AMERICAN GREETINGS CORP
Form 10-K
May 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2013

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	**(I.R.S. Employer**
incorporation or organization)	**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 ¨ NO x

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) YES ¨ NO x

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 24, 2012 $417,165,999.68 (affiliates, for this purpose, have been deemed to be directors, executive officers and certain significant shareholders).

Number of shares outstanding as of May 1, 2013:

CLASS A COMMON 29,017,268

CLASS B COMMON 2,883,680

DOCUMENTS INCORPORATED BY REFERENCE

None.

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AMERICAN GREETINGS CORPORATION

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PART I

Unless otherwise indicated or the context otherwise requires, the Corporation, we, our, us and American Greetings are used in this report to refer to the businesses of American Greetings Corporation and its consolidated subsidiaries.

Item 1. Business

Overview

Founded in 1906, American Greetings operates predominantly in a single industry: the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products. We manufacture or sell greeting cards, gift packaging, party goods, stationery and giftware in North America, primarily in the United States and Canada, and throughout the world, primarily in the United Kingdom, Australia and New Zealand. In addition, our subsidiary, AG Interactive, Inc., 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 and electronic mobile devices. We also engage in design and character licensing and manufacture custom display fixtures for our products and products of others. As a result of the bankruptcy administration of a former customer, Clinton Cards PLC (Clinton Cards), and the related acquisition of certain of its assets in June 2012, we also operate approximately 400 card and gift retail stores throughout the United Kingdom. For information regarding this acquisition that resulted in the addition of a new Retail Operations segment during fiscal 2013, see the discussion included in Part II, Item 7 and in Note 2 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Our 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, 2013 refers to the year ended February 28, 2013. The Corporation s Retail Operations segment is consolidated on a one-month lag corresponding with its fiscal year end of February 2, 2013.

Merger Agreement

On September 26, 2012, we announced that our Board of Directors received a non-binding proposal from Zev Weiss, the Corporation s Chief Executive Officer, and Jeffrey Weiss, the Corporation s President and Chief Operating Officer, on behalf of themselves and certain other members of the Weiss family and related parties to acquire all of the outstanding Class A common shares and Class B common shares of the Corporation not currently owned by them (the Going Private Proposal).

On March 29, 2013, we signed an agreement and plan of merger (the Merger Agreement) by and among American Greetings Corporation, Century Intermediate Holding Company (Parent), which upon the closing of the Merger (as defined below) will be indirectly owned by the Family Shareholders, and Century Merger Company, a wholly-owned subsidiary of Parent (Merger Sub). As more fully described in our Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on April 1, 2013, at the effective time of the Merger, each issued and outstanding share of the Corporation (other than shares owned by the Corporation, Parent (which will include at the effective time of the Merger all shares currently held by the Family Shareholders), Merger Sub or holders who have properly exercised dissenters rights under Ohio law) will be converted into the right to receive $18.20 per share, in cash, without interest and subject to any withholding taxes, and Merger Sub will merge with and into the Corporation, with the Corporation surviving the Merger as a wholly-owned subsidiary of Parent (the Merger). The consummation of the Merger is subject to customary conditions, and is further conditioned on the favorable vote of (1) at least two-thirds of the outstanding voting power of the Corporation represented by the Class A common shares and Class B common shares, voting together as a single class, and (2) a majority of the Class A common shares and Class B common shares held by persons other than the Family Shareholders, the Irving I. Stone Foundation and our executive officers and directors, as more fully described in our Current Report on Form 8-K filed with the SEC on April 1, 2013 and in the preliminary proxy statement on Schedule 14A filed with the SEC on April 17, 2013 (the Majority of the Minority Shareholder Approval condition). For purposes of the Majority of the Minority Shareholder Approval only, Class B common shares will be entitled to one vote per share. Under the Merger Agreement, Family Shareholders includes: Zev Weiss, a director and the Corporation s Chief Executive Officer; Morry Weiss, the Corporation s Chairman of the Board of Directors; Jeffrey Weiss, a director and the Corporation s President and Chief Operating Officer; and certain other members of the Weiss family, together with the Irving I. Stone Limited Liability Company. See Risk Factors Related to the Merger for a discussion of certain considerations pertaining to the proposed Merger.

Products

American Greetings creates, manufactures and/or distributes social expression products including greeting cards, gift packaging, party goods, giftware and stationery as well as custom display fixtures. Our major domestic greeting card brands are American Greetings, Recycled Paper Greetings, Papyrus, Carlton Cards, Gibson, Tender Thoughts and Just For You. Our other domestic products include

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AGI In-Store display fixtures, as well as other paper product offerings such as Designware party goods and Plus Mark gift wrap and boxed cards. Electronic greetings and other digital content, services and products are available through our subsidiary, AG Interactive, Inc. Our major Internet brands are AmericanGreetings.com, BlueMountain.com, Egreetings.com and Cardstore.com. We also create and license our intellectual properties, such as the Care Bears and Strawberry Shortcake characters. Information concerning sales by major product classifications is included in Part II, Item 7 of this Annual Report.

Business Segments

At February 28, 2013, we operated in five business segments: North American Social Expression Products, International Social Expression Products, Retail Operations, AG Interactive and non-reportable operating segments. For information regarding the various business segments comprising our business, see the discussion included in Part II, Item 7 and in Note 17 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Concentration of Credit Risks

Net sales to our five largest customers, which include mass merchandisers, accounted for approximately 39% of total revenue in 2013 and 42% of total revenue in 2012 and 2011. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 14%, 14% and 15% of total revenue in 2013, 2012 and 2011, respectively. Net sales to Target Corporation accounted for approximately 13% of total revenue in 2013 and 14% of total revenue in 2012 and 2011. No other customer accounted for 10% or more of our consolidated total revenue. Approximately 55%, 55% and 54% of the North American Social Expression Products segment s revenue in 2013, 2012 and 2011, respectively, was attributable to its top 5 customers. Approximately 48%, 48% and 44% of the International Social Expression Products segment s revenue in 2013, 2012 and 2011, respectively, excluding sales to the Retail Operations segment, was attributable to its top 3 customers.

Consumers

We believe that over 80% of American adults purchase greeting cards each year for multiple occasions including birthdays, holidays, weddings, anniversaries and others. We also believe that women purchase the majority of all greeting cards sold and that the average age of our consumer is in the mid to late forties.

Competition

The greeting card and gift packaging industries are intensely competitive. Competitive factors include quality, design, customer service and terms, which may include payments and other concessions to retail customers under long-term agreements. These agreements are discussed in greater detail below. There are a large number of greeting card publishers in the United States, ranging from small family-run organizations to major corporations. With the expansion of the Internet as a distribution channel for greeting cards, together with the growing use of technology by consumers to create personalized greeting cards with digital photographs and other personalized content, we are also seeing increased competition from greeting card publishers as well as a wide range of personal publishing, mobile and electronic media businesses distributing greeting cards and other social expression products directly to the individual consumer through the Internet. In general, however, the greeting card business is extremely concentrated. We believe that we are one of only two main suppliers offering a full line of social expression products. Our principal competitor is Hallmark Cards, Inc. Based upon our general familiarity with the greeting card and gift packaging industries and limited information as to our competitors, we believe that we are one of the two largest greeting card companies in the industry and that we are the largest publicly traded greeting card company.

Production and Distribution

In 2013, our channels of distribution continued to be primarily through mass merchandising, which is comprised of three distinct channels: mass merchandisers (including discount retailers); chain drug stores; and supermarkets. In addition, we sell our products through a variety of other distribution channels, including card and gift shops, department stores, military post exchanges, variety stores and combo stores (stores combining food, general merchandise and drug items). We also sell our products through the approximately 400 card and gift retail stores that we operated in the United Kingdom through our Retail Operations segment. In addition, we sell greeting cards through our Cardstore.com Web site, which provides consumers the ability to purchase physical greeting cards, including custom cards that incorporate their own photos and sentiments, as well as to have us send the unique greeting card that they select directly to the recipient. From time to time, we also sell our products to independent, third-party distributors. Our AG Interactive segment provides social expression content, including electronic greeting cards, through the Internet and mobile platforms.

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Many of our products are manufactured at common production facilities and marketed by a common sales force. Our manufacturing operations involve complex processes including printing, die cutting, hot stamping and embossing. We employ modern printing techniques which allow us to perform short runs and multi-color printing, have a quick changeover and utilize direct-to-plate technology, which minimizes time to market. Our products are manufactured globally, primarily at facilities located in North America and the United Kingdom. We also source products from domestic and foreign third party suppliers. Additionally, information by geographic area is included in Note 17 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Production of our products is generally on a level basis throughout the year, with the exception of gift packaging for which production generally peaks in advance of the Christmas season. Everyday inventories (such as birthday and anniversary related products) remain relatively constant throughout the year, while seasonal inventories peak in advance of each major holiday season, including Christmas, Valentine s Day, Easter, Mother s Day, Father s Day and Graduation. Payments for seasonal shipments are generally received during the month in which the major holiday occurs, or shortly thereafter. Extended payment terms may also be offered in response to competitive situations with individual customers. Payments for both everyday and seasonal sales from customers that are on a scan-based trading (SBT) model are received generally within 10 to 15 days of the product being sold by those customers at their retail locations. As of February 28, 2013, three of our five largest customers conduct business with us under an SBT model. The core of this business model rests with American Greetings owning the product delivered to its retail customers until the product is sold by the retailer to the ultimate consumer, at which time we record the sale. American Greetings and many of its competitors sell seasonal greeting cards and other seasonal products with the right of return. Sales of other products are generally sold without the right of return. Sales credits for these products are issued at our discretion for damaged, obsolete and outdated products. Information regarding the return of product is included in Note 1 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

During the year, we experienced no material difficulties in obtaining raw materials from our suppliers.

Intellectual Property Rights

We have a number of trademarks, service marks, trade secrets, copyrights, inventions, patents, and other intellectual property, which are used in connection with our products and services. Our designs, artwork, musical compositions, photographs and editorial verse are protected by copyright. In addition, we seek to register our trademarks in the United States and elsewhere. We routinely seek protection of our inventions by filing patent applications for which patents may be granted. We also obtain license agreements for the use of intellectual property owned or controlled by others. Although the licensing of intellectual property produces additional revenue, we do not believe that our operations are dependent upon any individual invention, trademark, service mark, copyright, patent or other intellectual property license. Collectively, our intellectual property is an important asset to us. As a result, we follow an aggressive policy of protecting our rights in our intellectual property and intellectual property licenses.

Employees

At February 28, 2013, we employed approximately 6,700 full-time employees and approximately 18,700 part-time employees which, when jointly considered, equate to approximately 16,100 full-time equivalent employees. Approximately 825 of our employees are unionized and covered by collective bargaining agreements.

The following table sets forth by location the unions representing our employees, together with the expiration date, if any, of the applicable governing collective bargaining agreement. We believe that labor relations at each location in which we operate have generally been satisfactory.

Union	Location	Contract Expiration Date
Unite the Union (Dewsbury)	Leeds, England	N/A
Unite the Union (Corby)	Derby, England	N/A
Australian Municipal, Administrative, Clerical & Services Union	South Victoria, Australia	February 28, 2014
International Brotherhood of Teamsters	Bardstown, Kentucky	March 23, 2014
International Brotherhood of Teamsters	Cleveland, Ohio	March 31, 2018

Workers United	Greeneville, Tennessee	October 19, 2014

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Supply Agreements

In the normal course of business, we enter into agreements with certain customers for the supply of greeting cards and related products. We view the use of such agreements as advantageous in developing and maintaining business with our retail customers. Under these agreements, the customer may receive a combination of cash payments, credits, discounts, allowances and other incentive considerations to be earned by the customer as product is purchased from us over the stated term of the agreement or the minimum purchase volume commitment. The agreements are negotiated individually to meet competitive situations and, therefore, while some aspects of the agreements may be similar, important contractual terms may vary. The agreements may or may not specify American Greetings as the sole supplier of social expression products to the customer. In the event an agreement is not completed, in most instances, we have a claim for unearned advances under the agreement.

Although risk is inherent in the granting of advances, we subject such customers to our normal credit review. These advances are accounted for as deferred costs. We maintain an allowance for deferred costs based on estimates developed by using standard quantitative measures incorporating historical write-offs. In instances where we are aware of a particular customer s inability to meet its performance obligation, we record a specific allowance to reduce the deferred cost asset to our estimate of its value based upon expected recovery. Losses attributed to these specific events have historically not been material. See Note 10 to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report, and the discussion under the Deferred Costs heading in the Critical Accounting Policies in Part II, Item 7 of this Annual Report for further information and discussion of deferred costs.

Environmental and Governmental Regulations

Our business is subject to numerous foreign and domestic environmental laws and regulations maintained to protect the environment. These environmental laws and regulations apply to chemical usage, air emissions, wastewater and storm water discharges and other releases into the environment as well as the generation, handling, storage, transportation, treatment and disposal of waste materials, including hazardous waste. Although we believe that we are in substantial compliance with all applicable laws and regulations, because legal requirements frequently change and are subject to interpretation, these laws and regulations may give rise to claims, uncertainties or possible loss contingencies for future environmental remediation liabilities and costs. We have implemented various programs designed to protect the environment and comply with applicable environmental laws and regulations. The costs associated with these compliance and remediation efforts have not had and are not expected to have a material adverse effect on our financial condition, cash flows or operating results. In addition, the impact of increasingly stringent environmental laws and regulations, regulatory enforcement activities, the discovery of unknown conditions and third party claims for damages to the environment, real property or persons could also result in additional liabilities and costs in the future.

The legal environment of the Internet is evolving rapidly in the United States and elsewhere. The manner in which existing laws and regulations will be applied to the Internet in general, and how they will relate to our business in particular, is unclear in many cases. Accordingly, we often cannot be certain how existing laws will apply in the online context, including with respect to such topics as privacy, defamation, pricing, credit card fraud, advertising, taxation, sweepstakes, promotions, content regulation, net neutrality, quality of products and services and intellectual property ownership and infringement. In particular, legal issues relating to the liability of providers of online services for activities of their users are currently unsettled both within the United States and abroad.

Numerous laws have been adopted at the national and state level in the United States that could have an impact on our business. These laws include the following:

- The CAN-SPAM Act of 2003 and similar laws adopted by a number of states. These laws are intended to regulate unsolicited commercial e-mails, create criminal penalties for unmarked sexually-oriented material and e-mails containing fraudulent headers and control other abusive online marketing practices.

- The Communications Decency Act, which gives statutory protection to online service providers who distribute third-party content.

- The Digital Millennium Copyright Act, which is intended to reduce the liability of online service providers for listing or linking to third-party Web sites that include materials that infringe copyrights or other rights of others.

The Children s Online Privacy Protection Act and the Prosecutorial Remedies and Other Tools to End Exploitation of Children Today Act of 2003, which are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

Data privacy and security with respect to the collection of personally identifiable consumer information continues to be a focus of worldwide legislation and compliance review. For example, statutes adopted in various states, including California and Massachusetts, require online services to report certain breaches of the security of personal data, and to report to consumers when their personal data might be disclosed to direct marketers.

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To resolve some of the remaining legal uncertainty, we expect new United States and foreign laws and regulations to be adopted over time that will be directly or indirectly applicable to the Internet and to our activities. Any existing or new legislation applicable to us could expose us to government investigations or audits, prosecution for violations of applicable laws and/or substantial liability, including penalties, damages, significant attorneys fees, expenses necessary to comply with such laws and regulations or the need to modify our business practices.

We post on our Web sites our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, Federal Trade Commission requirements or other privacy-related laws and regulations could result in proceedings that could potentially harm our business, results of operations and financial condition. In this regard, there are a large number of federal and state legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, such as required use of disclaimers or explicit opt-in mechanisms, if adopted, could harm our business through a decrease in user registrations and revenues.

Available Information

We make available, free of charge, on or through the Investors section of our Web site at www.corporate.americangreetings.com our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Such filings are available to the public from the SEC s Web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room in Washington D.C. located at 100 F Street, N.E., Washington D.C. 20549. You may also obtain copies of any document filed by us at prescribed rates by writing to the Public Reference Section of the SEC at that address. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also inspect the information that we file at the offices of the New York Stock Exchange Inc., 20 Broad Street, New York, New York 10005. Information contained on our Web site shall not be deemed incorporated into, or be part of, this report.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Board s Audit Committee, Compensation and Management Development Committee (which is also referred to herein as the Compensation Committee), and Nominating and Corporate Governance Committee are available on or through the Investors section of our Web site at www.corporate.americangreetings.com.

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Item 1A. Risk Factors

You should carefully consider each of the risks and uncertainties we describe below and all other information in this report. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect our business, financial condition, cash flows or results of operations. Additional information on risk factors is included in Item 1. Business and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report.

Risks Related to Our Business

There are factors outside of our control that may decrease the demand for our products and services, which may adversely affect our performance.

Our success depends on the sustained demand for our products. Many factors affect the level of consumer spending on our products, including, among other things, general business conditions, interest rates, the availability of consumer credit, taxation, weather, fuel prices and consumer confidence in future economic conditions, all of which are beyond our control. During periods of economic decline, when discretionary income is lower, consumers or potential consumers could delay, reduce or forego their purchases of our products and services, which reduces our sales. In addition, during such periods, advertising revenue in our AG Interactive businesses decline, as advertisers reduce their advertising budgets. A prolonged economic downturn or slow economic recovery may also lead to restructuring actions and associated expenses.

Providing new and compelling products is critical to our future profitability and cash flow.

One of our key business strategies has been to gain profitable market share through product leadership, providing relevant, compelling and superior product offerings. As a result, the need to continuously update and refresh our product offerings is an ongoing, evolving process requiring expenditures and investments that will continue to impact net sales, earnings and cash flows over future periods. At times, the amount and timing of such expenditures and investments depends on the success of a product offering as well as the schedules of our retail partners. We cannot assure you that this strategy will increase either our revenue or profitability. For example, we may not be able to anticipate or respond in a timely manner to changing customer demands and preferences for greeting cards or shifts in consumer shopping behavior. If we misjudge the market, we may significantly sell or overstock unpopular products and be forced to grant significant credits, accept significant returns or write-off a significant amount of inventory, which would have a negative impact on our results of operations and cash flow. Conversely, shortages of popular items could materially and adversely impact our results of operations and financial condition.

We may experience volatility in our earnings as a result of expenses and investments we may make over the next several years.

We have focused and expect to continue to focus our resources on our core greeting card business, developing new, and growing existing business, including by expanding Internet and other channels of electronic distribution to make American Greetings the natural and preferred social expressions solution, as well as by capturing any shifts in consumer demand. For example, during fiscal 2013, we spent approximately $7 million on incremental marketing expenses in support of our product leadership strategy, primarily related to promotional efforts around our recently developed site Cardstore.com and other marketing initiatives within our North American Social Expression Products segment. Cardstore.com allows consumers to purchase paper greeting cards on the Internet and then have the physical cards delivered directly to the recipient. In fiscal 2014, we expect that we will continue to make investments to help us extend our leadership position and better position us for future growth, including incurring expenses to support our efforts in digital channels of distribution. The timing and the amount of this spending are difficult to estimate, but amounts may be material. In addition, to the extent we are successful in expanding distribution and revenue in connection with expanding our market leadership, additional capital may be deployed as we may incur incremental costs associated with this expanded distribution, including upfront costs prior to any incremental revenue being generated. If incurred, these costs may be material. Although our project to construct and relocate to a new world headquarters is currently on hold, based on preliminary estimates, the gross costs associated with resuming the project and building the new world headquarters, before any tax credits, loans or other incentives that we may receive, will be between approximately $150 million and $200 million over a number of years following our resumption of the project. We also have been allocating, and expect to continue to allocate over roughly the next five or six years, resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures, all of which are intended to drive efficiencies within the business and add new capabilities. The timing of when we spend these amounts may vary from year to year depending on the pacing of the project, but the amounts that we spend could be material in any fiscal year. Including amounts that have already been spent, we currently expect to spend at least an aggregate of $150 million, the majority of which we expect will be capital expenditures, over the life of the project.

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We believe these investments are important to our business, helping us drive further efficiencies and add new capabilities; however, there can be no assurance that we will not spend more or less than $150 million over the life of the project, or that we will achieve the anticipated efficiencies or any cost savings.

Consumers shifting to value shopping may negatively impact our profitability.

Over the past several years, consumer shopping patterns have continued to evolve and that shift is impacting us. As consumers have been gradually shifting to value shopping, this shift is resulting in a change in our product mix to a higher proportion of value line cards that lowers the average price sold of our greeting cards and has an unfavorable impact on our gross margin percentage. We expect this trend to continue, which will put continued downward pressure on our historical gross margin percentage. Although we believe that we can mitigate some of the impact this trend may have on our operating margin percentage by continuing to focus on efficiency and cost reduction within all areas of the Corporation, we cannot assure you that we will be successful or that our gross margin percentage will not decrease further.

We rely on a few customers for a significant portion of our sales.

A few of our customers are material to our business and operations. Net sales to our five largest customers, which include mass merchandisers, accounted for approximately 39% of total revenue for 2013 and approximately 42% of total revenue for 2012 and 2011. Approximately 55%, 55% and 54% of the North American Social Expression Products segment s revenue in 2013, 2012 and 2011, respectively, was attributable to its top five customers, and approximately 48%, 48% and 44% of the International Social Expression Products segment s revenue in 2013, 2012 and 2011, respectively, excluding sales to the Retail Operations segment, was attributable to its top three customers. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 14%, 14% and 15% of total revenue in 2013, 2012 and 2011, respectively, and net sales to Target Corporation accounted for approximately 13% of total revenue in 2013 and 14% of total revenue in 2012 and 2011. There can be no assurance that our large customers will continue to purchase our products in the same quantities that they have in the past. The loss of sales to one of our large customers could materially and adversely affect our business, results of operations, cash flows and financial condition.

Difficulties in integrating acquisitions could adversely affect our business and we may not achieve the cost savings and increased revenues anticipated as a result of these acquisitions.

We continue to regularly evaluate potential acquisition opportunities to support and strengthen our business. We cannot be sure that we will be able to locate suitable acquisition candidates, acquire candidates on acceptable terms or integrate acquired businesses successfully. Future acquisitions could cause us to take on additional compliance obligations as well as experience dilution and incur debt, contingent liabilities, increased interest expense, restructuring charges and amortization expenses related to intangible assets, which may materially and adversely affect our business, results of operations and financial condition.

Integrating future businesses that we may acquire involves significant challenges. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of these acquired businesses has and will continue to require the dedication of significant management resources, which may temporarily distract management s attention from our day-to-day operations. The process of integrating operations may also cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel. Employee uncertainty and distraction during the integration process may also disrupt our business. Our strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of our products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond our control. In particular, we may not be able to realize the benefits of anticipated integration of sales forces, asset rationalization, systems integration, and more comprehensive product and service offerings.

If Schurman Fine Papers is unable to operate its retail stores successfully, it could have a material adverse effect on us.

On April 17, 2009, we sold our then existing retail operations segment, including all 341 of our card and gift retail store assets, to Schurman Fine Papers (Schurman), which now operates stores under a number of brands, including the American Greetings, Carlton Cards and Papyrus brands. Although we do not control Schurman, because Schurman is licensing the Papyrus, American Greetings and Carlton Cards names from us for its retail stores, actions taken by Schurman may be seen by the public as actions taken by us, which, in turn, could adversely affect our reputation or brands. In addition, the failure of Schurman to operate its retail stores profitably could have a material adverse effect on us, our reputation and our brands, and could materially and adversely affect our business, financial condition and results of operations, because, under the terms of the transaction:

we remain subject to certain store leases on a contingent basis through our subleasing of stores to Schurman (as described in Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report, as of February 28, 2013, Schurman s aggregate commitments to us under these subleases was approximately $12 million);

we are the predominant supplier of greeting cards and other social expression products to the retail stores operated by Schurman; and

we have provided credit support to Schurman, including a guaranty of up to $10 million in favor of the lenders under Schurman s senior revolving credit facility as described in Note 1 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

As a result, if Schurman is unable to operate its retail stores profitably, we may incur significant costs if (1) Schurman is unable to pay for product that it has purchased from us, (2) Schurman is unable to pay rent and other amounts due with respect to the retail store leases that we have subleased to it, or (3) we become obligated under our guaranty of its indebtedness. Accordingly, we may decide in the future to provide Schurman with additional financial or operational support to assist Schurman in successfully operating its stores. Providing such support, however, could result in it being determined that we have a controlling financial interest in Schurman under the Financial Accounting Standards Board s standards pertaining to the consolidation of a variable interest entity. For information regarding the consolidation of variable interest entities, see Note 1 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report. If it is determined that we have a controlling financial interest in Schurman, we will be required to consolidate Schurman s operations into our results, which could materially affect our reported results of operations and financial position as we would be required to include a portion of Schurman s income or losses and assets and liabilities into our financial statements.

We may not be successful in operating a direct retail business in a foreign country.

In connection with our June 2012 acquisition of assets from Clinton Cards and certain of its subsidiaries, we acquired approximately 400 retail stores together with related inventory and overhead, as well as the Clinton Cards and related brands. We face a number of challenges in expanding into the operations of a retail business in a foreign country. For example, we have no recent experience in operating retail stores, particularly outside of North America. Although we have engaged a team of advisors to operate the Clinton Cards stores that has extensive specialty retail channel experience, the team consists of employees of Schurman, which has limited operating experience in the United Kingdom. In addition, although we have a minority ownership interest in Schurman, and Schurman continues to be an important customer, this arrangement may be temporary, in which case we would need to establish a new long-term management team to operate the Clinton Cards stores. Additionally, we may be required to make capital and other investments in these stores, which could adversely affect their profitability. There are also many factors outside of our control that could adversely affect our ability to operate the Clinton Cards retail stores profitably, including factors that may affect consumer spending on our products, such as negative consumer perception resulting from a United States company owning the Clinton Cards stores, unfavorable economic conditions in the United Kingdom, availability of consumer credit, taxation levels, adverse weather, high fuel prices and low consumer confidence.

Our business, results of operations and financial condition may be adversely affected by retail consolidations.

With continued retail trade consolidations, we are increasingly dependent upon a reduced number of key retailers whose bargaining strength is growing. We may be negatively affected by changes in the policies of our retail customers, such as inventory de-stocking, limitations on access to display space, scan-based trading and other conditions. Increased consolidations in the retail industry could result in other changes that could damage our business, such as a loss of customers, decreases in volume, less favorable contractual terms and the growth of discount chains. In addition, as the bargaining strength of our retail customers grows, we may be required to grant greater credits, discounts, allowances and other incentive considerations to these customers. We may not be able to recover the costs of these incentives if the customer does not purchase a sufficient amount of products during the term of its agreement with us, which could materially and adversely affect our business, results of operations and financial condition.

Bankruptcy of key customers could give rise to an inability to pay us and increase our exposure to losses from bad debts.

Many of our largest customers are mass merchandiser retailers. The mass merchandiser retail channel has experienced significant shifts in market share among competitors in recent years. In addition, the worldwide downturn in the economy and decreasing consumer demand over the past several years has put pressure on the retail industry in general, as well as specialty retailers specifically, including certain of the card and gift shops that we supply. As a result, retailers have experienced liquidity problems and some have been forced to file for bankruptcy protection. There is a risk that certain of our key customers will not pay us, will seek additional credit from us, or that payment may be delayed because of bankruptcy or other factors beyond our control, which could increase our exposure to losses from bad debts and may require us to write-off deferred cost assets. Additionally, our business, results of operations and financial condition could be materially and adversely affected if certain of our larger retail customers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate.

We rely on foreign sources of production and face a variety of risks associated with doing business in foreign markets.

We rely on foreign manufacturers and suppliers for various products we distribute to customers. In addition, many of our domestic suppliers purchase a portion of their products from foreign sources. We generally do not have long-term supply contracts and some of our imports are subject to existing or potential duties, tariffs or quotas. In addition, a portion of our current operations are conducted and located abroad. The success of our sales to, and operations in, foreign markets depends on numerous factors, many of which are beyond our control, including economic conditions in the foreign countries in which we sell our products. We also face a variety of other risks generally associated with doing business in foreign markets and importing merchandise from abroad, such as:

- political instability, civil unrest and labor shortages;
- imposition of new legislation and customs regulations relating to imports that may limit the quantity and/or increase the cost of goods which may be imported into the United States from countries in a particular region;
- lack of effective product quality control procedures by foreign manufacturers and suppliers;
- currency and foreign exchange risks; and
- potential delays or disruptions in transportation as well as potential border delays or disruptions.

Also, new regulatory initiatives may be implemented that have an impact on the trading status of certain countries and may include antidumping and countervailing duties or other trade-related sanctions, which could increase the cost of products purchased from suppliers in such countries.

Additionally, as a large, multinational corporation, we are subject to a host of governmental regulations throughout the world, including antitrust and tax requirements, anti-boycott regulations, import/export customs regulations and other international trade regulations, the UK Bribery Act, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to criminal or monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

We have foreign currency translation and transaction risks that may materially and adversely affect our operating results.

The financial position and results of operations of our international subsidiaries are initially recorded in various foreign currencies and then translated into United States dollars at the applicable exchange rate for inclusion in our financial statements. The strengthening of the United States dollar against these foreign currencies ordinarily has a negative impact on our reported sales and operating income (and conversely, the weakening of the United States dollar against these foreign currencies has a positive impact). For the year ended February 28, 2013, foreign currency translation unfavorably affected revenues by $5.2 million and unfavorably affected income from continuing operations before income taxes by $2.4 million compared to the year ended February 29, 2012. Certain transactions, particularly in foreign locations, are denominated in other than that location s local currency. Changes in the exchange rates between the two currencies from the original transaction date to the settlement date will result in a currency transaction gain or loss that directly impacts our reported earnings. For the year ended February 28, 2013, the impact of currency movements on these transactions favorably affected non-operating income by $2.8 million. The volatility of currency exchange rates may materially and adversely affect our results of operations.

The greeting card and gift packaging industries are extremely competitive, and our business, results of operations and financial condition will suffer if we are unable to compete effectively.

We operate in highly competitive industries. There are a large number of greeting card publishers in the United States ranging from small, family-run organizations to major corporations. With the expansion of the Internet as a distribution channel for greeting cards, together with the growing use of technology by consumers to create personalized greeting cards with digital photographs and other personalized content, we are also seeing increased competition from greeting card publishers as well as a wide range of personal publishing, mobile and electronic media businesses distributing greeting cards and other social expression products directly to the individual consumer through the Internet. In general, however, the greeting card business is extremely concentrated. We believe that we are one of only two main suppliers offering a full line of social expression products. Our main competitor, Hallmark Cards, Inc., as well as other companies with which we may compete, may have substantially greater financial, technical or marketing resources, a greater customer base, stronger name recognition and a lower cost of funds than we do. Certain of these competitors may also have longstanding relationships with certain large customers to which they may offer products that we do not provide, putting us at a competitive disadvantage. As a result, our competitors may be able to:

- adapt to changes in customer requirements or consumer preferences more quickly;
- take advantage of acquisitions and other opportunities more readily;
- devote greater resources to the marketing and sale of their products, including sales directly to consumers through the Internet; and
- adopt more aggressive pricing policies.

There can be no assurance that we will be able to continue to compete successfully in this market or against such competition. If we are unable to introduce new and innovative products that are attractive to our customers and ultimate consumers, or if we are unable to allocate sufficient resources to effectively market and advertise our products to achieve widespread market acceptance, we may not be able to compete effectively, our sales may be adversely affected, we may be required to take certain financial charges, including goodwill impairments, and our results of operations and financial condition could otherwise be adversely affected.

We are subject to a number of restrictive covenants under our borrowing arrangements, which could affect our flexibility to fund ongoing operations, uses of capital and strategic initiatives, and, if we are unable to maintain compliance with such covenants, it could lead to significant challenges in meeting our liquidity requirements.

The terms of our borrowing arrangements contain a number of restrictive covenants, including customary operating restrictions that limit our ability to engage in such activities as borrowing and making investments, capital expenditures and distributions on our capital stock, and engaging in mergers, acquisitions and asset sales. We are also subject to customary financial covenants, including a leverage ratio and an interest coverage ratio. These covenants restrict the amount of our borrowings, reducing our flexibility to fund ongoing operations and strategic initiatives. These borrowing arrangements are described in more detail in Liquidity and Capital Resources under Item 7 and in Note 11 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. Compliance with some of these covenants is based on financial measures derived from our operating results. If economic conditions deteriorate, we may experience material adverse impacts to our business and operating results, such as through reduced customer demand and inflation. A decline in our business could make us unable to maintain compliance with these financial covenants, in which case we may be restricted in how we manage our business and deploy capital, including by limiting our ability to make acquisitions and dispositions, pay dividends and repurchase our stock. In addition, if we are unable to maintain compliance with our financial covenants or otherwise breach the covenants that we are subject to under our borrowing arrangements, our lenders could demand immediate payment of amounts outstanding and we would need to seek alternate financing sources to pay off such debts and to fund our ongoing operations. Such financing may not be available on favorable terms, if at all. In addition, our credit agreement is secured by substantially all of our domestic assets, including the stock of certain of our subsidiaries. If we cannot repay all amounts that we have borrowed under our credit agreement, our lenders could proceed against our assets.

Pending litigation could have a material, adverse effect on our business, financial condition, liquidity, results of operations and cash flows.

As described in Item 3. Legal Proceedings of this Annual Report, from time to time we are engaged in lawsuits which may require significant management time and attention and legal expense, and may result in an unfavorable outcome, which could have a material, adverse effect on our business, financial condition, liquidity, results of operations and cash flows. Current estimates of loss regarding pending litigation are based on information that is then available to us and may not reflect any particular final outcome. The results of rulings, judgments or settlements of pending litigation may result in financial liability that is materially higher than what management has estimated at this time. We make no assurances that we will not be subject to liability with respect to current or future litigation. We maintain various forms of insurance coverage. However, substantial rulings, judgments or settlements could exceed the amount of insurance coverage or could be excluded under the terms of an existing insurance policy.

The amount of various taxes we pay is subject to ongoing compliance requirements and audits by federal, state and foreign tax authorities.

Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts and circumstances existing at the time. We use these assessments to determine the adequacy of our provision for income taxes and other tax-related accounts. Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate and/or our financial results.

We have deferred tax assets that we may not be able to use under certain circumstances.

If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets. This would result in an increase in our effective tax rate and would have an adverse effect on our future operating results. In addition, changes in statutory tax rates may change our deferred tax asset or liability balances, with either favorable or unfavorable impacts on our effective tax rate. Our deferred tax assets may also be impacted by new legislation or regulation.

We may not be able to acquire or maintain advantageous content licenses from third parties to produce products.

To provide an assortment of relevant, compelling and superior product offerings, an important part of our business involves obtaining licenses to produce products based on various popular brands, celebrities, character properties, designs, content and other material owned by third parties. In the event that we are not able to acquire or maintain advantageous licenses, we may not be able to meet changing customer demands and preferences for greeting cards and our other products, which could materially and adversely affect our business, results of operations and financial condition.

We may not realize the full benefit of the material we license from third parties if the licensed material has less market appeal than expected or if sales revenue from the licensed products is not sufficient to earn out the minimum guaranteed royalties.

The agreements under which we license popular brands, celebrities, character properties, design, content and other material owned by third parties usually require that we pay an advance and/or provide a minimum royalty guarantee that may be substantial. In some cases, these advances or minimums may be greater than what we will be able to recoup in profits from actual sales, which could result in write-offs of such amounts that would adversely affect our results of operations. In addition, we may acquire or renew licenses requiring minimum guarantee payments that may result in us paying higher effective royalties, if the overall benefit of obtaining the license outweighs the risk of potentially losing, not renewing or otherwise not obtaining a valuable license. When obtaining a license, we realize there is no guarantee that a particular licensed property will make a successful greeting card or other product in the eye of the ultimate consumer. Furthermore, there can be no assurance that a successful licensed property will continue to be successful or maintain a high level of sales in the future.

Our inability to protect or defend our intellectual property rights could reduce the value of our products and brands.

We believe that our trademarks, copyrights, trade secrets, patents and other intellectual property rights are important to our brands, success and competitive position. We rely on trademark, copyright, trade secrets and patent laws in the United States and similar laws in other jurisdictions and on confidentiality and other types of agreements with some employees, vendors, consultants and others to protect our intellectual property rights. Despite these measures, if we are unable to successfully file for, register or otherwise enforce our rights or if these rights are infringed, invalidated, challenged, circumvented or misappropriated, our business could be materially and adversely affected. Also, we are, and may in the future be, subject to intellectual property rights claims in the United States or foreign countries, which could limit our ability to use certain intellectual property, products or brands in the future. Defending any such claims, even claims without merit, could be time-consuming, result in costly settlements, litigation or restrictions on our business and could damage our reputation.

Rapidly changing trends in the children s entertainment market could adversely affect our business.

A portion of our business and results of operations depends upon the appeal of our licensed character properties, which are used to create various toy and entertainment items for children. Consumer preferences, particularly among children, are continuously changing. The children s entertainment industry experiences significant, sudden and often unpredictable shifts in demand caused by changes in the preferences of children to more on trend entertainment properties. Moreover, the life cycle for individual youth entertainment products tends to be short. Therefore, our ability to maintain our current market share and increase our market share in the future depends on our ability to satisfy consumer preferences by enhancing existing entertainment properties and developing new entertainment properties. If we are not able to successfully meet these challenges in a timely and cost-effective manner, demand for our collection of entertainment properties could decrease and our business, results of operations and financial condition may be materially and adversely affected. In addition, we may incur significant costs developing entertainment properties that may not generate future revenues at the levels that we anticipated, which could in turn create fluctuations in our reported results based on when those costs are expensed and could otherwise materially and adversely affect our results of operations and financial condition.

Our results of operations fluctuate on a seasonal basis.

The social expression industry is a seasonal business, with sales generally being higher in the second half of our fiscal year due to the concentration of major holidays during that period. Consequently, our overall results of operations in the future may fluctuate substantially based on seasonal demand for our products. Such variations in demand could have a material adverse effect on the timing of cash flow and therefore our ability to meet our obligations with respect to our debt and other financial commitments. Seasonal fluctuations also affect our inventory levels, since we usually order and manufacture merchandise in advance of peak selling periods and sometimes before new trends are confirmed by customer orders or consumer purchases. We must carry significant amounts of inventory, especially before the holiday season selling period. If we are not successful in selling the inventory during the holiday period, we may have to sell the inventory at significantly reduced prices, or we may not be able to sell the inventory at all.

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Increases in raw material and energy costs may materially raise our costs and materially impact our profitability.

Paper is a significant expense in the production of our greeting cards. Significant increases in paper prices, which have been volatile in past years, or increased costs of other raw materials or energy, such as fuel, may result in declining margins and operating results if market conditions prevent us from passing these increased costs on to our customers through timely price increases on our greeting cards and other social expression products.

The loss of key members of our senior management and creative teams could adversely affect our business.

Our success and continued growth depend largely on the efforts and abilities of our current senior management team as well as upon a number of key members of our creative staff, who have been instrumental in our success thus far, and upon our ability to attract and retain other highly capable and creative individuals. The loss of some of our senior executives or key members of our creative staff, or an inability to attract or retain other key individuals, could materially and adversely affect us. We seek to compensate our key executives, as well as other employees, through competitive salaries, stock ownership, bonus plans or other incentives, but we can make no assurance that these programs will enable us to retain key employees or hire new employees.

If we fail to extend or renegotiate our primary collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike, or other work stoppage, our business and results of operations could be materially adversely affected.

We are party to collective bargaining contracts with our labor unions, which represent a large number of our employees. In particular, approximately 825 of our employees are unionized and are covered by collective bargaining agreements. Although we believe our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work related stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business.

Employee benefit costs constitute a significant element of our annual expenses and funding these costs could adversely affect our financial condition.

Employee benefit costs are a significant element of our cost structure. Certain expenses, particularly postretirement costs under defined benefit pension plans and healthcare costs for employees and retirees, may increase significantly at a rate that is difficult to forecast and may adversely affect our results of operations, financial condition or cash flows. In addition, federal healthcare legislation may increase our employer-sponsored medical plan costs, some of which increases could be significant. Declines in global capital markets may cause reductions in the value of our pension plan assets. Such circumstances could have an adverse effect on future pension expense and funding requirements. Further information regarding our retirement benefits is presented in Note 12 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Various environmental regulations and risks applicable to a manufacturer and/or distributor of consumer products may require us to take actions, which will adversely affect our results of operations.

Our business is subject to numerous federal, state, provincial, local and foreign laws and regulations, including regulations with respect to chemical usage, air emissions, wastewater and storm water discharges and other releases into the environment as well as the generation, handling, storage, transportation, treatment and disposal of waste materials, including hazardous materials. Although we believe that we are in substantial compliance with all applicable laws and regulations, because legal requirements frequently change and are subject to interpretation, we are unable to predict the ultimate cost of compliance with these requirements, which may be significant, or the effect on our operations as these laws and regulations may give rise to claims, uncertainties or possible loss contingencies for future environmental remediation liabilities and costs. We cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, will not have a material and adverse effect on our business, results of operations and financial condition. The impact of environmental laws and regulations, regulatory enforcement activities, the discovery of unknown conditions, and third party claims for damages to the environment, real property or persons could result in additional liabilities and costs in the future.

We may be subject to product liability claims and our products could be subject to voluntary or involuntary recalls and other actions.

We are subject to numerous federal, state, provincial and foreign laws and regulations governing product safety including, but not limited to, those regulations enforced by the Consumer Product Safety Commission. A failure to comply with such laws and regulations, or concerns about product safety may lead to a recall of selected products. We have experienced, and in the future may experience, recalls and defects or errors in products after their production and sale to customers. Such recalls and defects or errors could result in the rejection of our products by our retail customers and consumers, damage to our reputation, lost sales, diverted development resources and increased customer service and support costs, any of which could harm our business. Individuals could sustain injuries from our products and we may be subject to claims or lawsuits resulting from such injuries. Governmental agencies could pursue us and issue civil fines and/or criminal penalties for a failure to comply with product safety regulations. There is a risk that these claims or liabilities may exceed, or fall outside the scope of, our insurance coverage. Additionally, we may be unable to obtain adequate liability insurance in the future. Recalls, post-manufacture repairs of our products, product liability claims, absence or cost of insurance and administrative costs associated with recalls could harm our reputation, increase costs or reduce sales.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, restrictions on imports and exports, customs, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property use and ownership, sales and other taxes, fraud, libel and personal privacy apply to the Internet and e-commerce as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. Those laws that do reference the Internet are only beginning to be interpreted by the courts and their applicability and reach are therefore uncertain. For example, the Digital Millennium Copyright Act, or DMCA, is intended, in part, to limit the liability of eligible online service providers for including (or for listing or linking to third-party Web sites that include) materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and CDA in conducting our online business. Any changes in these laws or judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children s Online Privacy Protection Act is intended to impose additional restrictions on the ability of online service providers to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on our part to comply with these regulations may subject us to significant liabilities. Those current and future laws and regulations or unfavorable resolution of these issues may substantially harm our business and results of operations.

Failure to protect confidential information of our customers and our network against security breaches or failure to comply with privacy and security laws and regulations could damage our reputation and brands and substantially harm our business and results of operations.

A significant challenge to e-commerce and communications is the secure transmission of confidential information over public networks. Our failure to prevent security breaches could damage our reputation and brands and harm our business and results of operations. In transactions conducted over the Internet, maintaining complete security for the transmission of confidential information on our Web sites, such as customers credit card numbers and expiration dates, personal information and billing addresses, is essential to maintain consumer confidence. We have limited influence over the security measures of third-party online payment service providers. In addition, we hold certain private information about our customers, such as their names, addresses, phone numbers and purchasing records.

We may not be able to prevent third parties from stealing information provided by our customers to us through our Web sites. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Any compromise of our security could damage our reputation and brands and expose us to a risk of loss or litigation and possible liability, which could substantially harm our business and results of operations.

Even if we are successful in adapting to and preventing new security breaches, any perception by the public that e-commerce and other online transactions, or the privacy of user information, are becoming increasingly unsafe or vulnerable to attack could inhibit the growth of our AG Interactive and Cardstore.com businesses.

In addition, any failure or perceived failure by us to comply with our privacy policies or privacy-related obligations to customers or other third parties may result in Federal or state governmental enforcement actions, litigation, or negative public attention and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business.

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Information technology infrastructure failures could significantly affect our business.

We depend heavily on our information technology infrastructure in order to achieve our business objectives. Portions of our information technology infrastructure are old and difficult to maintain. We could experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important information technology application, or an intentional disruption of our information technology systems. In addition, our information technology systems could suffer damage or interruption from human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar events. The disruptions caused by any such events could impede our ability to record or process orders, manufacture and ship in a timely manner, properly store consumer images, or otherwise carry on our business in the ordinary course. Any such event could cause us to lose customers or revenue, damage our reputation, and could require us to incur significant expense to eliminate these problems and address related security concerns.

Over the next five or six years, we expect to allocate resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures, all of which are intended to drive efficiencies within the business and add new capabilities. Such an implementation is expensive and carries substantial operational risk, including loss of data or information, unanticipated increases in costs, disruption of operations or business interruption. Further, we may not be successful implementing new systems or any new system may not perform as expected. This could have a material adverse effect on our business.

Resuming the project to relocate our world headquarters could result in cost overruns and disruptions to our operations.

Although our project to construct and relocate to a new world headquarters is currently on hold in light of the Going Private Proposal, we anticipate that the gross costs associated with resuming the project and building the new world headquarters, before any tax credits, loans or other incentives that we may receive, will be between approximately $150 million and $200 million over a number of years following our resumption of the project. Due to the inherent difficulty in estimating costs associated with projects of this scale and nature together with the fact that we are in the preliminary stages of the project, the costs associated with this project may be higher than $200 million and it may take us longer than expected to complete the project. In addition, the process of moving our world headquarters is inherently complex and not part of our day to day operations. Thus, that process could cause significant disruption to our operations and cause the temporary diversion of management resources, all of which could have a material adverse effect on our business.

Acts of nature could result in an increase in the cost of raw materials; other catastrophic events, including earthquakes, could interrupt critical functions and otherwise adversely affect our business and results of operations.

Acts of nature could result in an increase in the cost of raw materials or a shortage of raw materials, which could influence the cost of goods supplied to us. Additionally, we have significant operations, including our largest manufacturing facility, near a major earthquake fault line in Arkansas. A catastrophic event, such as an earthquake, fire, tornado, or other natural or man-made disaster, could disrupt our operations and impair production or distribution of our products, damage inventory, interrupt critical functions or otherwise affect our business negatively, harming our results of operations.

Risks Related to the Merger

The pendency of the proposed Merger and the related diversion of our management s attention from the operation of our business may adversely affect our business and results of operations.

As described in our Current Report on Form 8-K filed with the SEC on April 1, 2013, and in the preliminary proxy statement on Schedule 14A filed with the SEC on April 17, 2013, we have entered into a Merger Agreement, which, subject to shareholder approval and various other conditions, would result in our being acquired by Century Intermediate Holding Company, which upon the closing of the Merger would be indirectly owned by the Family Shareholders. Our management and Board of Directors have devoted and will continue to devote a significant amount of time and attention to the proposed Merger. In addition, in connection with the proposed Merger, we have incurred and will continue to incur expenses, which could prove to be significant. Our business and our operating and financial results may be materially adversely affected by the diversion of management s time and attention and the expenses incurred in connection with the proposed Merger.

If the proposed Merger is not completed and we are not otherwise acquired, we may consider other strategic alternatives which are subject to risks and uncertainties.

If the proposed Merger is not completed, our Board of Directors will review and consider various alternatives available to us, including, among others, continuing as a public company with no material changes to our business or capital structure. These alternative transactions or initiatives may involve various additional risks to our business, including, among others, distraction of our

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management team and associated expenses as described above in connection with the proposed Merger. In addition, our ability to consummate any alternative transaction or execute any alternative initative could be subject to various uncertainties. All of the foregoing could adversely affect our operations or financial condition.

The Merger Agreement contains provisions that could discourage or make it difficult for a third party to acquire us prior to the completion of the proposed Merger.

The Merger Agreement contains certain customary provisions that restrict our ability to solicit, or engage in discussions or negotiations regarding, alternative acquisition proposals from third parties prior to the completion of the proposed Merger. The Merger Agreement also provides that we reimburse Parent for transaction expenses up to a maximum of $7.3 million if the Merger Agreement is terminated in specified circumstances, including if we terminate the Merger Agreement to enter into a definitive agreement for an alternative acquisition proposal from a third party.

These provisions might discourage an otherwise-interested third party from considering or proposing an acquisition of the Corporation, even one that may be of greater value to our shareholders than the proposed Merger. Furthermore, even if a third party elects to propose an acquisition, our obligation to reimburse Parent for transaction expenses may result in that third party offering a lower value to our shareholders than the third party might otherwise have offered.

Several lawsuits have been filed against the Corporation, our directors, certain members of the Weiss family and related parties, and an adverse ruling may prevent the proposed Merger from being completed or adversely affect the Corporation s financial results and liquidity.

Following the Corporation s announcement on September 26, 2012 that our Board had received the Going Private Proposal, the Corporation, our directors, certain members of the Weiss family and related parties have been named as defendants in several lawsuits brought by purported shareholders of the Corporation challenging the proposed Merger and seeking, among other things, injunctive relief to enjoin the defendants from completing the proposed Merger. An adverse judgment for monetary damages could have a material adverse effect on the financial results, operations and liquidity of the Corporation.

Failure to complete the proposed Merger could negatively affect our business, financial condition, results of operations or stock price.

The completion of the proposed Merger is subject to customary conditions, and there can be no assurance that these conditions will be satisfied or that the proposed Merger will otherwise occur. If the proposed Merger is not completed, we will be subject to several risks, including that:

- customers, vendors or other parties with which we maintain business relationships may experience uncertainty about our future and seek alternative relationships with other parties or seek to alter their business relationships with us;
- our employees may experience uncertainty about their future roles with us, which might adversely affect our ability to retain and hire key personnel and other employees;
- we may be required to reimburse Parent for transaction expenses up to a maximum of $7.3 million if the Merger Agreement is terminated under certain circumstances which would negatively affect our financial results and liquidity;
- we expect to incur transaction costs in connection with the proposed Merger regardless of whether the proposed Merger is completed, which costs could prove to be significant;
- we would not realize any of the anticipated benefits of having completed the proposed Merger;

under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the proposed Merger, which restrictions could adversely affect our ability to realize certain of our business opportunities regardless of whether the Merger is consummated; and

if the Merger Agreement is terminated and there are no other parties willing and able to acquire us at a price of $18.20 per share or higher and on other terms acceptable to us, the market price of our Class A common shares may decline.

Even if the proposed Merger does not occur, the Family Shareholders will continue to own a substantial portion of the voting power of our common shares.

Our authorized capital stock consists of Class A common shares and Class B common shares. The economic rights of each class of common shares are identical, but the voting rights differ. Class A common shares are entitled to one vote per share and Class B common shares are entitled to ten votes per share. There is no public trading market for the Class B common shares, which are held by members of the extended family of American Greetings founder, officers and directors of American Greetings and their extended family members, family trusts and certain other persons. As of May 1, 2013, the Family Shareholders, together with the Irving I. Stone Foundation, beneficially owned, in the aggregate, approximately 90% of our outstanding Class B common shares (including restricted stock units that vest, and stock options that are exercisable, within 60 days of May 1, 2013), which, together with Class A common shares beneficially owned by them, represents approximately 51% of our total outstanding voting power. Accordingly, even if the proposed Merger does not occur, the Family Shareholders, together with the Irving I. Stone Foundation, would be able to continue to significantly influence the outcome of shareholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in our Articles of Incorporation or Code of Regulations, and the approval of mergers and other significant corporate transactions, and their interests may not be aligned with your interests.

Our charter documents and Ohio law may inhibit a takeover and limit our growth opportunities, which could adversely affect the market price of our common shares.

Certain provisions of Ohio law and our charter documents, together or separately, could have the effect of discouraging, or making it more difficult for, a third party to acquire or attempt to acquire control of the Corporation and limit the price that certain investors might be willing to pay in the future for our common shares. For example, our charter documents establish a classified Board of Directors, serving staggered three-year terms, allow the removal of directors only for cause, and establish certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered at shareholders meetings. In addition, while shareholders have the right to cumulative voting in the election of directors, Class B common shares have ten votes per share, which limits the ability of holders of Class A common shares to elect a director by exercising cumulative voting rights.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of February 28, 2013, we owned or leased approximately 8.8 million square feet of plant, warehouse and office space throughout the world, of which approximately 501,600 square feet is leased space. We believe our manufacturing and distribution facilities are well maintained and are suitable and adequate, and have sufficient productive capacity to meet our current needs.

The following table summarizes, as of February 28, 2013, our principal plants and materially important physical properties and identifies as of such date the respective segments that use the properties described. In addition to the following, although we sold our Retail Operations segment in April 2009, we remain subject to certain of the Retail Operations store leases on a contingent basis through our subleasing of stores to Schurman, which operates these retail stores throughout North America. See Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report. In addition, as a result of the bankruptcy administration of a former customer, Clinton Cards, and the related acquisition of certain of its assets in June 2012, we operate approximately 400 card and gift retail stores throughout the United Kingdom, all of which operate in premises that we lease from third parties.

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* Indicates calendar year

Location	Approximate Square Feet Occupied Owned	Approximate Square Feet Occupied Leased	Expiration Date of Material Leases*	Principal Activity
Cleveland, (1) (3) (5) Ohio	1,700,000			World Headquarters: General offices of North American Greeting Card Division; Plus Mark LLC; AG Interactive, Inc.; Cardstore Inc.; AGC, LLC; Those Characters From Cleveland, Inc.; and Cloudco, Inc.; creation and design of greeting cards, gift packaging, party goods, stationery and giftware; marketing of electronic greetings; design licensing; character licensing
Bardstown, (1) Kentucky	413,500			Cutting, folding, finishing and packaging of greeting cards
Danville, (1) Kentucky	1,374,000			Distribution of everyday products including greeting cards
Osceola, (1) Arkansas	2,552,000			Cutting, folding, finishing and packaging of greeting cards and warehousing; distribution of seasonal products
Ripley, (1) Tennessee	165,000			Greeting card printing (lithography)
Forest City, (5) North Carolina	498,000			General offices of A.G. Industries, Inc.; manufacture of display fixtures and other custom display fixtures by A.G. Industries, Inc.
Forest City, (5) North Carolina		290,000	2014	Warehousing for A.G. Industries, Inc.
Greeneville, (1) Tennessee	1,044,000			Printing and packaging of seasonal greeting cards and wrapping items and order filling and shipping for Plus Mark LLC.
Chicago, (1) Illinois		45,000	2018	Administrative offices of Papyrus-Recycled Greetings, Inc.
Fairfield, (1) California		34,000	2014	General offices of Papyrus-Recycled Greetings, Inc.
Mississauga, (1) Ontario, Canada		38,000	2018	General offices of Carlton Cards Limited (Canada)
Mulgrave, (2) Australia		30,000	2021	General offices of John Sands companies
Dewsbury, (2) England (Two Locations)	430,000			General offices of UK Greetings Ltd. and manufacture and distribution of greeting cards and related products
Corby, England (2)	136,000			Distribution of greeting cards and related products
London, England (4)		64,591	2013	General offices of AG Retail Cards Limited

1 North American Social Expression Products
2 International Social Expression Products
3 AG Interactive
4 Retail Operations
5 Non-reportable

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Item 3. Legal Proceedings

Baker/Collier Litigation. American Greetings Corporation is a defendant in two putative class action lawsuits involving corporate-owned life insurance policies (the Insurance Policies): one filed in the Northern District of Ohio on January 11, 2012 by Theresa Baker as the personal representative of the estate of Richard Charles Wolfe (the Baker Litigation); and the other filed in the Northern District of Oklahoma on October 1, 2010 by Keith Collier as the personal representative of the estate of Ruthie Collier (the Collier Litigation).

In the Baker Litigation, the plaintiff claims that American Greetings Corporation (1) misappropriated its employees names and identities to benefit itself; (2) breached its fiduciary duty by using its employees identities and personal information to benefit itself; (3) unjustly enriched itself through the receipt of corporate-owned life insurance policy benefits, interest and investment returns; and (4) improperly received insurance policy benefits for the insurable interest in Mr. Wolfe s life. The plaintiff seeks damages in the amount of all pecuniary benefits associated with the subject Insurance Policies, including investment returns, interest and life insurance policy benefits that American Greetings Corporation received from the deaths of the former employees whose estates form the putative class.

In the Collier Litigation, the plaintiff claims that American Greetings Corporation did not have an insurable interest when it obtained the subject Insurance Policies and wrongfully received the benefits from those policies. The plaintiff seeks damages in the amount of policy benefits received by American Greetings Corporation from the subject Insurance Policies, as well as attorney s fees, costs and interest. On April 2, 2012, the plaintiff filed its First Amended Complaint, adding misappropriation of employee information and breach of fiduciary duty claims as well as seeking punitive damages. On April 20, 2012, American Greetings Corporation moved to transfer the Collier Litigation to the Northern District of Ohio, where the Baker Litigation is pending. On July 6, 2012, the court granted American Greetings Corporation s Motion to Transfer and transferred the case to the Northern District of Ohio, where the Baker Litigation is pending.

On January 24, 2013, the parties reached a settlement in principle in both cases that, if approved by the Court, will fully and finally resolve all of the claims of the Wolfe and Collier estates, as well as the classes they seek to represent. The settlement was a product of extensive negotiations and a private mediation. It anticipates that the Court will consolidate the two cases and certify a single class that consists of the heirs or estates of the estates and heirs of all former American Greetings Corporation employees (i) who are deceased; (ii) who were not officers or directors of American Greetings; (iii) who were insured under one of the following corporate-owned life insurance plans: Provident Life & Accident 61153, Provident Life & Accident 61159, Mutual Benefit Life Insurance Company 111, Connecticut General ENX219, and Hartford Life Insurance Company 361; and (iv) for whom American Greetings has received a death benefit on or before the date on which the Court enters the Order of Preliminary Approval. If finally approved by the Court, American Greetings Corporation will deposit $12.5 million into a settlement fund to be distributed in its entirety to those members of the class who present valid claims, their counsel, and a settlement administration vendor. On April 19, 2013, the parties filed a joint motion seeking the Court s preliminary approval of the settlement and are awaiting the Court s approval of the settlement. If and when the settlement is approved, notice will be provided to potential class members, a hearing will be held, and the Court will entertain final approval of the settlement.

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

On May 7, 2010, the legal proceedings involving American Greetings Corporation, TCFC, Cookie Jar and DIC were settled, without a payment to any of the parties. As part of the settlement, on May 7, 2010, the Cookie Jar Agreement was amended to, among other things, terminate American Greetings Corporation s obligation to sell to Cookie Jar, and Cookie Jar s obligation to purchase, the Properties. As part of the settlement, Cookie Jar Entertainment (USA) Inc. will continue to represent the Strawberry Shortcake property on behalf of American Greetings Corporation and will become an international agent for the Care Bears property. On May 19, 2010, the Northern District of Ohio court granted the parties joint Motion to Dismiss all claims and counterclaims without prejudice.

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On August 11, 2009, MoonScoop filed an action against American Greetings Corporation and TCFC in the United States District Court for the Northern District of Ohio, alleging breach of contract and promissory estoppel relating to the MoonScoop Binding Agreement. On MoonScoop s request, the court agreed to consolidate this lawsuit with the first Ohio lawsuit (described above) for all pretrial purposes. The parties filed Motions for Summary Judgment on various claims. On April 27, 2010, the court granted American Greetings Corporation s Motion for Summary Judgment on MoonScoop s breach of contract and promissory estoppel claims, dismissing these claims with prejudice. On the same day, the court also ruled that American Greetings Corporation must indemnify MoonScoop against Cookie Jar s claims in this lawsuit. On May 21, 2010, MoonScoop appealed the court s summary judgment ruling to the United States Court of Appeals for the Sixth Circuit. On June 4, 2010, American Greetings Corporation and TCFC appealed to the United States Court of Appeals for the Sixth Circuit the court s ruling that it must indemnify MoonScoop against the cross claims asserted against it. On July 16, 2012, the United States Sixth Circuit Court of Appeals issued a split decision, with the majority reversing the Northern District of Ohio court s order that had granted American Greetings Corporation s Motion for Summary Judgment on MoonScoop s principal claims. The case has been remanded to the District Court for further proceedings. The Court of Appeals also affirmed the District Court s finding on summary judgment in favor of MoonScoop on its indemnity claim, involving MoonScoop s attorney fees for defending against Cookie Jar s third-party claims (which have been dismissed). As a result, the Corporation has reimbursed MoonScoop for the $161,309 in attorney fees that it incurred. The District Court held a trial beginning November 13, 2012. The jury returned a unanimous verdict in favor of American Greetings Corporation and TCFC. On November 26, 2012, the District Court entered judgment in favor of American Greetings Corporation and against MoonScoop.

On December 20, 2012, MoonScoop filed a Notice of Appeal with the United States Court of Appeals for the Sixth Circuit appealing the final judgment of the District Court. On February 1, 2013, MoonScoop moved to voluntarily dismiss its appeal, without filing an appellate brief. The Sixth Circuit granted the voluntary dismissal on February 4, 2013. The appeal was terminated, and the final judgment in favor of American Greetings stands as entered by the District Court in November 2012.

Carter/Wolfe/LMPERS Litigation. On September 26, 2012, the Corporation announced that the Board of Directors had received the Going Private Proposal. On September 27, 2012, Dolores Carter, a purported shareholder, filed a putative shareholder derivative and class action lawsuit (the Carter Action) in the Court of Common Pleas in Cuyahoga County, Ohio (the Cuyahoga County Court), against American Greetings Corporation and all of the members of the Board of Directors (Carter Defendants). The Carter Action alleges, among other things, that the directors of the Corporation breached their fiduciary duties owed to shareholders in evaluating and pursuing the proposal. The Carter Action further alleges claims for aiding and abetting breaches of fiduciary duty. Among other things, the Carter Action seeks declaratory relief. Subsequently, six more lawsuits were filed in the Cuyahoga County Court purporting to advance substantially similar claims on behalf of American Greetings against the members of the Board of Directors and, in certain cases, additional direct claims against American Greetings. One lawsuit was voluntarily dismissed. The other lawsuits, which remain pending, were consolidated by Judge Richard J. McMonagle on December 6, 2012 (amended order dated December 18, 2012) as In re American Greetings Corp. Shareholder Litigation, Lead Case No. CV 12 792421. Lead Plaintiffs and Lead Plaintiffs Counsel also were appointed. Lead Plaintiffs Counsel has served written discovery on the Corporation and has communicated its intent to file a motion for a preliminary injunction to prevent the merger from moving forward.

On April 30, 2013, Lead Plaintiffs Counsel also filed a Consolidated Class Action Complaint. The Consolidated Complaint brings a single class claim against the defendants for breach of fiduciary duties and aiding and abetting. The plaintiffs allege that the preliminary proxy statement on Schedule 14A filed with the SEC on April 17, 2013 omits information necessary to permit the Corporation s shareholders to determine if the Merger is in their best interest, that the controlling shareholders have abused their control of the Corporation, that the special committee appointed to oversee the transaction is not independent, and that the other members of the board are also not independent.

On November 6, 2012, R. David Wolfe, a purported shareholder, filed a putative class action (the Wolfe Action) in the United States District Court for the Northern District of Ohio (the Federal Court) against certain members of the Weiss Family and the Irving I. Stone Oversight Trust, the Irving Stone Limited Liability Company, the Irving I. Stone Support Foundation, and the Irving I. Stone Foundation (Stone Entities) alleging breach of fiduciary duties in proposing and pursuing the proposal, as well as against American Greetings, seeking, among other things, declaratory relief. Shortly thereafter, on November 9, 2012, the Louisiana Municipal Police Employees Retirement System also filed a purported class action in the Federal Court (the LMPERS Action) asserting substantially similar claims against the same defendants and seeking substantially similar relief.

On November 30, 2012, plaintiffs in the Wolfe and LMPERS Actions filed motions (1) to consolidate the Wolfe and LMPERS Actions, (2) for appointment as co-lead plaintiffs, (3) for appointment of co-lead counsel, and, in the Wolfe Action only, (4) for partial summary judgment. On December 14, 2012, the Corporation filed its oppositions to the motions (a) to consolidate the Wolfe and LMPERS Actions, (b) for appointment as co-lead plaintiffs, and (c) for appointment of co-lead counsel. On the same day, the Corporation also moved to dismiss both the Wolfe and LMPERS Actions. The Corporation answered both complaints on January 8, 2013, and on January 11, 2013, it filed its opposition to the motion for partial summary judgment. On February 14, 2013, the Federal Court dismissed both the Wolfe and LMPERS Actions for lack of subject matter jurisdiction. On March 15, 2013, plaintiffs in both the Wolfe and LMPERS Actions filed notices of appeal with the Sixth Circuit Court of Appeals. Wolfe subsequently moved to voluntarily dismiss his appeal on April 18, 2013, and the Sixth Circuit granted his motion the following day. On May 5, 2013, counsel for LMPERS advised the Corporation that it intends to voluntarily dismiss its appeal as well.

Plaintiffs in the Wolfe and LMPERS Actions alleged, in part, that Article Seventh of the Corporation s articles of incorporation prohibited the special committee from, among other things, evaluating the merger. The Corporation considered these allegations and concluded that the Article is co-extensive with Ohio law and thus allows the Corporation to engage in any activity authorized by Ohio law. The Corporation also has consistently construed Article Seventh as permitting directors to approve a transaction so long as they are both disinterested and independent.

On April 17, 2013, R. David Wolfe filed a new derivative and putative class action (Wolfe Action II) in the United States District Court for the Northern District of Ohio against the Corporation s directors, certain members of the Weiss Family, and the Stone Entities, as well as the Corporation as a nominal defendant. Mr. Wolfe subsequently filed an Amended Complaint on April 29, 2013. The Wolfe Action II seeks a declaratory judgment that Article Seventh precludes the board and special committee from approving the merger. In addition, the Wolfe Action II includes a derivative claim for breach of fiduciary duty against the Corporation s directors for allegedly violating Article Seventh. Finally, the Wolfe Action II includes both a derivative and class action claim for breach of fiduciary duty against the Weiss Family defendants and the Stone Entities for allegedly seeking to acquire the minority shareholders interests at an unfair price. The Corporation s response to the Wolfe Action II is not yet due.

Management does not believe, based on currently available information, that the outcomes of the proceedings described above will have a material adverse effect on the Corporation s financial condition, though the outcomes could be material to the Corporation s operating results for any particular period, depending, in part, upon the operating results for such period.

In addition to the foregoing, we are involved in various judicial, administrative, regulatory and arbitration proceedings concerning matters arising in the ordinary course of business operations, including, but not limited to, employment, commercial disputes and other contractual matters. We, however, do not believe that any of the other litigation in which we are currently engaged, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. Our Class A common shares are listed on the New York Stock Exchange under the symbol AM. The high and low sales prices, as reported in the New York Stock Exchange listing, for the years ended February 28, 2013 and February 29, 2012, were as follows:

	2013		2012	
	High	Low	High	Low
1st Quarter	$ 16.55	$ 13.96	$ 24.75	$ 21.11
2nd Quarter	15.16	12.53	24.84	17.81
3rd Quarter	17.44	13.98	21.68	15.20
4th Quarter	17.49	15.06	17.85	12.47

There is no public market for our Class B common shares. Pursuant to our Amended and Restated Articles of Incorporation, a holder of Class B common shares may not transfer Class B common shares (except to permitted transferees, a group that generally includes members of the holder s extended family, family trusts and charities) unless the holder first offers such shares to American Greetings for purchase at the most recent closing price for our Class A common shares. If we do not purchase such Class B common shares, the holder must convert the shares, on a share for share basis, into Class A common shares prior to any transfer.

Wells Fargo, St. Paul, Minnesota, is our registrar and transfer agent.

Shareholders. At February 28, 2013, there were approximately 11,900 holders of Class A common shares and 126 holders of Class B common shares of record and individual participants in security position listings.

Dividends. The following table sets forth the dividends declared by us in fiscal years 2013 and 2012.

Dividends per share declared in	2013	2012
1st Quarter	$ 0.15	$ 0.15
2nd Quarter	0.15	0.15
3rd Quarter	0.15	0.15
4th Quarter	0.15	0.15
Total	$ 0.60	$ 0.60

Payment of dividends is determined by the Board of Directors in light of appropriate business conditions. Under the Merger Agreement, if the Board of Directors so determines prior to the completion of the Merger, we are permitted to declare and pay one quarterly dividend on our Class A common shares and Class B common shares up to $0.15 per share, consistent with prior timing. The Merger Agreement prohibits us from declaring or paying any other dividends on our Class A common shares or Class B common shares.

In addition, our borrowing arrangements, including our senior secured credit facility and the indenture governing our 7.375% senior notes due 2021 restrict our ability to pay shareholder dividends. Our borrowing arrangements also contain certain other restrictive covenants that are customary for similar credit arrangements. For example, our credit facility contains covenants relating to financial reporting and notification, compliance with laws, preservation of existence, maintenance of books and records, use of proceeds, maintenance of properties and insurance. In addition, our credit facility includes covenants that limit our ability to incur additional debt, declare or pay dividends, make distributions on or repurchase or redeem capital stock, make certain investments, enter into transactions with affiliates, grant or permit liens, sell assets, enter in sale and leaseback transactions, and consolidate, merge or sell all or substantially all of our assets. There are also financial covenants that require us to maintain a maximum leverage ratio (consolidated indebtedness minus unrestricted cash over consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)) and a minimum interest coverage ratio (consolidated EBITDA over consolidated interest expense). These restrictions are subject to customary baskets and financial covenant tests. For a further description of the limitations imposed by our borrowing arrangements, see the discussion in Part II, Item 7, under the heading Liquidity and Capital Resources of this Annual Report, and Note 11 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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Securities Authorized for Issuance Under Equity Compensation Plans. Please refer to the information set forth under the heading Equity Compensation Plan Information included in Item 12 of this Annual Report.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities. None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

We did not purchase any equity securities in the three months ended February 28, 2013.

On July 24, 2012, American Greetings announced that its Board of Directors authorized a program to repurchase up to $75 million of its Class A common shares. Under this program, the share repurchases may be made through open market purchases or privately negotiated transactions as market conditions warrant, at prices the Corporation deems appropriate, and subject to applicable legal requirements and other factors. There is no set expiration date for this program; however, purchases under this program have been suspended due to the Going Private Proposal referred to in Note 19, Proposal by Members of the Weiss Family and Related Entities to Acquire the Corporation, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

In addition, pursuant to our Amended and Restated Articles of Incorporation, a holder of Class B common shares may not transfer such Class B common shares (except to permitted transferees, a group that generally includes members of the holder s extended family, family trusts and charities) unless such holder first offers such shares to the Corporation for purchase at the most recent closing price for the Corporation s Class A common shares. If the Corporation does not purchase such Class B common shares, the holder must convert such shares, on a share for share basis, into Class A common shares prior to any transfer. It was the Corporation s general policy to repurchase Class B common shares in accordance with the terms set forth in our Amended and Restated Articles of Incorporation, whenever they are offered by a holder, unless such repurchase is not otherwise permitted under agreements to which the Corporation is a party; however, repurchases of Class B common shares were suspended following our receipt of the Going Private Proposal.

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Item 6. Selected Financial Data

Thousands of dollars except share and per share amounts

	2013 (1)	**2012** (2)	**2011**	**2010** (3)	**2009**
Summary of Operations					
Net sales	$ 1,842,544	$ 1,663,281	$ 1,565,539	$ 1,603,285	$ 1,646,399
Total revenue	1,868,739	1,695,144	1,597,894	1,640,851	1,690,738
Goodwill impairment		27,154			290,166
Interest expense	17,896	53,073	25,389	26,311	22,854
Net income (loss)	49,918	57,198	87,018	81,574	(227,759)
Earnings (loss) per share:					
Earnings (loss) per share	1.50	1.44	2.18	2.07	(4.89)
Earnings (loss) per share assuming dilution	1.47	1.42	2.11	2.03	(4.89)
Cash dividends declared per share	0.60	0.60	0.56	0.36	0.60
Fiscal year end market price per share	16.20	15.00	21.65	19.07	3.73
Average number of shares outstanding	33,225,354	39,624,694	39,982,784	39,467,811	46,543,780
Financial Position					
Inventories	242,447	208,945	179,730	163,956	194,945
Working capital	293,310	331,679	380,555	331,803	241,149
Total assets	1,583,463	1,549,464	1,547,249	1,544,498	1,462,895
Property, plant and equipment additions	114,149	78,207	39,762	29,065	61,266
Long-term debt	286,381	225,181	232,688	328,723	389,473
Shareholders equity	681,877	727,458	763,758	650,911	544,035
Shareholders equity per share	21.33	19.74	18.90	16.49	13.42
Net return on average shareholders equity from continuing operations	7.1%	7.7%	12.3%	13.7%	(30.3%)

(1) During 2013, the Corporation incurred charges of $35.7 million associated with the Clinton Cards acquisition, which includes a contract asset impairment charge, bad debt expense, legal and advisory fees and impairment of debt purchased. See Note 2 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. The Corporation also incurred expenses of $6.9 million related to the Going Private Proposal.

(2) During 2012, the Corporation recorded a loss of $30.8 million, which is included in Interest expense, related to the extinguishment of its 7.375% senior notes and 7.375% notes due 2016. See Note 11 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

(3) During 2010, the Corporation incurred a loss of $29.3 million on the disposition of its then existing retail operations segment. The Corporation also recorded a gain of $34.2 million related to the party goods transaction (see Note 3 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report) and a charge of approximately $15.8 million for asset impairments and severance expense 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.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements. This discussion and analysis, and other statements made in this Report, contain forward-looking statements. See Factors That May Affect Future Results at the end of this discussion and analysis for a discussion of the uncertainties, risks and assumptions associated with these statements.

OVERVIEW

Founded in 1906, we are the world s largest publicly owned creator, manufacturer and distributor of social expression products. Headquartered in Cleveland, Ohio, as of February 28, 2013, we employed approximately 25,400 associates around the world and are home to one of the world s largest creative studios.

Our major domestic greeting card brands are American Greetings, Recycled Paper Greetings, Papyrus, Carlton Cards, Gibson, Tender Thoughts and Just For You. Our other domestic products include DesignWare party goods, Plus Mark gift wrap and boxed cards, and AGI In-Store display fixtures. We also create and license our intellectual properties such as the Care Bears and Strawberry Shortcake characters. The Internet and wireless business unit, AG Interactive, is a leading provider of electronic greetings and other content for the digital marketplace. Our major Internet and wireless brands are AmericanGreetings.com, BlueMountain.com, Egreetings.com and Cardstore.com.

Our international operations include wholly-owned subsidiaries in the United Kingdom (also referred to herein as UK), Canada, Australia and New Zealand as well as licensees in approximately 60 other countries. As of February 28, 2013, we also operated approximately 400 card and gift retail stores throughout the United Kingdom.

During 2013, our total revenue, operating results and cash flows were impacted by the multiple actions affecting us during the year including:

- continuing to drive product leadership initiatives;
- efforts to drive growth in our product leadership, primarily through increased marketing spend and product innovation;
- devotion of additional resources to, and deployment of additional capital to fund our multi-year systems refresh project intended to drive efficiencies in our business and add new capabilities;
- the bankruptcy administration of Clinton Cards and our related acquisition of approximately 400 Clinton Cards stores, and
- the Going Private Proposal.

Although these actions brought volatility to our earnings and make it more difficult to predict future earning levels and patterns, we believe that certain of these actions will help us grow our business over the long term. Moreover, to mitigate the impact that some of these activities may have on our earnings, we will seek to continue to improve efficiencies and streamline our back office processes in order to reduce our general and administrative expenses. For further discussion of the Going Private Proposal, see Note 19, Proposal by Members of the Weiss Family and Related Entities to Acquire the Corporation, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

Acquisition

Our operating results for the year ended February 28, 2013 were significantly affected by certain activities and transactions related to Clinton Cards. Clinton Cards, one of the largest specialty retailers of greeting cards in the United Kingdom, had been an important customer to our international business for approximately forty years and was one of our largest customers. The Clinton Cards business had been struggling and in an effort to protect our interests and work more closely with all involved parties, on May 9, 2012, we acquired all of Clinton Cards outstanding senior secured debt for $56.6 million. Clinton Cards was subsequently placed into administration, a procedure similar to Chapter 11 bankruptcy in the United States. As part of the administration process, an auction of the assets of the Clinton Cards business was conducted. We participated in the auction process and bid $37.2 million for certain of the assets. The bid took the form of a credit bid, where we used a portion of the outstanding senior secured debt owed to us by Clinton Cards to pay the purchase price for the assets.

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Our bid was accepted on June 6, 2012, and we expect to acquire approximately 400 stores, together with the related inventory and overhead, as well as the Clinton Cards and related brands. We are operating the acquired stores under the Clintons brand. The final number of stores acquired will depend on negotiations with landlords at each respective location, who must generally consent to the assignment of the leases for such stores on terms that are acceptable to us. If we cannot negotiate acceptable lease assignments or if the applicable landlord withholds consent to the assignment of its store lease, then we may close the store and the store lease will be placed back into the administration process. As of February 28, 2013, we have completed 295 lease assignments. The estimated future minimum rental payments for noncancelable operating leases related to these lease assignments are approximately $255 million. In addition, assuming that the remaining landlords consent to terms proposed by us and we are able to successfully complete assignments for all of the approximately 400 stores, the estimated future minimum rental payments for noncancelable operating leases will be approximately $105 million higher, resulting in a total estimated future minimum rental payments for noncancelable operating leases of approximately $360 million related to acquired stores. Subsequent to year-end, we have completed an additional 62 lease assignments. As such, the total number of lease assignments was 357 as of April 24, 2013. The negotiations with landlords are expected to take approximately twelve months from the closing of the transaction on June 6, 2012.

It is anticipated that the remaining assets not purchased by us will be liquidated and proceeds will be used to repay the creditors of Clinton Cards, including us as both the only senior secured lender and the largest unsecured lender. We will seek to recover our $19.4 million remaining senior secured debt claim through the liquidation process. However, based on the estimated recovery information provided by the administrators, we recorded an aggregate charge of $8.1 million in fiscal 2013 relating to the senior secured debt we acquired in the first quarter. The liquidation process was originally expected to take approximately twelve months from the closing of the transaction on June 6, 2012. The process is currently expected to be completed by December 31, 2013.

Separate from the acquired senior secured debt, prior to the acquisition, we had unsecured accounts receivable exposure to Clinton Cards. Based on the expected recovery shortfall on the senior secured debt noted above, we recorded bad debt expense of $16.5 million relating to the unsecured accounts receivable. In addition, with the May 2012 announcement by the administrators that all of Clinton Cards Birthdays (Birthdays) branded retail stores would be liquidated during the first quarter of fiscal 2013, we recorded an impairment charge of approximately $4.0 million for the deferred costs related to our supply agreement associated with the Birthdays stores. We have also incurred approximately $7.1 million of transaction costs related to the Clinton Cards acquisition.

The table below summarizes the charges described above and their impact on our Consolidated Statement of Income during the year ended February 28, 2013:

(In millions)	Contract asset impairment	Bad debt expense	Legal and advisory fees	Impairment of debt purchased	Total
Net sales	$ 4.0	$	$	$	$ 4.0
Administrative and general expenses		16.5	7.1		23.6
Other operating expense (income) net				8.1	8.1
	$ 4.0	$ 16.5	$ 7.1	$ 8.1	$ 35.7

In addition to the charges summarized above, our results were also affected by the operating results of our new Retail Operations segment and the intersegment sales elimination and intercompany profit adjustments between the International Social Expression Products segment and the Retail Operations segment. Since the Retail Operations segment is consolidated on a one-month lag corresponding with its fiscal year-end of February 2 for 2013, the operating results of this segment include only eight months of activity in the current fiscal year. The impact of the acquisition of the retail stores on consolidated revenue for the year ended February 28, 2013 was a net increase of approximately $188 million. The net increase was comprised of approximately $244 million of revenue from the new Retail Operations segment, reduced by approximately $56 million for the elimination of intersegment sales from the International Social Expression Products segment to the Retail Operations segment. For comparison purposes, the sales being eliminated in the current period would have been third-party sales in the prior year.

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For 2013, the Clinton Cards acquisition adversely impacted our operating income by $32.0 million. The charges of $35.7 million summarized in the table above were partially offset by the combination of Retail Operations segment operating income of $6.6 million and the intersegment profit adjustment associated with intercompany sales from the International Social Expression Products segment to the Retail Operations segment of $2.9 million.

Operating Results

Total revenue for 2013 was $1.87 billion, up $174 million from the prior year. As discussed above, the net impact of the Clinton Cards acquisition added approximately $188 million in total revenue. In addition, greeting card sales increased approximately $17 million. Partially offsetting these increases were lower sales of gift wrap, party goods and other ancillary products, lower royalty revenues from our licensing business, decreased sales in our fixtures business, the impairment of deferred costs related to our supply agreement associated with the Birthdays stores, the unfavorable impact of foreign currency translation and the effects of scan-based trading (SBT) implementations.

Operating income for 2013 was $94.2 million, down from $150.0 million in the prior year. This $55.8 million decrease includes the $32.0 million unfavorable impact of the Clinton Cards acquisition discussed above. Also unfavorably impacting the current year operating income were costs and fees associated with the Going Private Proposal, additional legal expense, increased marketing expense, higher product related costs, unfavorable product mix, costs related to our systems refresh project and costs related to strategic actions within our International Social Expression Products segment. Our operating income was favorably impacted by lower field sales and merchandiser expense, primarily due to prior year store setup activities for the value channel that did not recur. Lower bad debt expense in the North American Social Expression Products segment also favorably impacted the current year. Prior year operating income included goodwill impairment charges of $27.2 million and a gain of $4.5 million related to the sale of certain minor characters in our intellectual properties portfolio.

With respect to our statement of financial position in 2013, many of the year-over-year variances are related to the Clinton Cards acquisition described above. For example, inventory increased approximately $34 million compared to the prior year, primarily driven by the Clinton Cards acquisition, and to a lesser extent, higher unit costs. The increases in accounts payable and accrued liabilities were also primarily the result of the Clinton Cards acquisition, but were also impacted by activities related to our information systems refresh project and other strategic projects. Capital expenditures during the year increased approximately $36 million from the prior period. This increase was primarily related to our information systems refresh project and the refurbishment of retail stores in connection with our Clinton Cards acquisition. We expect that capital expenditures will remain higher than historic levels as we execute our multi-year information systems refresh and other strategic projects, but we also expect capital expenditures to be lower in fiscal 2014 than the levels experienced in fiscal 2013 and 2012.

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RESULTS OF OPERATIONS

Comparison of the years ended February 28, 2013 and February 29, 2012

In 2013, net income was $49.9 million, or $1.47 per diluted share, compared to $57.2 million, or $1.42 per diluted share, in 2012.

Our results for 2013 and 2012 are summarized below:

(Dollars in thousands)	2013	% Total Revenue	2012	% Total Revenue
Net sales	$ 1,842,544	98.6%	$ 1,663,281	98.1%
Other revenue	26,195	1.4%	31,863	1.9%
Total revenue	1,868,739	100.0%	1,695,144	100.0%
Material, labor and other production costs	817,740	43.8%	741,645	43.8%
Selling, distribution and marketing expenses	653,935	35.0%	533,827	31.5%
Administrative and general expenses	298,569	16.0%	250,691	14.8%
Goodwill impairment		0.0%	27,154	1.6%
Other operating expense (income) net	4,330	0.2%	(8,200)	(0.5%)
Operating income	94,165	5.0%	150,027	8.8%
Interest expense	17,896	0.9%	53,073	3.1%
Interest income	(471)	(0.0%)	(982)	(0.1%)
Other non-operating (income) expense net	(9,174)	(0.5%)	121	0.0%
Income before income tax expense	85,914	4.6%	97,815	5.8%
Income tax expense	35,996	1.9%	40,617	2.4%
Net income	$ 49,918	2.7%	$ 57,198	3.4%

Revenue Overview

During 2013, consolidated net sales were $1.84 billion, up from $1.66 billion in the prior year. This 10.8%, or $179.3 million, increase was primarily related to the purchase of retail stores from Clinton Cards which caused an increase in net sales of approximately $187 million compared to prior year. The increase was comprised of approximately $243 million of net sales from the new Retail Operations segment, reduced by approximately $56 million for the elimination of intersegment sales from the International Social Expression Products segment to the Retail Operations segment. For comparison purposes, the sales being eliminated in the current period would have been third-party sales in the prior year to Clinton Cards stores that were not owned by us at that time. In addition, greeting card sales through our wholesale divisions improved approximately $17 million. More than offsetting these increases were reduced gift packaging, party goods and other ancillary product sales of approximately $11 million, lower net sales in our fixtures business of approximately $4 million and a $4 million impairment of deferred costs related to the supply agreement associated with the Birthdays stores that were closed as part of the Clinton Cards administration process. Foreign currency translation and SBT implementations unfavorably impacted net sales versus the prior year by approximately $4 million and $2 million, respectively.

The contribution of each major product category as a percentage of net sales for the past two fiscal years was as follows:

	2013	2012
Everyday greeting cards	49%	50%
Seasonal greeting cards	25%	25%
Gift packaging	14%	14%
All other products*	12%	11%

* The all other products classification includes, among other things, giftware, party goods, ornaments, custom display fixtures, stickers, online greeting cards, other online digital products and specialty gifts.

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Other revenue, primarily royalty revenue from our Strawberry Shortcake and Care Bears properties, decreased $5.7 million from $31.9 million during 2012 to $26.2 million in 2013.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2013 and 2012 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2013	2012	2013	2012	2013	2012
Unit volume	(0.3%)	9.5%	1.6%	6.4%	0.3%	8.5%
Selling prices	0.3%	(3.6%)	2.3%	(0.8%)	1.0%	(2.8%)
Overall increase	0.1%	5.5%	4.0%	5.5%	1.3%	5.5%

During 2013, total wholesale greeting card sales less returns increased 1.3%, compared to the prior year, with a 0.3% improvement in unit volume and a 1.0% increase in selling prices. The overall increase was primarily driven by increases in unit volume and selling prices from our seasonal greeting cards in our North American Social Expression Products segment.

Everyday card sales less returns were up 0.1%, compared to the prior year, as a result of increased selling prices of 0.3% offset by a decline in unit volume of 0.3%. Both the selling price increase and unit volume decrease were driven by our North American Social Expression Products segment. The continued shift to a higher proportion of value cards was more than offset by general price increases. These impacts were partially offset by decreases in selling prices and unit volume improvement within our International Social Expression Products segment.

Seasonal card sales less returns increased 4.0%, with increases in unit volume of 1.6% and selling prices of 2.3%. The improvement in unit volume was driven by both of our greeting card segments and was primarily attributable to our Mother s Day and Graduation programs. This improvement was partially offset by a decline in unit volume related to our Easter program. The increase in selling prices was primarily driven by our North American Social Expression Products segment across all of our seasonal card programs.

Expense Overview

Material, labor and other production costs (MLOPC) for 2013 were $817.7 million, an increase of $76.1 million from $741.6 million in the prior year. As a percentage of total revenue, these costs were 43.8% in both 2013 and 2012. The new retail operations we purchased from Clinton Cards caused a net increase in MLOPC of approximately $43 million during the current year compared to the prior year. This net increase was comprised of approximately $96 million for cost of goods sold through the new Retail Operations segment, reduced by approximately $53 million for the adjustment to cost of goods related to intersegment sales from the International Social Expression Products segment to the Retail Operations segment. Excluding the impact of the Retail Operations segment, MLOPC increased by approximately $33 million. Of this increase, approximately $28 million was attributable primarily to a combination of higher product content costs and an unfavorable change in sales mix, including the continued shift toward a higher proportion of value cards while maintaining a relatively consistent net sales level. Also contributing to the increase in MLOPC was approximately $4 million of higher scrap expense and approximately $3 million of higher costs associated with in-store product displays.

Selling, distribution and marketing expenses (SDM) for 2013 were $653.9 million, increasing from $533.8 million in the prior year. The increase of $120.1 million in the current year was driven by approximately $126 million of expenses within our new Retail Operations segment. Also contributing to the increase were higher marketing and product management expenses of approximately $7 million. These increases were partially offset by lower agency fees related to our licensing business of approximately $4 million and lower costs in our field service and merchandiser organization of approximately $8 million, primarily related to prior year store setup activities for the value channel, which did not recur in the current period.

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Administrative and general expenses were $298.6 million in 2013, an increase from $250.7 million in the prior year. The increase of $47.9 million was driven partially by approximately $17 million of higher bad debt expense recorded in the UK. The increased bad debt expense related to unsecured accounts receivable of Clinton Cards being written off after Clintons was placed into administration during the current year. Expenses within our new Retail Operations segment added approximately $16 million. Transaction costs of approximately $7 million related to the purchase of the senior secured debt and the retail store acquisition of Clinton Cards were also recorded during the current year. Costs and fees associated with the Going Private Proposal, higher legal expense and increased costs incurred in connection with our information technology systems refresh project added approximately $7 million, $9 million and $3 million, respectively. These increases were partially offset by reduced bad debt expense primarily within our North American Social Expression Products segment, lower administrative costs within our International Social Expression Products segment due to overhead cost savings initiatives and lower profit-sharing plan expenses of approximately $5 million, $4 million and $2 million, respectively.

During the prior year, goodwill impairment charges of $27.2 million were recorded. In the fourth quarter of 2012, our market capitalization significantly declined as a result of decreases in our stock price. In connection with the preparation of our annual financial statements, we concluded that the decline in the stock price and market capitalization were indicators of potential impairment which required the performance of an impairment analysis. Based on this analysis, it was determined that the fair values of our North American Social Expression Products segment, which is also the reporting unit, and our reporting unit located in the UK (UK Reporting Unit) within the International Social Expression Products segment, were less than their carrying values. As a result, we recorded non-cash goodwill impairment charges of $21.3 million and $5.9 million, respectively, which included all of the goodwill for the North American Social Expression Products segment and the UK Reporting Unit.

Other operating expense was $4.3 million during the current year compared to income of $8.2 million in the prior year. The increase in net expense was primarily attributable to an impairment of $8.1 million related to the senior secured debt of Clinton Cards in 2013. In addition, the prior year included a gain of $4.5 million from the sale of certain minor characters within our intellectual properties portfolio.

Interest expense was $17.9 million during the current year, down from $53.1 million in 2012. The decrease of $35.2 million was primarily attributable to the debt refinancing that occurred during the fourth quarter of 2012 that did not recur. In conjunction with the issuance of new 7.375% senior notes due 2021, we retired our 7.375% senior notes due 2016 and our 7.375% notes due 2016. As a result, we recorded $21.7 million for the write-off of the unamortized discount and deferred financing costs associated with the retired debt and a charge of $9.1 million for the consent payment, tender fees, call premiums and other fees associated with the refinancing.

Other non-operating income was $9.2 million during 2013 compared to expense of $0.1 million during 2012. The 2013 results included a gain of $4.3 million related to the sale of a portion of our investment in the common stock of Party City Holdings, Inc. (Party City). The remaining increase was primarily due to a year-over-year change in foreign currency gains and losses of $4.1 million.

The effective tax rate was 41.9% and 41.5% during 2013 and 2012, respectively. The higher than statutory tax rate in 2013 was primarily due to certain nondeductible expenses incurred as a result of the Clinton Cards acquisition as well as certain items includable as taxable income which did not have corresponding book income amounts also as a result of the Clinton Cards transaction. The higher than statutory tax rate in 2012 was primarily due to the goodwill impairment charge for the UK Reporting Unit, which was nondeductible.

Segment Results

Our operations are organized and managed according to a number of factors, including product categories, geographic locations and channels of distribution. Our North American Social Expression Products and International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution, with mass retailers as the primary channel. As permitted under Accounting Standards Codification (ASC) Topic 280 (ASC 280), Segment Reporting, certain operating segments have been aggregated into the International Social Expression Products segment. The aggregated operating divisions have similar economic characteristics, products, production processes, types of customers and

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distribution methods. At February 28, 2013, we operated approximately 400 card and gift retail stores in the UK through our Retail Operations segment. These stores sell products purchased from the International Social Expression Products segment as well as products purchased from other vendors. The AG Interactive segment distributes social expression products, including electronic greetings, and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals and electronic mobile devices.

Segment results are reported using actual foreign exchange rates for the periods presented. Refer to Note 17, Business Segment Information, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information and a reconciliation of total segment revenue to consolidated Total revenue and total segment earnings (loss) before tax to consolidated Income before income tax expense.

North American Social Expression Products Segment

(Dollars in thousands)	2013	2012	% Change
Total revenue	$ 1,245,269	$ 1,228,548	1.4%
Segment earnings	160,052	149,655	6.9%

Total revenue of our North American Social Expression Products segment increased $16.7 million compared to the prior year. The increase was primarily driven by higher sales in seasonal greeting cards of approximately $15 million and other consumer products such as party goods, stationery and gift packaging of approximately $4 million. Partially offsetting these increases were lower sales of everyday greeting cards of approximately $3 million.

Segment earnings increased $10.4 million in 2013 compared to the prior year. The increase is attributable to a goodwill impairment charge of approximately $21 million in 2012 that did not recur in the current year as well lower supply chain costs and lower bad debt expense of approximately $7 million and $5 million, respectively. The lower supply chain costs, specifically field sales and merchandiser expenses, were primarily driven by prior year store setup activities for the value channel, which did not recur in the current period. These favorable variances were partially offset by higher marketing and product management expenses of approximately $10 million, increased product related costs of approximately $6 million, higher in-store product display costs of approximately $4 million, increased scrap expense of approximately $2 million and approximately $3 million of higher costs related to our technology refresh project. Gross margin dollars improved slightly due to higher sales volume, partially offset by unfavorable product mix as a result of a continued shift to a higher proportion of lower margin value cards.

International Social Expression Products Segment

(Dollars in thousands)	2013	2012	% Change
Total revenue	$ 275,861	$ 347,866	(20.7%)
Segment (loss) earnings	(13,428)	20,276	(166.2%)

Total revenue of our International Social Expression Products segment decreased $72.0 million compared to the prior year. The decrease was driven primarily by the elimination of intersegment sales to the Retail Operations segment of $55.9 million. For comparison purposes, the sales being eliminated would have been third-party sales in the prior year to Clinton Cards stores that were not owned by us at that time. The remaining decrease of approximately $16 million for the current year was driven primarily by a combination of lower sales of both gift packaging and other ancillary products of approximately $6 million each, primarily due to the divestiture of an insignificant non-card product line. Also contributing to the lower revenue was an impairment of deferred costs of approximately $4 million related to the supply agreement associated with the Birthdays stores that were closed as part of the Clinton Cards administration process. Partially offsetting these decreases were higher sales of everyday greeting cards of approximately $2 million. The sales shortfall resulting from Clinton Cards retail store closings were mostly offset by higher sales to other customers. Foreign currency translation unfavorably impacted sales by approximately $3 million for the current year.

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Segment earnings decreased $33.7 million compared to prior year. The current year included approximately $17 million of bad debt expense due to Clinton Cards being placed into administration and an impairment of deferred costs of approximately $4 million related to the supply agreement associated with the Birthdays stores that were closed as part of the Clinton Cards administration process. Earnings also decreased by approximately $17 million for the current year due to a combination of lower sales volume, unfavorable mix and higher scrap expense. Also contributing to the decrease in earnings was the adjustment of approximately $3 million associated with intersegment earnings generated from sales to the Retail Operations segment. This adjustment reduced consolidated inventory for intercompany profit in the Retail Operations segment s inventory and deferred the recognition of this profit in the International Social Expression Products segment s earnings until the inventory is sold to the ultimate customer in the Retail Operations segment. In addition, segment earnings decreased by approximately $3 million as a result of strategic business actions, including the divestiture of a small non-card product line and the closure of a small gift wrap manufacturing facility in Italy. These decreases were partially offset by a prior year goodwill impairment charge of approximately $6 million that did not recur in the current year and lower general and administrative costs of approximately $5 million primarily related to overhead cost savings initiatives.

Retail Operations Segment

(Dollars in thousands)	2013	2012	% Change
Total revenue	$ 244,106		N/A
Segment earnings	6,581		N/A

As a result of the June 6, 2012 Clinton Cards acquisition, during 2013 we operated approximately 400 retail stores in the United Kingdom that we are operating under the Clintons brand. The retail operations are consolidated on a one-month lag corresponding with a fiscal year-end of February 2 for fiscal 2013. As such, the operating results of the Retail Operations segment for the current year include only eight months of activity, beginning June 6, 2012, the date of acquisition. The segment earnings of $6.6 million in the current year included start-up and transitional costs of $7.7 million related to the actions taken to execute our strategy to stabilize and improve the profitability of the stores acquired.

AG Interactive Segment

(Dollars in thousands)	2013	2012	% Change
Total revenue	$ 64,440	$ 68,514	(5.9%)
Segment earnings	16,465	13,942	18.1%

Total revenue of our AG Interactive segment decreased $4.1 million compared to the prior year. The decrease in revenue was primarily driven by lower revenue from advertising. At February 28, 2013, AG Interactive had approximately 3.7 million online paid subscriptions as compared to approximately 3.8 million at February 29, 2012.

Segment earnings increased $2.5 million compared to the prior year. The impact of decreased sales administration, product management and marketing costs is partially offset by the impact of lower sales and higher technology costs.

Unallocated Items

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items include interest expense for centrally-incurred debt, domestic profit-sharing expense and stock-based compensation expense. Unallocated items also included costs associated with corporate operations such as the senior management, corporate finance, legal and insurance programs. In 2013, unallocated items included approximately $15 million for certain charges associated with the activities and transactions related to the Clinton Cards acquisition, approximately $7 million related to the Going Private Proposal as well as approximately $9 million of higher legal expenses. Partially offsetting these increases was a gain of $4.3 million related to the sale of Party City common stock. In 2012, unallocated items included a loss on extinguishment of debt of approximately $31 million.

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(Dollars in thousands)	2013	2012
Interest expense	$ (17,896)	$ (53,073)
Profit-sharing expense	(7,536)	(9,401)
Stock-based compensation expense	(10,743)	(10,982)
Corporate overhead expense	(54,167)	(29,636)
Total Unallocated	$ (90,342)	$ (103,092)

Comparison of the years ended February 29, 2012 and February 28, 2011

In 2012, net income was $57.2 million, or $1.42 per diluted share, compared to $87.0 million, or $2.11 per diluted share, in 2011.

Our results for 2012 and 2011 are summarized below:

(Dollars in thousands)	2012	% Total Revenue	2011	% Total Revenue
Net sales	$ 1,663,281	98.1%	$ 1,565,539	98.0%
Other revenue	31,863	1.9%	32,355	2.0%
Total revenue	1,695,144	100.0%	1,597,894	100.0%
Material, labor and other production costs	741,645	43.8%	682,368	42.7%
Selling, distribution and marketing expenses	533,827	31.5%	483,553	30.3%
Administrative and general expenses	250,691	14.8%	260,476	16.3%
Goodwill impairment	27,154	1.6%		0.0%
Other operating income net	(8,200)	(0.5%)	(6,669)	(0.4%)
Operating income	150,027	8.8%	178,166	11.2%
Interest expense	53,073	3.1%	25,389	1.6%
Interest income	(982)	(0.1%)	(853)	(0.0%)
Other non-operating expense (income) net	121	0.0%	(2,377)	(0.1%)
Income before income tax expense	97,815	5.8%	156,007	9.7%
Income tax expense	40,617	2.4%	68,989	4.3%
Net income	$ 57,198	3.4%	$ 87,018	5.4%

Revenue Overview

During 2012, consolidated net sales were $1.66 billion, up from $1.57 billion in 2011. This 6.2%, or $97.7 million, improvement was primarily due to an increase in net sales of greeting cards of approximately $93 million driven by the Watermark acquisition in our International Social Expression Products segment, as well as additional distribution with existing customers in both our North American Social Expression Products segment and our International Social Expression Products segment. The 2012 results also included higher gift packaging product sales of approximately $16 million and the impact of approximately $22 million of favorable foreign currency translation. Partially offsetting these increases were decreased sales in our AG Interactive segment of approximately $10 million due to lower advertising revenue and the impact of winding down the Photoworks Web site, lower net sales in our fixtures business of approximately $10 million, and decreased sales of other ancillary products such as party goods and ornaments of approximately $13 million.

The contribution of each major product category as a percentage of net sales for the fiscal years 2012 and 2011 was as follows:

	2012	2011
Everyday greeting cards	50%	48%

Seasonal greeting cards	25%	24%
Gift packaging	14%	14%
All other products*	11%	14%

* The all other products classification includes, among other things, giftware, party goods, ornaments, calendars, custom display fixtures, stickers, online greeting cards and other online digital products.

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Other revenue, primarily royalty revenue from our Strawberry Shortcake and Care Bears properties, decreased $0.5 million from $32.4 million during 2011 to $31.9 million in 2012.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2012 and 2011 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2012	2011	2012	2011	2012	2011
Unit volume	9.5%	(2.2%)	6.4%	(1.8%)	8.5%	(2.1%)
Selling prices	(3.6%)	1.0%	(0.8%)	2.3%	(2.8%)	1.4%
Overall increase / (decrease)	5.5%	(1.2%)	5.5%	0.4%	5.5%	(0.7%)

During 2012, combined everyday and seasonal greeting card sales less returns increased 5.5%, compared to 2011, with an 8.5% improvement in unit volume, which was partially offset by a 2.8% decline in selling prices. The overall increase was primarily driven by an increase in unit volume from our everyday and seasonal greeting cards in both our North American Social Expression Products and our International Social Expression Products segments.

Everyday card sales less returns were up 5.5% in 2012, compared to 2011, as a result of improved unit volume of 9.5% partially offset by a decline in selling prices of 3.6%. Both of our greeting card segments contributed to the unit volume increases during 2012 as a result of additional distribution with existing customers. The unit volume improvements within our International Social Expression Products segment were also driven by the acquisition of Watermark Publishing Limited (Watermark) in the UK on March 1, 2011. The selling price decline was a result of the continued shift to a higher proportion of our value cards in both of our greeting card segments, driven primarily by our expanded distribution with existing customers and the continued shift in consumer behavior toward value shopping.

Seasonal card sales less returns increased 5.5%, with an increase in unit volume of 6.4%, slightly offset by a decrease in selling prices of 0.8%. The improvement in unit volume was driven by both our greeting card segments across nearly all seasonal programs as a result of additional distribution with existing customers. The unit volume improvements within our International Social Expression Products segment were also driven by the Watermark acquisition. The decrease in selling prices was attributable to the continued shift to a higher proportion of our value cards; however, the impact of that trend was partially offset by the impact of seasonal price increases across most seasonal programs.

Expense Overview

Material, labor and other production costs for 2012 were $741.6 million, an increase of approximately $59 million from $682.4 million in 2011. As a percentage of total revenue, these costs were 43.8% in 2012 compared to 42.7% in 2011, an increase of approximately 100 basis points or about $17 million. Approximately 70% of the increase was primarily due to a change in sales mix, shifting toward a higher proportion of lower margin value cards and seasonal gift packaging products, with the remaining 30% of the increase attributable to a combination of higher product content costs, increased in-store product display costs and higher scrap expense, which were partially offset by the benefits of our ongoing cost savings initiatives. The remaining approximately $42 million increase was attributable to higher unit sales volume.

Selling, distribution and marketing expenses for 2012 were $533.8 million, increasing from $483.6 million in 2011. The increase of $50.2 million in 2012 was driven by a combination of increased expenses and unfavorable foreign currency translation of approximately $43 million and $7 million, respectively. Increased supply chain costs of approximately $28 million, including merchandiser, freight and other distribution costs, were primarily the result of

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higher sales volume and initial store setup activities. Approximately $11 million of the higher supply chain costs were incremental rollout costs associated with expanded distribution in the value channel. Also contributing to the increase was higher marketing expenses of approximately $15 million compared to 2011 primarily relating to Cardstore.com.

Administrative and general expenses were $250.7 million in 2012, a decrease from $260.5 million in 2011. The improvement of approximately $10 million was primarily related to approximately $10 million of Papyrus-Recycled Greetings (PRG) integration costs in 2011 that did not recur in 2012 and an approximate $10 million reduction in variable compensation expense in 2012. These benefits were partially offset by additional operating costs of approximately $7 million associated with the Watermark acquisition and unfavorable foreign currency translation impacts of approximately $3 million.

Goodwill impairment charges of $27.2 million were recorded in 2012. During the fourth quarter of 2012, our market capitalization significantly declined as a result of decreases in our stock price. In connection with the preparation of our annual financial statements, we concluded that the decline in the stock price and market capitalization were indicators of potential impairment which required the performance of an impairment analysis. Based on this analysis, it was determined that the fair values of our North American Social Expression Products segment, which is also the reporting unit, and our UK Reporting Unit within the International Social Expression Products segment, were less than their carrying values. As a result, we recorded non-cash goodwill impairment charges of $21.3 million and $5.9 million, which included all of the goodwill for the North American Social Expression Products segment and the UK Reporting Unit, respectively.

Other operating income was $8.2 million during 2012 compared to $6.7 million in 2011. The 2012 results included a gain of $4.5 million from the sale of certain minor characters in our intellectual properties portfolio. The 2011 results included a gain of $3.5 million primarily related to the sale of land and buildings in Mexico and Australia.

Interest expense was $53.1 million during 2012, up from $25.4 million in 2011. The increase of $27.7 million was primarily attributable to the debt refinancing that occurred during the fourth quarter of 2012. In conjunction with the issuance of new 7.375% senior notes due 2021, we retired our 7.375% senior notes due 2016 and our 7.375% notes due 2016. As a result, we recorded $21.7 million for the write-off of the unamortized discount and deferred financing costs associated with the retired debt and a charge of $9.1 million for the consent payment, tender fees, call premiums and other fees associated with the refinancing.

Other non-operating expense was $0.1 million during 2012 compared to income of $2.4 million during 2011. The 2011 results included $1.3 million of dividend income related to our investment in Party City.

The effective tax rate was 41.5% and 44.2% during 2012 and 2011, respectively. The higher than statutory tax rate in 2012 was primarily due to the goodwill impairment charge for the UK Reporting Unit, which was nondeductible. The higher than statutory tax rate in 2011 was primarily driven by the effective settlement of ten years of domestic tax audits, which increased our estimated tax assessment and associated interest reserves by approximately $7 million. Also contributing to the higher than statutory tax rate in 2011 were the impact of unfavorable settlements of audits in a foreign jurisdiction, the release of insurance reserves that generated taxable income and the recognition of the deferred tax effects of the reduced deductibility of postretirement prescription drug coverage due to the U.S. Patient Protection and Affordable Care Act.

Segment Results

Segment results are reported using actual foreign exchange rates for the periods presented. In 2011, segment results were reported at constant exchange rates to eliminate the impact of foreign currency fluctuations. In addition, during 2012, 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 was the result of modifications to organizational structures, and was intended to better align the segment financial results with the responsibilities of segment management and the way management evaluates our operations. The 2011 segment results have been presented to be consistent with the current methodologies. Refer to Note 17, Business Segment Information, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information and a reconciliation of total segment revenue to consolidated Total revenue and total segment earnings (loss) before tax to consolidated Income before income tax expense.

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North American Social Expression Products Segment

(Dollars in thousands)	2012	2011	% Change
Total revenue	$ 1,228,548	$ 1,196,809	2.7%
Segment earnings	149,655	194,199	(22.9%)

Total revenue of our North American Social Expression Products segment increased $31.7 million compared to 2011. The increase was primarily driven by higher sales in everyday greeting cards of $19 million, seasonal greetings cards of $9 million and gift packaging products of $10 million during 2012. The 2012 results also included the favorable impact of foreign currency translation of approximately $4 million. Partially offsetting these increases was lower sales of other ancillary products such as party goods and ornaments of approximately $10 million.

Segment earnings decreased $44.5 million in 2012 compared to 2011. Approximately half of the decrease was attributable to the goodwill impairment charge of approximately $21 million recorded in the fourth quarter of 2012. The remaining decrease was driven by higher supply chain costs of approximately $16 million primarily due to increased sales volume and store setup activities, which resulted in higher merchandiser, freight and other distribution costs. Approximately $11 million of the higher supply chain costs were incremental rollout costs associated with expanded distribution in the value channel. Increased marketing expenses of approximately $15 million, higher bad debt expense of approximately $4 million and incremental in-store product display costs of approximately $3 million also contributed to the decrease in earnings. Gross margin dollars improved slightly due to higher sales volume, partially offset by unfavorable product mix as a result of a shift to a higher proportion of lower margin value cards and seasonal gift packaging products. The 2012 results benefited from PRG integration costs of approximately $10 million in 2011 which did not recur in 2012 and an approximate $5 million benefit achieved through our ongoing cost savings initiatives.

International Social Expression Products Segment

(Dollars in thousands)	2012	2011	% Change
Total revenue	$ 347,866	$ 261,712	32.9%
Segment earnings	20,276	19,572	3.6%

Total revenue of our International Social Expression Products segment increased $86.2 million compared to 2011. The increase was primarily due to the Watermark acquisition during 2012, which resulted in total revenue increasing by approximately $43 million. Additional distribution with existing customers also contributed to the increase in revenue. Foreign currency translation favorably impacted revenue by approximately $16 million.

Segment earnings were $20.3 million in 2012 compared to $19.6 million during 2011. As a percentage of total revenue, segment earnings were 5.8% in 2012 and 7.5% in 2011. Contributing to the decline in segment earnings as a percentage of total revenue was a goodwill impairment charge of $5.9 million during the fourth quarter of 2012. In addition, the gross margin percentage in 2012 declined 250 basis points compared to 2011. This decline in gross margin percentage was primarily due to an unfavorable product mix as a result of a shift to a higher proportion of lower margin cards. This gross margin deterioration was partially offset by proportionally lower selling expenses and lower bad debt expense of approximately $2 million compared to 2011.

AG Interactive Segment

(Dollars in thousands)	2012	2011	% Change
Total revenue	$ 68,514	$ 78,206	(12.4%)
Segment earnings	13,942	13,991	(0.4%)

Total revenue of our AG Interactive segment decreased $9.7 million compared to 2011. The decrease in revenue was driven primarily by lower advertising revenue and the impact of winding down the Photoworks Web site during the first quarter of 2012. AG Interactive had approximately 3.8 million online paid subscriptions at February 29, 2012 and February 28, 2011, respectively.

Segment earnings for 2012 were about flat compared to 2011. The impact of lower sales and higher technology costs essentially offset the decreased product management and marketing costs and lower expenses due to cost savings initiatives.

Unallocated Items

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items include interest expense for centrally-incurred debt, domestic profit-sharing expense, and stock-based compensation expense. Unallocated items also included costs associated with corporate operations such as the senior management, corporate finance, legal and insurance programs. In 2012, unallocated items included a loss on extinguishment of debt of approximately $31 million.

(Dollars in thousands)	2012	2011
Interest expense	$ (53,073)	$ (25,304)
Profit-sharing expense	(9,401)	(9,759)
Stock-based compensation expense	(10,982)	(13,017)
Corporate overhead expense	(29,636)	(33,152)
Total Unallocated	$ (103,092)	$ (81,232)

Liquidity and Capital Resources

Operating Activities

During the year, cash flow from operating activities provided cash of $162.8 million compared to $123.8 million in 2012, an increase of $39.0 million. Cash flow from operating activities for 2012 compared to 2011 resulted in a decrease of $59.4 million from $183.2 million in 2011.

Accounts receivable, net of the effect of acquisitions and dispositions, was a use of cash of $9.8 million in 2013 compared to a source of cash of $4.5 million in 2012 and a source of cash of $11.5 million in 2011. As a percentage of the prior twelve months net sales, net accounts receivable was 5.7% at February 28, 2013 compared to 6.8% at February 29, 2012. The year-over-year fluctuations are primarily due to the timing of collections from, or credits issued to, certain customers occurring in a different pattern in the current period compared to the prior periods.

Inventories, net of the effect of acquisitions and dispositions, were a use of cash of $31.6 million in 2013 compared to a use of cash of $23.3 million in 2012 and a use of cash of $13.1 million in 2011. The use of cash in the current year was driven primarily by our new Retail Operations segment that grew inventory by approximately $27 million since its acquisition in June 2012. The use of cash in 2012 and 2011 was primarily due to the inventory build of cards associated with expanded distribution.

Other current assets, net of the effect of acquisitions and dispositions, were a use of cash of $23.4 million during 2013, compared to a source of cash of $7.0 million in 2012 and a use of cash of $2.1 million in 2011. The use of cash in the current year was driven primarily by prepaid rents within our new Retail Operations segment that was not present in prior years. The source of cash in 2012 compared to the use of cash in 2011 was primarily due to the use of trust assets to pay medical claim expenses as we terminated the active employees medical trust fund as of February 29, 2012.

Deferred costs net generally represents payments under agreements with retailers net of the related amortization of those payments. During 2013, amortization exceeded payments by $27.1 million. During 2012, payments exceeded amortization by $31.3 million. In 2011, amortization exceeded payments by $14.3 million. See Note 10, Deferred Costs, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further detail of deferred costs related to customer agreements.

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Accounts payable and other liabilities, net of the effect of acquisitions and dispositions, were a source of cash of $58.6 million in 2013, compared to uses of cash of $13.6 million in 2012 and $31.0 million in 2011. The growth in accounts payable and other liabilities, and thus an increase in cash flow in the current period, was primarily due to our new Retail Operations segment as well as activities related to our information technology systems refresh project and other strategic projects.

Investing Activities

Investing activities used $163.2 million of cash in 2013 compared to $70.3 million of cash used in 2012 and $4.8 million of cash provided in 2011. The use of cash in the current year was primarily related to cash outlays of $114.1 million associated with capital expenditures. The increase in capital expenditures compared to the prior year related primarily to assets acquired in connection with our information technology systems refresh project and investments in our new Retail Operations segment. In addition, during the first quarter of 2013 we paid $56.6 million of cash to acquire all of the outstanding senior secured debt of Clinton Cards.

The use of cash during 2012 was primarily related to cash payments for capital expenditures of $78.2 million as well as business acquisitions of $5.9 million. The increase in capital expenditures compared to the 2011 period related primarily to assets acquired in connection with our information technology systems refresh project and our new world headquarters project, as well as machinery and equipment purchased for our card-producing facilities. During 2012, cash paid for the Watermark acquisition, net of cash acquired, was $5.9 million. Partially offsetting these uses of cash in 2012 were cash receipts of $6.0 million from the sale of the land and building related to our DesignWare party goods product lines in our North American Social Expression Products segment, $4.5 million from the sale of certain minor characters in our intellectual properties portfolio and approximately $2.4 million from the sale of the land, building and certain equipment associated with a distribution facility in our International Social Expression Products segment.

The source of cash during 2011 included $25.2 million received from the sale of certain assets, equipment and processes of the DesignWare party goods product lines, which occurred in the fourth quarter of 2010. The 2011 results also included a $5.7 million return of capital related to our investment in Party City. In addition, we received approximately $12 million related to the sale of the land and buildings associated with the closure of our Mexican facility and a manufacturing facility within the International Social Expression Products segment during 2011. Partially offsetting these sources of cash in 2011 were cash payments for capital expenditures of $39.8 million.

Financing Activities

Financing activities used $42.0 million of cash during 2013 compared to $136.9 million in 2012 and $117.2 million in 2011. The current year use of cash primarily related to share repurchases and dividend payments. We paid $81.0 million to repurchase approximately 5.3 million Class A common shares under our repurchase programs during the current year, which includes $2.2 million of cash settlements related to the repurchase of approximately 0.1 million Class A common shares that were initiated during 2012. In addition, we paid cash dividends of $19.9 million during 2013. Partially offsetting these uses of cash, were borrowings under our credit agreement, which provided $61.2 million of cash during the current year.

The 2012 use of cash primarily related to the tender offers and redemption of our 7.375% senior notes due 2016 of $222.0 million, our 7.375% notes due 2016 of $32.7 million and a charge of $9.1 million for the consent payments, tender fees, call premium and other fees associated with these transactions. Share repurchases and dividend payments also contributed to the use of the cash in 2012. We paid $72.4 million to repurchase approximately 4.4 million Class A common shares under our repurchase program and $10.1 million to purchase approximately 0.4 million Class B common shares in accordance with our Amended and Restated Articles of Incorporation. Repurchases of $2.2 million for approximately 0.1 million Class A common shares initiated at the end of 2012 were not included in the above repurchase amount in the Consolidated Statement of Cash Flows because the cash settlement for these transactions did not occur until 2013. However, this $2.2 million was included in the shares repurchased amount within our Consolidated Statement of Shareholders Equity under Part II, Item 8 of this Annual Report. In addition, we paid cash dividends of $23.9 million during 2012. Partially offsetting these uses of cash was a cash receipt of $225.0 million from the issuance of the 7.375% senior notes due 2021. Refer to Note 11, Debt, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information. Also, proceeds from the exercise of stock options and tax benefits from share-based payment awards provided $13.6 million of cash during 2012.

The use of cash in 2011 related primarily to the repayment of the term loan under our senior secured credit facility in the amount of $99.3 million as well as share repurchases and dividend payments. During 2011, we paid $13.5 million to repurchase approximately 0.5 million Class B common shares in accordance with our Amended and Restated Articles of Incorporation and paid dividends of $22.4 million. Partially offsetting these uses of cash were proceeds from the exercise of stock options and tax benefits from share-based payment awards, which provided $21.1 million of cash during 2011.

Credit Sources

Substantial credit sources are available to us. In total, we had available sources of approximately $450 million at February 28, 2013, which included our $400 million senior secured credit facility and our $50 million accounts receivable securitization facility. Borrowings under the accounts receivable securitization facility are limited based on our eligible receivables outstanding. At February 28, 2013, we had $61.2 million of borrowings under the senior secured credit facility and no borrowings outstanding under the accounts receivable securitization facility. As of February 28, 2013, we had an aggregate of $27.5 million outstanding under letters of credit, which reduced total availability under our credit sources.

Credit Facility

We are a party to a $400 million senior secured credit agreement (the Credit Agreement), under which there were $61.2 million of borrowings outstanding as of February 28, 2013. Under the original terms of the Credit Agreement, we were permitted to borrow, on a revolving basis, up to $350 million (with an ability to increase this amount by $50 million to $400 million) during a five year term from June 11, 2010 through June 11, 2015. On January 18, 2012, we amended our Credit Agreement, to, among other things, extend the expiration date of the Credit Agreement from June 11, 2015 to January 18, 2017, and increase the maximum principal amount that can be borrowed, on a revolving basis, from $350 million to $400 million, with the continued ability to further increase such maximum principal amount from $400 million to $450 million, subject to customary conditions.

The amendment also:

- decreased the applicable margin paid on United States dollar loans bearing interest based on the London Inter-Bank Offer Rate (LIBOR) and Canadian dollar loans bearing interest based on the Canadian Dollar Offer Rate, from a range of 2.25% to 3.50% per year to a range of 1.25% to 2.25%;

- decreased the applicable margin paid on United States dollar loans bearing interest based on the United States base rate and the Canadian base rate from a range of 1.25% to 2.50% per year to a range of 0.25% to 1.25%; and

- reduced commitment fees paid on the unused portion of the revolving credit facility from a range of 0.375% to 0.500% per annum to a range of 0.250% to 0.400%.

On December 19, 2012, we further amended the Credit Agreement to modify the definition of EBITDA to permit, as of February 28, 2013, certain add-backs for specific non-recurring expenses associated with the Clinton Cards acquisition.

The obligations under our Credit Agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of our personal property and each of our material domestic subsidiaries, including a pledge of all of the capital stock in substantially all of our domestic subsidiaries and 65% of the capital stock of our first tier international subsidiaries.

The Credit Agreement also contains certain restrictive covenants that are customary for similar credit arrangements. For example, the Credit Agreement contains covenants relating to financial reporting and notification, compliance with laws, preserving existence, maintenance of books and records, how we may use proceeds from borrowings, and maintenance of properties and insurance. In addition, the Credit Agreement includes covenants that limit our ability to incur additional debt; declare or pay dividends; make distributions on or repurchase or redeem capital stock; make certain investments; enter into transactions with affiliates; grant or permit liens; sell assets; enter into sale and leaseback transactions; and consolidate, merge or sell all or substantially all of our assets. There are also financial performance covenants that require us to maintain a maximum leverage ratio and a minimum interest coverage ratio. The Credit Agreement also requires us to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions, events of loss and additional indebtedness that we may incur from time to time. These restrictions are subject to customary baskets.

Accounts Receivable Facility

We are also a party to an accounts receivable facility that provides funding of up to $50 million, under which there were no borrowings outstanding as of February 28, 2013; however, outstanding letters of credit issued under the accounts receivable program totaled $27.5 million as of February 28, 2013, which reduced the total credit availability thereunder. Until the facility was amended on September 21, 2012, our accounts receivable facility provided funding of up to $70 million. Also, on September 21, 2012, the liquidity commitments under the accounts receivable facility were renewed for an additional year and the facility s term was extended an additional three years from September 21, 2012 to October 1, 2015.

Under the terms of the accounts receivable facility, we sell accounts receivable to AGC Funding Corporation (our wholly-owned, consolidated subsidiary), which in turn sells undivided interests in eligible accounts receivable to third party financial institutions as part of a process that provides us funding similar to a revolving credit facility.

The interest rate under the accounts receivable securitization facility is based on (i) commercial paper interest rates, (ii) LIBOR rates plus an applicable margin or (iii) a rate that is the higher of the prime rate as announced by the applicable purchaser financial institution or the federal funds rate plus 0.50%. We pay an annual commitment fee that ranges from 35 to 45 basis points on the unfunded portion of the accounts receivable securitization facility, based on the level of utilization, together with customary administrative fees on letters of credit that have been issued and on outstanding amounts funded under the facility. Funding under the facility may be used for working capital, general corporate purposes and the issuance of letters of credit.

The accounts receivable facility contains representations, warranties, covenants and indemnities customary for facilities of this type, including our obligation to maintain the same consolidated leverage ratio as is required to be maintained under our Credit Agreement.

7.375% Senior Notes Due 2021

On November 30, 2011, we closed a public offering of $225 million aggregate principal amount of 7.375% senior notes due 2021 (the 2021 Senior Notes). The net proceeds from this offering were used to finance the cash tender offers for all the existing 7.375% senior notes and notes due 2016 which include the original $200.0 million of 7.375% senior notes issued on May 24, 2006 (the Original Senior Notes), the additional $22.0 million of 7.375% senior notes issued on February 24, 2009 (the Additional Senior Notes, together with the Original Senior Notes, the 2016 Senior Notes) and the $32.7 million of 7.375% notes issued on February 24, 2009 (the 2016 Notes, together with the 2016 Senior Notes, the Notes). The cash tenders were commenced on November 15, 2011, where, in the fourth quarter of 2012, we purchased $180.4 million and $24.5 million aggregate principal amount of 2016 Senior Notes and 2016 Notes, respectively, representing approximately 81% and 75% of the aggregate principal amount of the outstanding 2016 Senior Notes and 2016 Notes, respectively. On December 15, 2011, we redeemed the remaining $49.8 million of the Notes that were not repurchased pursuant to the tender offers. In connection with these transactions, we wrote off the remaining unamortized discount and deferred financing costs related to the Notes, totaling $21.7 million, as well as recorded a charge of $9.1 million for the consent payments, tender fees, call premium and other fees incurred in connection with these transactions.

The 2021 Senior Notes will mature on December 1, 2021 and bear interest at a fixed rate of 7.375% per year. The 2021 Senior Notes constitute our general unsecured senior obligations. The 2021 Senior Notes rank senior in right of payment to all our future obligations that are, by their terms, expressly subordinated in right of payment to the 2021 Senior Notes and pari passu in right of payment with all our existing and future unsecured obligations that are not so subordinated. The 2021 Senior Notes are effectively subordinated to our secured indebtedness, including borrowings under our revolving credit facility described above, to the extent of the value of the assets securing such indebtedness. The 2021 Senior Notes also contain certain restrictive covenants that are customary for similar credit arrangements, including covenants that limit our ability to incur additional debt; declare or pay dividends; make distributions on or repurchase or redeem capital stock; make certain investments; enter into transactions with affiliates; grant or permit liens; sell assets; enter into sale and leaseback transactions; and consolidate, merge or sell all or substantially all of our assets. These restrictions are subject to customary baskets and financial covenant tests. We anticipate that if the Merger is consummated as contemplated by the Merger Agreement, the 2021 Senior Notes will remain outstanding.

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The total fair value of our publicly traded debt, based on quoted market prices, was $233.6 million (at a carrying value of $225.2 million) and $239.6 million (at a carrying value of $225.2 million) at February 28, 2013 and February 29, 2012, respectively.

At February 28, 2013, the Corporation was in compliance with the financial covenants under its borrowing agreements, as amended.

Capital Deployment and Investments

Throughout fiscal 2014 and thereafter, we will continue to consider all options for capital deployment including growth options, acquisitions and other investments in third parties, expanding customer relationships, expenditures or investments related to our current product leadership initiatives or other future strategic initiatives, capital expenditures, the information technology systems refresh project, our new world headquarters project and, as appropriate, preserving cash.

As we have stated, our objective is to continue to expand our position as a leading creator, manufacturer and distributor of social expression products. As such, we have and expect to continue to focus resources on our core greeting card business, developing new, and growing existing, business, including by expanding Internet and other channels of electronic distribution to make American Greetings the natural and preferred social expressions solution, as well as by capturing any shifts in consumer demand. As a continuation of 2012, we increased our year-over-year marketing spend by approximately $7 million in 2013. This incremental spending was in support of our product leadership strategy, primarily related to promotional efforts related to our Web site Cardstore.com and other marketing initiatives within our North American Social Expression Products segment. As we seek to develop Cardstore.com and other channels of distribution, we expect that we will continue to make investments to support these efforts; however, the timing and amount are difficult to estimate. In addition, to the extent we are successful in expanding distribution and revenue in connection with expanding our leadership, additional capital may be deployed as we may incur incremental costs associated with this expanded distribution, including upfront costs prior to any incremental revenue being generated. If incurred, these costs may be material.

Over roughly the next five or six years, we expect to allocate resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures, all of which are intended to drive efficiencies within the business and add new capabilities. Amounts that we spend could be material in any fiscal year and over the life of the project. During 2013, we spent approximately $59 million, including capital of approximately $50 million and expense of approximately $9 million, on these information technology systems. The total amount spent through fiscal 2013 on this project was approximately $84 million. Including the amount that has already been spent, we currently expect to spend at least an aggregate of $150 million on these information technology systems over the life of the project, the majority of which we expect will be capital expenditures. We believe these investments are important to our business, help us drive further efficiencies and add new capabilities; however, there can be no assurance that we will not spend more or less than $150 million over the life of the project, or that we will achieve the anticipated efficiencies or any cost savings.

During March 2011, we also announced that in fiscal 2012 we expected that we would begin to invest in the development of a world headquarters in the Northeast Ohio area. The state of Ohio has committed certain tax credits, loans and other incentives totaling up to $93.5 million to assist us in the development of a new headquarters in Ohio. We are required to make certain investments and meet other criteria to receive these incentives over time. Although the project to build a new world headquarters is currently on hold, based on preliminary estimates, the gross costs associated with a new world headquarters building, before any tax credit, loans or other incentives that we may receive, will be between approximately $150 million and $200 million over a number of years following our resumption of the project.

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During 2013, we repurchased $47.1 million of our Class A common shares, representing the remaining amount authorized under the $75 million stock repurchase authorized by our Board of Directors in January 2012. Also, during 2013, we repurchased $31.6 million of our Class A common shares under the $75 million stock repurchase program announced on July 24, 2012. Under this program, the share repurchases may be made through open market purchases or privately negotiated transactions as market conditions warrant, at prices we deem appropriate, and subject to applicable legal requirements and other factors. There is no set expiration date for this program. However, purchases under this stock repurchase program were suspended due to the Going Private Proposal referred to in Note 19, Proposal by Members of the Weiss Family and Related Entities to Acquire the Corporation, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

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

Contractual Obligations

The following table presents our contractual obligations and commitments to make future payments as of February 28, 2013:

	Payment Due by Period as of February 28, 2013						
(Dollars in thousands)	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Long-term debt	$	$	$	$ 61,200	$	$ 225,181	$ 286,381
Operating leases (1)	52,349	48,736	44,056	39,303	32,187	75,361	291,992
Commitments under customer agreements	61,282	48,940	42,678	185	350		153,435
Commitments under royalty agreements	7,151	6,745	10,118	2,980	2,880		29,874
Interest payments	18,975	17,702	17,702	17,702	16,605	66,491	155,177
Severance	5,435	594					6,029
Commitments under purchase agreements	4,500	1,996					6,496
	$ 149,692	$ 124,713	$ 114,554	$ 121,370	$ 52,022	$ 367,033	$ 929,384

(1) Approximately $12 million of the operating lease commitments in the table above relate to retail stores acquired by Schurman that are being subleased to Schurman. The failure of Schurman to operate the retail stores successfully could have a material adverse effect on us because if Schurman is not able to comply with its obligations under the subleases, we remain contractually obligated, as primary lessee, under those leases. Also, we are currently negotiating lease terms with a number of landlords related to the Clinton Cards acquisition. As of February 28, 2013, we have completed 295 lease assignments. The estimated future minimum rental payments for noncancelable operating leases related to these lease assignments are approximately $255 million. In addition, assuming that the remaining landlords consent to terms proposed by us and we are able to successfully complete assignments for all of the approximately 400 stores, the estimated future minimum rental payments for noncancelable operating leases will be approximately $105 million higher, resulting in a total estimated future minimum rental payments for noncancelable operating leases of approximately $360 million related to acquired stores. Subsequent to year-end, we have completed an additional 62 lease assignments. As such, the total number of lease assignments was 357 as of April 24, 2013. The negotiations with landlords are expected to take approximately twelve months from the closing of the transaction on June 6, 2012.

The interest payments in the above table are determined assuming the same level of debt outstanding in the future years as was outstanding at February 28, 2013 under our credit agreement and accounts receivable facility at the current average interest rates for those facilities.

In addition to the contracts noted in the table, we issue purchase orders for products, materials and supplies used in the ordinary course of business. These purchase orders typically do not include long-term volume commitments, are based on pricing terms previously negotiated with vendors and are generally cancelable with the appropriate notice prior to receipt of the materials or supplies. Accordingly, the foregoing table excludes open purchase orders for such products, materials and supplies as of February 28, 2013. Also, we provide credit support to Schurman through a liquidity guaranty of up to $10 million in favor of the lenders under Schurman s senior revolving credit facility as described in Note 1 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report, which are not included in the table as no amounts have been drawn and therefore we cannot determine the amount of usage in the future.

Although we do not anticipate that contributions will be required in 2014 to the defined benefit pension plan that we assumed in connection with our acquisition of Gibson Greetings, Inc. in 2001, we may make contributions in excess of the legally required minimum contribution level. Refer to Note 12 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. We do anticipate that contributions will be required beginning in fiscal 2015, but those amounts have not been determined as of February 28, 2013.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Refer to Note 1 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. The following paragraphs include a discussion of the critical areas that required a higher degree of judgment or are considered complex.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are 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 we reasonably expect will be collected. In addition, we recognize allowances for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs. The establishment of allowances requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Although we consider these balances adequate and proper, changes in economic conditions in the retail markets in which we operate could have a material effect on the required allowance balances.

Sales Returns

We provide for estimated returns for products sold with the right of return, primarily seasonal cards and certain other seasonal products, in the same period as the related revenues are recorded. These estimates are based upon historical sales returns, the amount of current year sales and other known factors. Estimated return rates utilized for establishing estimated returns reserves have approximated actual returns experience. However, actual returns may differ significantly, either favorably or unfavorably, from these estimates if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or its market. We regularly monitor our actual performance to estimated return rates and the adjustments attributable to any changes have historically not been material.

Deferred Costs

In the normal course of our business, we enter into agreements with certain customers for the supply of greeting cards and related products. We view such agreements as advantageous in developing and maintaining business with our retail customers. The customer may receive a combination of cash payments, credits, discounts, allowances and other incentives to be earned as product is purchased from us over the stated term of the agreement or minimum purchase volume commitment. These agreements are negotiated individually to meet competitive situations and therefore, while some aspects of the agreements may be similar, important contractual terms may vary. In addition, the agreements may or may not specify us as the sole supplier of social expression products to the customer.

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Although risk is inherent in the granting of advances, we subject such customers to our normal credit review. We maintain an allowance for deferred costs based on estimates developed by using standard quantitative measures incorporating historical write-offs. In instances where we are aware of a particular customer s inability to meet its performance obligation, we record a specific allowance to reduce the deferred cost asset to an estimate of its future value based upon expected recoverability. Losses attributed to these specific events have historically not been material. The aggregate average remaining life of our customer contract base is 5.6 years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations accounted for by the purchase method. In accordance with ASC Topic 350 (ASC 350), Intangibles Goodwill and Other, goodwill and certain intangible assets are presumed to have indefinite useful lives and are thus not amortized, but subject to an impairment test annually or more frequently if indicators of impairment arise. We complete the annual goodwill and indefinite-lived intangible asset impairment tests during the fourth quarter. To test for goodwill impairment, we are required to estimate the fair market value of each of our reporting units. While we may use a variety of methods to estimate fair value for impairment testing, our primary methods are discounted cash flows and a market based analysis. We estimate future cash flows and allocations of certain assets using estimates for future growth rates and our judgment regarding the applicable discount rates. Changes to our judgments and estimates could result in a significantly different estimate of the fair market value of the reporting units, which could result in an impairment of goodwill.

Deferred Income Taxes

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. In assessing the realizability of deferred tax assets, we assess whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. The assumptions used in this assessment are consistent with our internal planning. A valuation allowance is recorded against those deferred tax assets determined to not be realizable based on our assessment. The amount of net deferred tax assets considered realizable could be increased or decreased in the future if our assessment of future taxable income or tax planning strategies change.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (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 in accordance 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. We adopted this standard on March 1, 2012. The adoption of this standard did not have a material effect on our financial statements.

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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. The provisions of this guidance are effective for interim and annual periods beginning after December 15, 2011. Effective March 1, 2012, the Corporation adopted the two consecutive statements approach for the presentation of components of net income (loss) and other comprehensive income (loss) and a total for comprehensive income (loss). The Corporation s Consolidated Financial Statements include the Consolidated Statement of Comprehensive Income as a result of adopting this standard. In February 2013, the FASB issued ASU No. 2013-02 (ASU 2013-02), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires entities to disclose additional information about changes in other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income and the income statement line items affected. The provisions of this guidance are effective prospectively for annual and interim periods beginning after December 15, 2012. We do not expect that the adoption of this standard will have a material effect on our financial statements.

In July 2012, the FASB issued ASU No. 2012-02 (ASU 2012-02), Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on its qualitative assessment an entity concludes that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We do not expect that the adoption of this standard will have a material effect on our financial statements.

Factors That May Affect Future Results

Certain statements in this report may constitute forward-looking statements within the meaning of the Federal securities laws. These statements can be identified by the fact that they do not relate strictly to historic or current facts. They use such words as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. These forward-looking statements are based on currently available information, but are subject to a variety of uncertainties, unknown risks and other factors concerning our operations and business environment, which are difficult to predict and may be beyond our control. Important factors that could cause actual results to differ materially from those suggested by these forward-looking statements, and that could adversely affect our future financial performance, include, but are not limited to, the following:

- a weak retail environment and general economic conditions;
- the loss of one or more retail customers and/or retail consolidations, acquisitions and bankruptcies, including the possibility of resulting adverse changes to retail contract terms;
- competitive terms of sale offered to customers, including costs and other terms associated with new and expanded customer relationships;
- the consummation of the Merger;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement;
- the outcome of any legal proceedings that have been or may be instituted against the Corporation or others relating to the Merger Agreement;

the inability to complete the Merger because of the failure to obtain shareholder approval or the Majority of the Minority Shareholder Approval, failure by Parent and Merger Sub to receive the proceeds of the financing as contemplated by the financing commitments or the failure to satisfy other conditions to consummation of the Merger;

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the failure of the Merger to close for any other reason;

the pendency of the proposed Merger and the related diversion of our management s attention from the operation of our business;

the effect of the announcement of the Merger on our business relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges related to the Merger;

the ability to successfully integrate Clinton Cards and achieve the anticipated revenue and operating profits;

the ability of the administrators to generate sufficient proceeds from the liquidation of the remaining Clinton Cards business to repay the remaining secured debt owed to us;

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

expenses we may incur relating to our world headquarters project;

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

the timing and impact of converting customers to a SBT model;

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

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

consumer demand for social expression products generally, shifts in consumer shopping behavior, and consumer acceptance of products as priced and marketed, including the success of new and expanded advertising and marketing efforts, such as our online efforts through Cardstore.com;

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

escalation in the cost of providing employee health care;

the ability to comply with our debt covenants;

- fluctuations in the value of currencies in major areas where we operate, including the U.S. Dollar, Euro, UK Pound Sterling and Canadian Dollar; and
- the outcome of any legal claims, known or unknown.

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

The risks and uncertainties identified above are not the only risks we face. Additional risks and uncertainties not presently known to us or that we believe to be immaterial also may adversely affect us. Should any known or unknown risks or uncertainties develop into actual events, or underlying assumptions prove inaccurate, these developments could have material adverse effects on our business, financial condition and results of operations. For further information concerning the risks we face and issues that could materially affect our financial performance related to forward-looking statements, refer to the "Risk Factors" section under Part I, Item 1A of this Annual Report.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Derivative Financial Instruments We had no derivative financial instruments as of February 28, 2013.

Interest Rate Exposure We manage interest rate exposure through a mix of fixed and floating rate debt. Currently, the majority of our debt is carried at fixed interest rates. Therefore, our overall interest rate exposure risk is minimal. Based on our interest rate exposure on our non-fixed rate debt as of and during the year ended February 28, 2013, a hypothetical 10% movement in interest rates would not have had a material impact on interest expense. Under the terms of our current Credit Agreement, we have the ability to borrow significantly more floating rate debt, which, if incurred, could have a material impact on interest expense in a fluctuating interest rate environment.

Foreign Currency Exposure Our international operations expose us to translation risk when the local currency financial statements are translated into U.S. dollars. As currency exchange rates fluctuate, translation of the statements of operations of international subsidiaries to U.S. dollars could affect comparability of results between years. Approximately 35%, 28% and 24% of our 2013, 2012 and 2011 total revenue from continuing operations, respectively, were generated from operations outside the United States. Operations in Australia, New Zealand, Canada, the European Union and the UK are denominated in currencies other than U.S. dollars. No assurance can be given that future results will not be affected by significant changes in foreign currency exchange rates. However, for the year ended February 28, 2013, a hypothetical 10% weakening of the U.S. dollar would not materially affect our income before income tax expense.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

American Greetings Corporation

We have audited the accompanying consolidated statement of financial position of American Greetings Corporation as of February 28, 2013 and February 29, 2012, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for each of the three years in the period ended February 28, 2013. 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, 2013 and February 29, 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 2013, 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.

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, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 9, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

May 9, 2013

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CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 2013, February 29, 2012 and February 28, 2011

Thousands of dollars except share and per share amounts

	2013	2012	2011
Net sales	$ 1,842,544	$ 1,663,281	$ 1,565,539
Other revenue	26,195	31,863	32,355
Total revenue	1,868,739	1,695,144	1,597,894
Material, labor and other production costs	817,740	741,645	682,368
Selling, distribution and marketing expenses	653,935	533,827	483,553
Administrative and general expenses	298,569	250,691	260,476
Goodwill impairment		27,154	
Other operating expense (income) net	4,330	(8,200)	(6,669)
Operating income	94,165	150,027	178,166
Interest expense	17,896	53,073	25,389
Interest income	(471)	(982)	(853)
Other non-operating (income) expense net	(9,174)	121	(2,377)
Income before income tax expense	85,914	97,815	156,007
Income tax expense	35,996	40,617	68,989
Net income	$ 49,918	$ 57,198	$ 87,018
Earnings per share basic	$ 1.50	$ 1.44	$ 2.18
Earnings per share assuming dilution	$ 1.47	$ 1.42	$ 2.11
Average number of shares outstanding	33,225,354	39,624,694	39,982,784
Average number of shares outstanding assuming dilution	34,021,957	40,288,189	41,244,903
Dividends declared per share	$ 0.60	$ 0.60	$ 0.56

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended February 28, 2013, February 29, 2012 and February 28, 2011

Thousands of dollars

	2013	2012	2011
Net income	$ 49,918	$ 57,198	$ 87,018
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(11,015)	(5,006)	15,165
Reclassification of currency translation adjustment for amounts recognized in income (net of tax of $0 in 2012)		2,594	
Pension and postretirement benefit adjustments (net of tax of $3,688 in 2013, $4,457 in 2012 and $8,083 in 2011)	5,712	(7,074)	12,303
Unrealized gain on securities (net of tax of $0 in 2013, 2012 and 2011)		2	1
Other comprehensive (loss) income	(5,303)	(9,484)	27,469
Comprehensive income	$ 44,615	$ 47,714	$ 114,487

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 2013 and February 29, 2012

Thousands of dollars except share and per share amounts

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 86,059	$ 132,438
Trade accounts receivable, net	105,497	113,840
Inventories	242,447	208,945
Deferred and refundable income taxes	72,560	58,118
Prepaid expenses and other	155,343	123,419
Total current assets	661,906	636,760
OTHER ASSETS	456,751	503,700
DEFERRED AND REFUNDABLE INCOME TAXES	92,354	121,228
PROPERTY, PLANT AND EQUIPMENT NET	372,452	287,776
	$ 1,583,463	$ 1,549,464
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 119,777	$ 86,166
Accrued liabilities	80,098	58,657
Accrued compensation and benefits	69,309	68,317
Income taxes payable	4,968	7,409
Deferred revenue	31,851	35,519
Other current liabilities	62,593	49,013
Total current liabilities	368,596	305,081
LONG-TERM DEBT	286,381	225,181
OTHER LIABILITIES	225,044	269,367
DEFERRED INCOME TAXES AND NONCURRENT INCOME TAXES PAYABLE	21,565	22,377
SHAREHOLDERS EQUITY		
Common shares par value $1 per share:		
Class A 83,935,490 shares issued less 54,847,733 treasury shares in 2013 and 83,405,116 shares issued less 49,393,801 treasury shares in 2012	29,088	34,011
Class B 6,057,116 shares issued less 3,174,032 treasury shares in 2013 and 6,066,092 shares issued less 3,223,683 treasury shares in 2012	2,883	2,842
Capital in excess of par value	522,425	513,163
Treasury stock	(1,093,782)	(1,020,838)
Accumulated other comprehensive loss	(17,133)	(11,830)
Retained earnings	1,238,396	1,210,110
Total shareholders equity	681,877	727,458
	$ 1,583,463	$ 1,549,464

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 28, 2013, February 29, 2012 and February 28, 2011

Thousands of dollars

	2013	2012	2011
OPERATING ACTIVITIES:			
Net income	$ 49,918	$ 57,198	$ 87,018
Adjustments to reconcile net income to cash flows from operating activities:			
Goodwill impairment		27,154	
Stock-based compensation	10,743	10,982	13,017
Net gain on dispositions		(4,500)	(254)
Net loss (gain) on disposal of fixed assets	631	(461)	(3,463)
Loss on extinguishment of debt		30,812	
Depreciation and intangible assets amortization	49,405	43,666	45,221
Provision for doubtful accounts	16,064	4,776	3,834
Impairment of Clinton Cards debt	8,106		
Deferred income taxes	27,530	15,391	28,642
Gain on sale of Party City investment	(4,293)		
Other non-cash charges	1,198	3,034	3,782
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Trade accounts receivable	(9,820)	4,495	11,462
Inventories	(31,558)	(23,321)	(13,097)
Other current assets	(23,404)	7,004	(2,103)
Income taxes	(18,607)	(11,411)	19,947
Deferred costs net	27,069	(31,254)	14,262
Accounts payable and other liabilities	58,586	(13,560)	(31,015)
Other net	1,196	3,797	5,962
Total Cash Flows From Operating Activities	162,764	123,802	183,215
INVESTING ACTIVITIES:			
Property, plant and equipment additions	(114,149)	(78,207)	(39,762)
Cash payments for business acquisitions, net of cash acquired	621	(5,899)	(500)
Proceeds from sale of fixed assets	853	9,310	14,242
Proceeds from escrow related to party goods transaction			25,151
Proceeds from sale of intellectual properties		4,500	
Proceeds from sale of Party City investment	6,061		
Purchase of Clinton Cards debt	(56,560)		
Other net			5,663
Total Cash Flows From Investing Activities	(163,174)	(70,296)	4,794
FINANCING ACTIVITIES:			
Proceeds from revolving line of credit and long-term borrowings	543,150	225,000	
Repayments on revolving line of credit and long-term borrowings	(481,950)	(263,787)	(98,250)
Decrease in short-term debt			(1,000)
Issuance or exercise of share-based payment awards	(2,648)	10,153	16,620
Tax benefit from share-based payment awards	364	3,468	4,512
Purchase of treasury shares	(80,991)	(82,459)	(13,521)
Dividends to shareholders	(19,927)	(23,893)	(22,354)
Debt issuance costs		(5,391)	(3,199)
Total Cash Flows From Financing Activities	(42,002)	(136,909)	(117,192)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3,967)	3	7,072

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(46,379)	(83,400)	77,889
Cash and Cash Equivalents at Beginning of Year	132,438	215,838	137,949
Cash and Cash Equivalents at End of Year	$ 86,059	$ 132,438	$ 215,838

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Years ended February 28, 2013, February 29, 2012 and February 28, 2011

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 Loss	Retained Earnings	Total
BALANCE MARCH 1, 2010	$ 36,257	$ 3,223	$ 461,076	$ (946,724)	$ (29,815)	$ 1,126,894	$ 650,911
Net income						87,018	87,018
Other comprehensive income					27,469		27,469
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	37,470	2,937	492,048	(952,206)	(2,346)	1,185,855	763,758
Net income						57,198	57,198
Other comprehensive loss					(9,484)		(9,484)
Cash dividends $0.60 per share						(23,908)	(23,908)
Sale of shares under benefit plans, including tax benefits	1,054	314	10,117	11,042		(8,978)	13,549
Purchase of treasury shares	(4,514)	(412)		(79,782)			(84,708)
Stock compensation expense			10,982				10,982
Stock grants and other	1	3	16	108		(57)	71
BALANCE FEBRUARY 29, 2012	34,011	2,842	513,163	(1,020,838)	(11,830)	1,210,110	727,458
Net income						49,918	49,918
Other comprehensive loss					(5,303)		(5,303)
Cash dividends $0.60 per share						(19,929)	