The Corporation maintains an allowance for deferred costs based on estimates developed using standard quantitative measures incorporating historical write-offs. In instances where the Corporation is aware of a particular customer s inability to meet its performance obligation, a specific allowance is recorded to reduce the deferred cost asset to an estimate of its future value based upon expected recoverability. See Note 10 for further discussion.

Deferred Film Production Costs: The Corporation is engaged in the production of film-based entertainment, which is generally exploited in the DVD, theatrical release or broadcast format. This entertainment is related to Strawberry Shortcake, Care Bears and other properties developed by the Corporation and is used to support the Corporation s merchandise licensing strategy.

Film production costs are accounted for pursuant to ASC Topic 926 (ASC 926), Entertainment Films, and are stated at the lower of cost or net realizable value based on anticipated total revenue (ultimate revenue). Film production costs are generally capitalized. These costs are then recognized ratably based on the ratio of the current period s revenue to estimated remaining ultimate revenues. Ultimate revenues are calculated in accordance with ASC 926 and require estimates and the exercise of judgment. Accordingly, these estimates are periodically updated to include the actual results achieved or new information as to anticipated revenue performance of each title.

Production expense totaled $4,736 and $4,360 in 2011 and 2010, respectively, with no significant amounts related to changes in ultimate revenue estimates. These production costs are included in Material, labor and other production costs on the Consolidated Statement of Operations. Amortization of production costs totaling $3,380, $2,209 and $10,513 in 2011, 2010 and 2009, respectively, are included in Other net on the Consolidated Statement of Cash Flows. The balance of deferred film production costs was $9,246 and $11,479 at February 28, 2011 and 2010, respectively, and are included in Other assets on the Consolidated Statement of Financial Position. The Corporation expects to recognize amortization of approximately $2,000 of production costs during the next twelve months.

Investment in Life Insurance: The Corporation s investment in corporate-owned life insurance policies is recorded in Other assets net of policy loans and related interest payable on the Consolidated Statement of Financial Position. The net balance was $21,760 and $18,330 as of February 28, 2011 and 2010, respectively. The net life insurance expense, including interest expense, is included in Administrative and general expenses on the Consolidated Statement of Operations. The related interest expense, which approximates amounts paid, was $12,122, $12,207 and $11,101 in 2011, 2010 and 2009, respectively.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations and is not amortized in accordance with ASC Topic 350 (ASC 350), Intangibles Goodwill and Other. This topic addresses the amortization of intangible assets with defined lives and the impairment testing and recognition for goodwill and indefinite-lived intangible assets. The Corporation is required to evaluate the carrying value of its goodwill and indefinite-lived intangible assets for potential impairment on an annual basis or more frequently if indicators arise.

While the Corporation may use a variety of methods to estimate fair value for impairment testing, its primary methods are discounted cash flows and a market based analysis. The required annual impairment tests are completed during the fourth quarter. Intangible assets with defined lives are amortized over their estimated lives. See Note 9 for further discussion.

Property and Depreciation: Property, plant and equipment are carried at cost. Depreciation and amortization of buildings, equipment and fixtures are computed principally by the straight-line method over the useful lives of the various assets. The cost of buildings is depreciated over 40 years; computer hardware and software over 3 to 7 years; machinery and equipment over 3 to 15 years; and furniture and fixtures over 8 to 20 years. Leasehold improvements are amortized over the lesser of the lease term or the estimated life of the leasehold improvement. Property, plant and equipment are reviewed for impairment in accordance with ASC Topic 360 (ASC 360), Property, Plant and Equipment. ASC 360 also provides a single accounting model for the disposal of long-lived assets. In accordance with ASC 360, assets held for sale are stated at the lower of their fair values less cost to sell or carrying amounts and depreciation is no longer recognized. See Note 8 for further information.

Operating Leases: Rent expense for operating leases, which may have escalating rentals over the term of the lease, is recorded on a straight-line basis over the initial lease term. The initial lease term includes the build-out period of leases, where no rent payments are typically due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent. Construction allowances received from landlords are recorded as a deferred rent credit and amortized to rent expense over the initial term of the lease. The Corporation records lease rent expense net of any related sublease income. See Note 13 for further information.

Pension and Other Postretirement Benefits: The Corporation has several defined benefit pension plans and a defined benefit health care plan that provides postretirement medical benefits to full-time United States employees who meet certain requirements. In accordance with ASC Topic 715 (ASC 715), Compensation-Retirement Benefits, the Corporation recognizes the plans funded status in its statement of financial position, measures the plans assets and obligations as of the end of its fiscal year and recognizes the changes in a defined benefit postretirement plan s funded status in comprehensive income in the year in which the changes occur. See Note 12 for further information.

Revenue Recognition: Sales are recognized when title and the risk of loss have been transferred to the customer.

Seasonal cards and certain other seasonal products are generally sold with the right of return on unsold merchandise. The Corporation provides for estimated returns of these products when those sales are recognized. These estimates are based on historical sales returns, the amount of current year sales and other known factors. Accrual rates utilized for establishing estimated returns reserves have approximated actual returns experience.

Products sold without a right of return may be subject to sales credit issued at the Corporation s discretion for damaged, obsolete and outdated products. The Corporation maintains an estimated reserve for these sales credits based on historical information.

For retailers with a scan-based trading (SBT) arrangement, the Corporation owns the product delivered to its retail customers until the product is sold by the retailer to the ultimate consumer, at which time the Corporation recognizes revenue for both everyday and seasonal products. When a SBT arrangement with a retailer is finalized, the Corporation reverses previous sales transactions based on retailer inventory turn rates and the estimated timing of the store conversions. Legal ownership of the inventory at the retailer s stores reverts back to the Corporation at the time of the conversion and the amount of sales reversal is finalized based on the actual inventory at the time of conversion.

Prior to April 17, 2009, sales at the Corporation owned retail locations were recognized upon the sale of product to the consumer.

Subscription revenue, primarily for the AG Interactive segment, represents fees paid by customers for access to particular services for the term of the subscription. Subscription revenue is generally billed in advance and is recognized ratably over the subscription periods.

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 based on a percentage of net sales and are subject to certain guaranteed minimum royalties. These license agreements may include the receipt of upfront advances, which are recorded as deferred revenue and earned during the period of the agreement. Certain of these agreements are managed by outside agents. All payments flow through the agents prior to being remitted to the Corporation. Typically, the Corporation receives quarterly payments from the agents. Royalty revenue is generally recognized upon receipt and recorded in Other revenue. Expenses associated with the servicing of these agreements are summarized as follows:

	2011	2010	2009
Material, labor and other production costs	$ 11,806	$ 9,410	$ 24,615
Selling, distribution and marketing expenses	14,046	17,970	29,146
Administrative and general expenses	1,697	2,050	2,421
	$ 27,549	$ 29,430	$ 56,182

Deferred revenue, included in Other current liabilities and Other liabilities on the Consolidated Statement of Financial Position, totaled $39,396 and $40,156 at February 28, 2011 and 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.

Sales Taxes: Sales taxes are not included in net sales as the Corporation is a conduit for collecting and remitting taxes to the appropriate taxing authorities.

Translation of Foreign Currencies: Asset and liability accounts are translated into United States dollars using exchange rates in effect at the date of the Consolidated Statement of Financial Position; revenue and expense accounts are translated at average exchange rates during the related period. Translation adjustments are reflected as a component of shareholders equity within other comprehensive income. Upon sale, or upon complete or substantially complete liquidation of an investment in a foreign entity, that component of shareholders equity is reclassified as part of the gain or loss on sale or liquidation of the investment. Gains and losses resulting from foreign currency transactions, including intercompany transactions that are not considered permanent investments, are included in other non-operating expense (income) as incurred.

Shipping and Handling Fees: The Corporation classifies shipping and handling fees as part of Selling, distribution and marketing expenses. Shipping and handling costs were $119,391, $119,989 and $130,271 in 2011, 2010 and 2009, respectively.

Advertising Expenses: Advertising costs are expensed as incurred. Advertising expenses were $17,434, $16,985 and $19,784 in 2011, 2010 and 2009, respectively.

Income Taxes: Income tax expense includes both current and deferred taxes. Current tax expense represents the amount of income taxes paid or payable (or refundable) for the year, including interest and penalties. Deferred income taxes, net of appropriate valuation allowances, are recognized for the estimated future tax effects attributable to tax carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts realized for income tax purposes. The effect of a change to the deferred tax assets or liabilities as a result of new tax law, including tax rate changes, is recognized in the period that the tax law is enacted. Valuation allowances are recorded against deferred tax assets when it is more likely than not that such assets will not be realized. When an uncertain tax position meets the more likely than not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. See Note 17 for further discussion.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2009-17 (ASU 2009-17), (Consolidations Topic 810), Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 requires an ongoing reassessment of determining whether a variable interest gives a company a controlling financial interest in a VIE. It also requires an entity to qualitatively, rather than quantitatively, determine whether a company is the primary beneficiary of a VIE. Under the new standard, the primary beneficiary of a VIE is a party that has the controlling financial interest in the VIE and has both the power to direct the activities that most significantly impact the VIE s economic success and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. ASU 2009-17 is effective for interim and annual reporting periods beginning after November 15, 2009. The Corporation s adoption of this standard on March 1, 2010 did not have a material effect on its financial statements. See Note 2 for further information.

In January 2010, the FASB issued 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 becomes effective for interim and annual periods beginning after December 15, 2010. On March 1, 2010, the Corporation adopted this standard, except for the requirement to separately disclose purchases, sales, issuances, and settlements in the Level 3 rollforward, which becomes effective in 2012. The Corporation s adoption of this standard did not have a material effect on its financial statements. Also, the Corporation does not expect that the adoption of the enhanced disclosures for Level 3 fair value measurements will have a material effect on its financial statements. See Note 14 for further information.

NOTE 1A RESTATEMENT

The Corporation is restating its previously issued consolidated financial statements f