AMERICAN GREETINGS CORP
Form 424B5
May 22, 2006

Filed Pursuant to Rule 424(b)(5).
A filing fee of $21,400, calculated in accordance with
Rule 457(r), has been transmitted to the SEC in connection
with the securities offered from the registration statement
(File No. 333-134029) by means of this prospectus supplement.

PROSPECTUS SUPPLEMENT

(To prospectus dated May 11, 2006)

$200,000,000

7 3/8% Senior Notes due 2016

American Greetings Corporation

- We are one of the world s largest manufacturers of social expression products. Along with greeting cards, our product lines include gift wrap, party goods, candles, stationery, calendars, educational products, ornaments and electronic greetings.

Notes

- We are offering $200,000,000 aggregate principal amount of 7 3/8% senior notes due 2016, which we refer to in this prospectus supplement as the notes.

- We will pay interest on the notes on June 1 and December 1 of each year, commencing on December 1, 2006. The notes will mature on June 1, 2016.

- We may redeem the notes, in whole or in part, at our option at any time on or after June 1, 2011, at the redemption prices listed under Description of the Notes Optional Redemption in this prospectus supplement, plus accrued and unpaid interest, if any, to the date of redemption. We may also redeem the notes, in whole or in part, at our option at any time prior to June 1, 2011, at a price equal to 100% of their principal amount plus a make-whole premium, together with accrued but unpaid interest, if any, to the date of redemption. In addition, at any time on or before June 1, 2009, we may at our option, redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to 107.375% of the face amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption.

- If we experience a change of control, we may be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

Ranking

- Ø The notes will be unsecured obligations of American Greetings Corporation and will rank equally with our other senior unsecured indebtedness outstanding from time to time.

Before buying any notes, you should read the discussion of the material risks of investing in the notes beginning on page S-9 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per note	Total
Public offering price of the notes	100.00%	$ 200,000,000
Underwriting discount of the notes	1.25%	$ 2,500,000
Proceeds to us from the notes (before expenses)	98.75%	$ 197,500,000

The notes will be ready for delivery in book-entry form only to The Depository Trust Company on or about May 24, 2006.

Joint Book-Running Managers

UBS Investment Bank **JPMorgan**

Joint Lead Manager

KeyBanc Capital Markets

The date of this prospectus supplement is May 19, 2006.

Table of Contents

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information appearing or incorporated by reference in this prospectus supplement is accurate only as of the date of this prospectus supplement or the date of the document in which incorporated information appears. Our business, financial condition, results of operations and prospects may have changed since those dates.

If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

This prospectus supplement is accompanied by a copy of our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, which contains additional information about us and is incorporated herein by reference. See Where You Can Find More Information and Information Incorporated by Reference in the accompanying prospectus for additional information regarding documents incorporated herein by reference.

TABLE OF CONTENTS

Table of Contents

Forward-looking statements and information

This prospectus supplement and the accompanying prospectus (including the information incorporated by reference) contain 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 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:

- the timing and impact of changes that we plan to make to our capital structure, including the ability to successfully consummate the Exchange and the Refinancing (as defined in the Prospectus Supplement Summary Recent Developments);
- retail bankruptcies, consolidations and acquisitions, including the possibility of resulting adverse changes to retail contract terms;
- a weak retail environment;
- consumer acceptance of products as priced and marketed;
- the impact of technology on core product sales;
- competitive terms of sale offered to customers;
- successful implementation of supply chain improvements and achievement of projected cost savings from those improvements;
- increases in the cost of material, energy and other production costs;
- our ability to comply with our debt covenants;
- fluctuations in the value of currencies in major areas where we operate, including the U.S. Dollar, Euro, U.K. Pound Sterling, and Canadian Dollar;
- the timing and impact of investments in new retail or product strategies as well as new product introductions and achieving the desired benefits from those investments;
- escalation in the cost of providing employee health care;

- Ø our ability to execute share repurchase programs or the ability to achieve the desired accretive effect from such repurchases;

- Ø the timing and impact of any changes we may make to our capital structure;

- Ø successful integration of acquisitions; and

- Ø the outcome of any legal claims known or unknown.

Risks pertaining specifically to AG Interactive include the viability of online advertising, subscriptions and renewals thereof as revenue generators and the public s acceptance of online greetings and other social expression products and the ability of the mobile division to compete effectively in the wireless content aggregation market.

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. We assume no obligation or duty to update any of the forward-looking statements included in this prospectus supplement and the accompanying prospectus (including the information incorporated by reference) except to the extent required by law.

Table of Contents

Prospectus supplement summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus or the documents incorporated by reference in these documents. See Where You Can Find More Information and Information Incorporated by Reference on pages 1 and 2 of the accompanying prospectus. Unless otherwise indicated or the context otherwise requires, all references in this prospectus supplement to we, us, our or American Greetings refer to American Greetings Corporation and its consolidated subsidiaries.

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, 2006 refers to the year ended February 28, 2006. Historically, our AG Interactive subsidiary was consolidated on a two-month lag corresponding with its fiscal year-end of December 31. In fiscal 2006, AG Interactive changed its year end to coincide with our fiscal year end. Fiscal 2006 includes fourteen months of AG Interactive s operations as a result of the change.

OUR COMPANY

Founded in 1906, we are one of the world s largest manufacturers of social expression products. We operate predominantly in a single industry: the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products. We manufacture and sell greeting cards, gift wrap, party goods, candles, stationery and giftware in North America, including the United States, Canada and Mexico, and throughout the world, primarily in the United Kingdom, Australia, New Zealand and South Africa. In addition, AG Interactive, Inc. (which is now wholly owned by us and was formerly known as AmericanGreetings.com, Inc.) markets e-mail greetings, personalized printable greeting cards and other social expression products through our Web sites www.americangreetings.com, www.bluemountain.com, and www.egreetings.com; co-branded Web sites and on-line services. In 2005, AG Interactive launched its AG Mobile unit, which specializes in the distribution of ringtones for cellular telephones, graphics, games, alerts and other social messaging products and applications to mobile devices. Our subsidiary, Learning Horizons, Inc. distributes supplemental educational products. Design licensing and character licensing are done primarily by our subsidiaries, AGC Inc. and Those Characters From Cleveland, Inc., respectively. The Hatchery, LLC (50% of which is owned by us) also develops and produces original family and children s entertainment for all media. Our A.G. Industries, Inc. subsidiary manufactures custom display fixtures for our products and products of others. As of February 28, 2006, we also owned and operated 503 card and gift shops throughout North America.

Our principal executive office is located at One American Road, Cleveland, Ohio 44144. Our telephone number is (216) 252-7300. Our web site address is www.corporate.americangreetings.com. Information on our web site does not constitute part of this prospectus supplement.

OUR COMPETITIVE STRENGTHS

We believe that the following factors contribute significantly to our ability to compete effectively in the social expressions industry.

- Ø *Leading Market Share*. We have established a leading market position in many of our major businesses. We believe we have approximately a 35% market share in the North American greeting cards market. Our market position in the greeting cards market has been strengthened by both our broad product offering as well as by the size and scope of our distribution network. We also believe we are the number one supplier of online greeting cards with approximately a 50% market share and approximately 2.6 million subscribers to our various electronic greeting card websites. In addition, we believe we are the number one domestic supplier of gift wrap with approximately a 30% market share.

- Ø *Creative Culture with Broad Product Offering*. We have one of the world s largest creative studios with an extensive library of award-winning expressive content. We create thousands of new greeting card designs each year and have successfully leveraged our core competencies in the greeting card business to diversify into other social expression and related product categories, including gift wrap, party goods, calendars, candles, stationery, and educational products. Our ability to provide a full range of greeting cards and other social expression products allows retailers to effectively meet their merchandising goals thereby reinforcing our relationship with major retailers.

Ø *Strong Retail Partnerships*. We have long-standing relationships with major retailers in the mass retail channels, having supplied our top five retail partners for an average of 38 years. We believe we are one of only two companies out of the many greeting card suppliers that can meet the combination of merchandising, quality, selection, inventory and distribution criteria required by today s largest and best retailers. In addition, as of February 28, 2006, three of our five largest customers were on a scan-based trading model, a business model that is based on providing product to our customers on a consignment basis where we record sales at the time a product is electronically scanned through the retailer s cash register. We believe that scan-based trading solidifies our retailer relationships and provides benefits such as improved point of sale information from our retail customers, contract enhancements and cash management efficiencies. Our strong retail relationships allow us to engage in longer-term contracts that strengthen our ability to compete in the greeting card business.

Ø *Extensive Distribution Capabilities*. Through our multiple manufacturing and distribution facilities, we deliver thousands of products to tens of thousands of doors on a weekly basis across North America. Our distribution network is supported by our automated distribution system which allows us to replenish retailers shelves promptly following the initiation of a re-order by approximately 16,000 part-time in-store merchandisers, who are responsible for the stocking of pockets in displays and overall display appearance within the retail locations. These capabilities allow us to service our customers in an effective and efficient manner, thereby positioning us as a leading supplier to our retail customers.

Ø *Diversified Channel Exposure*. Our distribution continues to be primarily through mass retail, which is comprised of three distinct channels: mass merchandisers; 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). As of February 28, 2006, we also owned and operated 503 card and gift retail stores, which are primarily located in malls and strip shopping centers, in the US and Canada.

Ø *Strong Cash Flows*. During fiscal 2006, the majority of our net sales were derived from long-term contractual relationships with our retail partners, providing us with stability in our net sales and, therefore, a more predictable cash flow. We believe our relatively stable revenue in conjunction with our modest working capital needs and low maintenance capital expenditures (estimated to be approximately 2-3% of annual net sales) have resulted in significant free cash flow generation. Since the end of the third quarter of fiscal 2002, we have reduced net debt (which we define as total debt less cash, cash equivalents and short-term investments) by over $900 million.

OUR BUSINESS STRATEGY

Our objective is to continue to expand our position as a leading creator, manufacturer and distributor of social expression products by generating innovative products and services to meet the consumers needs to connect, express and celebrate. Our key strategic initiatives are to:

Ø *Grow our Greeting Cards Business.* We will focus our resources on our core greeting card business. We seek to lead the category through differentiation and thereby gain profitable market share, primarily by concentrating our efforts to:

Enhance our Product Portfolio. We will continue to leverage one of the world s largest creative studios and digital libraries of award-winning expressive content to create a full range of fresh and new greeting card designs each year.

Bring Best in Class Merchandising to the Point of Sale. We will seek to improve the merchandising of our products to enrich the consumers shopping experience. This represents the next step in the process we have been following the past few years as we are working to enhance our product development, sourcing and distribution capabilities while becoming a more consumer driven organization. We currently expect to spend at least $100 million over the next several years on this Win at Cards initiative, with the majority of the expenses occurring during fiscal 2007. We expect approximately one-third of this amount to be related to converting additional customers to the scan-based trading business model, with the remainder associated with implementing creative initiatives, process changes, reducing certain retailers inventory in order to flow future new product changes more rapidly and improving merchandising, including new and enhanced display fixtures. The actual amount and timing of the expenditures will depend on the success of our Win at Cards initiative and the schedules of our retail partners.

Ø *Focus on Supply Chain Management.* We will seek to improve our business by continuing our focus on supply chain transformation, an initiative designed to improve the way we develop, manufacture, distribute and service our products. We will seek to strengthen our greeting card business by creating cross functional teams to ensure flawless supply chain execution, improving our measurement and tracking metrics and ensuring a flexible and nimble supply chain capable of responding to market demands. In addition, we will continue to concentrate on ways to create sustainable cost savings by, among other things, continuously balancing the mix of our own manufacturing and outsourcing production and reducing overhead and fixed costs.

Ø *Enhance the Profitability of our Retail Operations Unit.* We will seek to enhance the profitability of our Retail Operations unit by continuously seeking new store merchandising concepts. We expect the new store concepts will be able to effectively compete against other independent retail stores. To improve our competitive position, we plan to improve products and the in-store assortment to emphasize greeting cards. In addition, we will also reduce costs and rationalize our store portfolio in order to close under-performing stores. To this end, over the last 30 months, we have closed 129 stores to enhance our store portfolio and to improve the profitability of our retail operations unit.

Ø *Evolve our Product Line Beyond the Core Greeting Card Business.* We will seek to extend our existing competencies and evolve our product line beyond the core greeting card business by leveraging our creative capabilities. We expect to evolve beyond cards by growing organically and by acquiring businesses or forming strategic partnerships, including investments that build on our intellectual property assets.

RECENT DEVELOPMENTS

On April 4, 2006, we replaced our existing credit facility with a new $650.0 million credit facility. The new credit facility includes a $350.0 million revolving credit facility and a $300.0 million term loan. On April 6, 2006, we commenced an offering to exchange our outstanding 7.00% Convertible Subordinated Notes due July 15, 2006, for our new 7.00% Convertible Subordinated Notes due July 15, 2006, which exchange we refer to in this prospectus supplement as the **Exchange.**

In addition, on April 6, 2006, we commenced an offer to purchase and a consent solicitation related to our 6.10% senior notes due August 1, 2028. There is approximately $300.0 million in aggregate principal amount of the 6.10% senior notes outstanding. In connection with the offer to purchase, we also solicited the consent of holders to eliminate certain covenants in the existing indenture. The consummation of our offer to purchase the 6.10% senior notes is conditioned upon the satisfaction, or waiver by us, of certain conditions, including the receipt of sufficient gross proceeds from this offering and the consent of 66 $^{2}/3$% of the principal amount of the existing notes to a proposed amendment to the indenture governing the 6.10% senior notes. On April 20, 2006, we announced that we had received sufficient consents to amend the indenture governing the 6.10% senior notes. We intend to use the net proceeds of this offering together with available cash and cash equivalents to fund the purchase of and pay amounts due with respect to the offer to purchase and consent solicitation for the 6.10% senior notes. As of May 10, 2006, holders of approximately 92.4% of the aggregate amount of outstanding principal of the 6.10% senior notes have tendered their notes pursuant to the offer to purchase. The expiration date for the offer to purchase is currently set at May 24, 2006, and additional holders may tender or withdraw their notes prior to the expiration date.

The repurchase of all of our outstanding 6.10% senior notes pursuant to the tender offer and payment of the related consent payment with the proceeds from this offering and available cash and cash equivalents, together with the amendments to the related indenture, are referred to in this prospectus supplement as the **Refinancing.** The replacement of our existing credit agreement with a new $650.0 million credit facility, together with the consummation of the Exchange and the Refinancing, are referred to in this prospectus supplement as the **Capital Transactions.**

Table of Contents

The offering

Issuer	American Greetings Corporation
The Notes	$200,000,000 aggregate principal amount of 7 3/8% senior notes due 2016.
Maturity	Unless redeemed prior to maturity as described below, the notes will mature on June 1, 2016.
Payment of Interest	Interest on the notes will be payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2006.
Ranking	The notes will be our general unsecured obligations. The notes will rank equally with our other senior unsecured indebtedness and senior in right of payment to all of our obligations that are, by their terms, expressly subordinated in right of payment to the notes. The notes will be effectively subordinated to all of our secured indebtedness, including borrowings under our new credit facility, to the extent of the value of the assets securing such indebtedness. The notes will be structurally subordinated to all existing and future obligations of our subsidiaries that do not guarantee the notes. On the issue date, none of our subsidiaries will guarantee the notes.
	As of February 28, 2006, assuming this offering and the Capital Transactions had occurred on such date, including the application of the net proceeds therefrom as set forth under Use of proceeds, we would have had total unsecured indebtedness of approximately $376.4 million. In addition, as of such date and after giving effect to such Capital Transactions, we would have had approximately $36.8 million in letters of credit outstanding and approximately $613.2 million of additional secured borrowing availability under our new credit facilities and our subsidiaries would have had approximately $82.3 million of indebtedness and other liabilities, including trade payables.
Optional Redemption	We may redeem the notes, in whole or in part, at our option at any time on or after June 1, 2011, at the redemption prices listed under Description of the Notes Optional Redemption, plus accrued and unpaid interest, if any, to the date of redemption.
	In addition, on or before June 1, 2009, we may, at our option, redeem up to 35% of the aggregate principal amount of notes issued under the indenture with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to 107.375% of the face amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption; *provided* that (1) at least 65% of the aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of any such Qualified Equity Offering.

Table of Contents

	We may also redeem the notes, in whole or in part, at our option at any time prior to June 1, 2011, at a price equal to 100% of their principal amount plus a make-whole premium, together with accrued but unpaid interest, if any, to the date of redemption.
Change of Control	Upon the occurrence of any change of control (as defined in the indenture), each holder of notes will have the right to require us to purchase all of that holder s notes for a cash price equal to 101% of the principal amount of the notes to be purchased, plus accrued and unpaid interest, if any, to the date of purchase.
Certain Covenants	The indenture governing the notes will contain certain covenants that, among other things, will limit our ability and the ability of certain of our restricted subsidiaries to: incur additional debt; declare or pay dividends, make distributions on or repurchase or redeem our capital stock; make certain investments; enter in agreements affecting the ability of our restricted subsidiaries to pay dividends; 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.
	These covenants are subject to a number of important detailed exceptions and qualifications, which are described under Description of the Notes, including but not limited to exceptions whereby some of these covenants will cease to apply before the notes mature if the notes achieve investment grade ratings from either or both of Standard & Poor s Ratings Services and Moody s Investors Service Inc.
Use of Proceeds	The net proceeds from the offering of notes are expected to be approximately $196.9 million after deducting the underwriting discount and estimated expenses. We will use the net proceeds

	of this offering to repurchase our 6.10% senior notes due August 1, 2028. See Use of proceeds in this prospectus supplement.
Risk Factors	See Risk factors beginning on page S-9 for discussion of factors you should carefully consider before deciding to invest in the notes.

Table of Contents

Summary historical consolidated financial data

The following summary historical consolidated financial data for the years ended February 28, 2002, February 28, 2003, February 29, 2004, February 28, 2005 and February 28, 2006 should be read in conjunction with this prospectus supplement and our financial statements and the related notes which are included in our Annual Report on Form 10-K for the year ended February 28, 2006. See Where You Can Find More Information in the accompanying prospectus. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	Fiscal Year Ended February 28 or 29				
	2002	2003	2004	2005	2006
	(Dollars in thousands)				
Statement of Operations:[1]					
Net sales	$ 1,857,134	$ 1,923,483	$ 1,937,540	$ 1,883,367	$ 1,885,701
Material, labor and other production costs	902,101	847,383	904,552	895,110	850,158
Selling, distribution and marketing	667,391	603,291	629,663	648,120	637,496
Administrative and general	306,565	233,134	217,381	249,984	245,608
Goodwill impairment					43,153
Restructure charges	55,819				
Interest expense	78,433	78,972	85,690	79,397	35,124
Other expense (income) net	50,272	(25,458)	(58,267)	(96,069)	(64,773)
(Loss) income from continuing operations before income taxes	(203,447)	186,161	158,521	106,825	138,935
Income tax (benefit) expense	(77,291)	74,327	61,862	37,328	48,810
(Loss) income from continuing operations	(126,156)	111,834	96,659	69,497	90,125
Income (loss) from discontinued operations, net of tax	3,846	9,272	8,011	25,782	(5,749)
Net (loss) income	$ (122,310)	$ 121,106	$ 104,670	$ 95,279	$ 84,376
Balance Sheet Data (end of period):[1]					
Cash and cash equivalents, including short-term investments	$ 100,974	$ 208,259	$ 284,743	$ 456,539	$ 422,353
Working capital	379,233	564,030	782,181	804,234	578,102
Total assets	2,607,215	2,574,147	2,475,535	2,524,207	2,218,962
Total debt	864,341	859,631	665,835	486,087	475,308
Total net debt[2]	763,367	651,372	381,092	29,548	52,955
Total liabilities	1,704,796	1,496,683	1,207,995	1,137,427	998,937
Cash Flow Data:[1]					
Cash flows provided by operating activities			$ 284,151	$ 366,218	$ 277,396
Cash flows used by investing activities			(32,106)	(196,387)	(61,151)
Purchase of treasury shares			(828)	(24,080)	(244,642)
Cash flows used by financing activities			(192,009)	(208,647)	(249,540)
Other Data:[1]					
EBITDA[3]	$ (45,872)	$ 325,184	$ 303,121	$ 242,514	$ 228,281
Adjusted EBITDA[3]					271,434
Capital expenditures	22,295	27,484	31,541	47,243	46,188
Depreciation and amortization	79,142	60,051	58,910	56,292	54,222
Consolidated ratio of earnings to fixed charges[4]	[5]	2.8	2.5	2.1	3.6

Table of Contents

(1) During the quarter ended February 28, 2006 (as discussed in our April 6, 2006 earnings release), we committed to a plan to sell our South African business unit. As a result, the summary historical consolidated financial data has been reclassified to reflect our South African business unit as a discontinued operation for all periods presented.

(2) We define net debt as total debt less cash, cash equivalents and short-term investments. We present net debt because we believe net debt is more representative of our financial position.

(3) EBITDA represents (loss) income from continuing operations before interest expense, income taxes and depreciation and amortization. Adjusted EBITDA represents EBITDA as further adjusted to exclude non-cash impairment charges recorded during fiscal 2006 to write-off the goodwill associated with our retail operations and our Australian operations. EBITDA and Adjusted EBITDA are presented because our management considers them to be important supplemental measures of our performance and believes that they are frequently used by securities analysts, investors and other interested parties as useful tools for measuring a company s ability to meet its future debt service, capital expenditures and working capital requirements. In addition, we believe that including supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to securities analysts, investors and other interested parties that may be useful in developing consistent period-to-period comparisons. Neither EBITDA nor Adjusted EBITDA represent net income or cash flows from operations as those terms are defined in Generally Accepted Accounting Principles, and do not necessarily indicate whether cash flows will be sufficient to fund our cash needs. In addition, it should be noted that our calculation of EBITDA and Adjusted EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies and that EBITDA and Adjusted EBITDA have material limitations as performance measures because of the items that they exclude. The tables set forth below reconcile our (loss) income from continuing operations to EBITDA for the fiscal years ended 2002 through 2006 and to Adjusted EBITDA for the year ended February 28, 2006.

	Fiscal Year Ended February 28 or 29 (Dollars in thousands)				
	2002	**2003**	**2004**	**2005**	**2006**
(Loss) income from continuing operations	$ (126,156)	$ 111,834	$ 96,659	$ 69,497	$ 90,125
Plus: Interest expense	78,433	78,972	85,690	79,397	35,124
Plus: Income tax (benefit) expense	(77,291)	74,327	61,862	37,328	48,810
Plus: Depreciation and amortization	79,142	60,051	58,910	56,292	54,222
EBITDA	$ (45,872)	$ 325,184	$ 303,121	$ 242,514	$ 228,281

	Fiscal Year Ended February 28, 2006 (Dollars in thousands)
EBITDA	$ 228,281
Plus: Goodwill impairment	43,153
ADJUSTED EBITDA	$ 271,434

(4) Ratio of earnings to fixed charges is computed by dividing fixed charges into earnings plus fixed charges. For purposes of determining this ratio, earnings have been calculated as pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries. Fixed charges consist of interest expense (including amortized premiums, discounts and capitalized expenses related to indebtedness) and the estimated interest component of rent expense.

(5) Earnings for the fiscal year ended February 28, 2002 were inadequate to cover fixed charges. The coverage deficiency was $205,164.

Table of Contents

Risk factors

Before purchasing these notes, you should consider all of the information set forth in this prospectus supplement, the accompanying prospectus and the information incorporated by reference. In consultation with your own financial and legal advisors, you should carefully consider, among other matters, the discussion of risks set forth below and in our periodic reports, including the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, before deciding whether an investment in the notes is suitable for you. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the notes could decline due to any of these risks, and you may lose all or part of your investment.

Our indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under the notes.

As of February 28, 2006, assuming this offering and the Capital Transactions had occurred on such date, including the application of the net proceeds therefrom as set forth under Use of proceeds, we would have had total unsecured indebtedness of approximately $376.4 million. Our company and our subsidiaries will be permitted to incur additional indebtedness in the future.

Our ability to make scheduled payments of principal of, or to pay the interest or liquidated damages, if any, on, or to refinance, our indebtedness (including the notes), or to fund planned capital expenditures, acquisitions and other strategic initiatives will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Our management believes that cash flow from operations and available cash, together with available borrowings under our credit facility, will be adequate to meet our future liquidity needs. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available under our revolving credit facility in an amount sufficient to enable us to service our indebtedness, including the notes, or to fund our other liquidity needs.

The notes will not be secured by any of our subsidiaries assets and will be effectively subordinated to all of our secured indebtedness to the extent of the value of the collateral securing such indebtedness. The notes will also be structurally subordinated to all existing and future obligations, including trade payables, of our subsidiaries that do not guarantee the notes. If we were to become insolvent or otherwise fail to make payment on the notes, holders of any of our secured obligations would be entitled to be paid first and in full and would receive payments from the assets securing their loans to us before the holders of the notes would receive any payments. On the issue date, none of our subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of the subsidiaries, these subsidiaries will be required to pay holders of their debts and their trade creditors before they will be able to distribute any of their assets to us. Due to losses incurred during the twelve months ended February 28, 2006 at the subsidiary level, all of our consolidated net income was generated by us and not by our subsidiaries during this period. However, during the twelve months ended February 28, 2006, our subsidiaries represented approximately 40% of our net sales and, as of February 28, 2006, they held approximately 41% of our combined assets and approximately 8% of our indebtedness and other liabilities, including trade payables, to which the notes would have been structurally subordinated.

Assuming this offering and after giving effect to the Capital Transactions as of February 28, 2006, we would have had approximately $36.8 million in letters of credit outstanding and approximately $613.2 million of additional secured borrowing availability under our new credit facilities and our subsidiaries would have had approximately $82.3 million of indebtedness and other liabilities, including trade payables.

Restrictive covenants in the indenture and our credit facility may adversely affect our business.

The indenture under which the notes will be issued and our credit facility contain financial and other restrictive covenants that will limit our ability to, among other things, borrow additional funds. Our failure to comply with such covenants, including financial ratio tests, could result in an event of default which, if not cured or waived, would prevent us from making additional borrowings under the credit facility and could result in our debt under such facility or the notes being accelerated, each of which could have a material adverse effect on us.

An active trading market for the notes may not develop.

We do not intend to apply for listing of the notes on a securities exchange or on any other market. The underwriters have informed us that they intend to make a market in the notes. However, the underwriters are not obligated to do so, and may cease any market-making activities at any time without notice. We cannot assure you that an active trading market will develop for the notes, that you will be able to sell your notes, or that, even if you can sell them, you will be able to do so at an acceptable price. The notes could trade at prices that are higher or lower than the initial offering price depending on many factors, including the number of holders of the notes, the overall market for similar securities, our financial performance and prospects, and prospects for companies in our industry generally.

We may not be in a position to repurchase the notes for cash pursuant to their terms when required.

In connection with a change in control, you may require us to repurchase all or a portion of your notes for cash. If you were to require us to repurchase your notes, we cannot assure you that we will be able to pay the amount required. Our ability to repurchase the notes may be limited by law, by the indenture governing the notes, and by indebtedness and agreements currently existing or that we may enter into in the future which may replace, supplement or amend our existing or future debt. In addition, while we could seek to obtain third-party financing to pay for any amounts due in cash upon repurchase of the notes, we cannot be sure that such third-party financing will be available on commercially reasonable terms, if at all. Our failure to repurchase the notes would constitute an event of default under the indenture under which we will issue the notes, which might constitute a default under the terms of our other indebtedness at that time.

Use of proceeds

The net proceeds from the offering of notes are expected to be approximately $196.9 million after deducting the underwriting discount and estimated expenses. We will use the net proceeds of this offering to repurchase our 6.10% senior notes due August 1, 2028. Prior to such application, all or a portion of the net proceeds may be invested in short-term investments.

Table of Contents

Capitalization

The following table sets forth our consolidated capitalization (1) as of February 28, 2006 and (2) as adjusted to give effect to the Capital Transactions. You should read the following data together with the consolidated financial statements and notes to the consolidated financial statements and other financial and operating data included elsewhere in this prospectus supplement or incorporated in this prospectus supplement by reference.

	As of February 28, 2006(1)	
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents, including short-term investments	$ 422,353	$ 309,674(2)
Long-term debt (including debt classified as current):		
Accounts receivable securitization facility		
Senior secured credit facilities		
6.10% senior notes, due 2028	298,910(3)	(2)
Senior notes offered hereby		200,000(2)
7.00% convertible subordinated notes, due 2006	174,792	174,792
Other	1,606	1,606
Total long-term debt (including debt classified as current)	475,308	376,398
Shareholders equity(4)	1,220,025	1,214,920
Total capitalization	$ 1,695,333	$ 1,591,318

(1) During the quarter ended February 28, 2006, we committed to a plan to sell our South African business unit. As a result, the consolidated capitalization data has been reclassified to reflect our South African business unit as a discontinued operation for the period presented.

(2) As adjusted balances assume (i) we received the net proceeds from the issuance of the notes, (ii) we repurchased 100% of the $300.0 million of aggregate principal amount of 6.10% senior notes currently outstanding and paid the associated tender premium and consent payment as contemplated by the Refinancing, (iii) that 100% of our existing 7.00% convertible subordinated notes were exchanged for our new 7.00% convertible subordinated notes and that we paid the exchange fee of $5.00 per $1,000 of principal amount of our existing 7.00% convertible subordinated notes tendered for exchange as contemplated in the Exchange, (iv) the replacement of our credit facility with our new $650 million credit facility and the payment of the related lender and arrangement fees, and (v) payment of certain legal, accounting and other fees and expenses associated with the Capital Transactions.

(3) Includes $1.1 million of unamortized original issue costs.

(4) As adjusted shareholders equity assumes (i) the write-off of the unamortized original issue costs on the 6.10% senior notes, (ii) the tender premium and consent payment is expensed in connection with the repurchase of the 6.10% senior notes, assuming that 100% of the $300.0 million of aggregate principal amount of 6.10% senior notes currently outstanding are repurchased at a tender price of 101.193%, and (iii) certain fees and expenses are expensed in connection with the Refinancing and the Exchange.

Table of Contents

Consolidated ratio of earnings to fixed charges

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods shown.

	Fiscal Year Ended February 28 or 29,				
	2002	2003	2004	2005	2006
Consolidated ratio of earnings to fixed charges(1)	(2)	2.8	2.5	2.1	3.6

(1) Ratio of earnings to fixed charges is computed by dividing fixed charges into earnings plus fixed charges. For purposes of determining this ratio, earnings have been calculated as pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries. Fixed charges consist of interest expense (including amortized premiums, discounts and capitalized expenses related to indebtedness) and the estimated interest component of rent expense. The information presented has been reclassified to reflect our South African business unit as a discontinued operation.

(2) Earnings for the fiscal year ended February 28, 2002 were inadequate to cover fixed charges. The coverage deficiency was $205,164.

Table of Contents

Description of the notes

As used below in this Description of the Notes section, the **Issuer** means American Greetings Corporation, an Ohio corporation, and its successors, but not any of its subsidiaries. The Issuer will issue the notes described in this prospectus supplement (the **Notes**) under an Indenture, dated as of May 24, 2006 (the **Indenture**), among the Issuer and The Bank of Nova Scotia Trust Company of New York, as trustee (the **Trustee**). The terms of the Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. You may obtain a copy of the Indenture from the Issuer at its address set forth elsewhere in this prospectus supplement.

The following is a summary of the material terms and provisions of the Notes. The following summary does not purport to be a complete description of the Notes and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture. You can find definitions of certain terms used in this description under the heading Certain Definitions.

PRINCIPAL, MATURITY AND INTEREST

The Notes will mature on June 1, 2016. The Notes will bear interest at the rate shown on the cover page of this prospectus supplement, payable on June 1 and December 1 of each year, commencing on December 1, 2006, to Holders of record at the close of business on May 15 or November 15, as the case may be, immediately preceding the relevant interest payment date. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

The Notes will be issued in registered form, without coupons, and in denominations of $1,000 and integral multiples of $1,000.

An aggregate principal amount of Notes equal to $200.0 million is being issued in this offering. The Issuer may issue additional Notes having identical terms and conditions to the Notes being issued in this offering, except for issue date, issue price and first interest payment date, in an unlimited aggregate principal amount (the **Additional Notes**), subject to compliance with the covenant described under Certain Covenants Limitations on Additional Indebtedness. Any Additional Notes will be part of the same issue as the Notes being issued in this offering and will be treated as one class with the Notes being issued in this offering, including for purposes of voting, redemptions and offers to purchase. For purposes of this Description of the Notes, except for the covenant described under Certain Covenants Limitations on Additional Indebtedness, references to the Notes include Additional Notes, if any.

METHODS OF RECEIVING PAYMENTS ON THE NOTES

If a Holder has given wire transfer instructions to the Issuer at least ten Business Days prior to the applicable payment date, the Issuer will make all payments on such Holder s Notes by wire transfer of immediately available funds to the account specified in those instructions. Otherwise, payments on the Notes will be made at the office or agency of the paying agent (the **Paying Agent**) and registrar (the **Registrar**) for the Notes within the City and State of New York unless the Issuer elects to make interest payments by check mailed to the Holders at their addresses set forth in the register of Holders.

RANKING

The Notes will be general unsecured obligations of the Issuer. The Notes will rank senior in right of payment to all future obligations of the Issuer that are, by their terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future unsecured obligations of the Issuer that are not so subordinated. Any Note Guarantee (as defined below) will be a general unsecured obligation of the Guarantor thereof and will rank senior in right of payment to all future obligations of such Guarantor that are, by their terms, expressly subordinated in right of payment to such Note Guarantee and *pari passu* in right of payment with all existing and future unsecured obligations of such Guarantor that are not so subordinated.

Table of Contents

The Notes and any Note Guarantee will be effectively subordinated to secured Indebtedness of the Issuer and the applicable Guarantor to the extent of the value of the assets securing such Indebtedness. On the Issue Date, the Issuer s obligations under the Credit Agreement will be secured by substantially all of the personal property of the Issuer and its domestic Subsidiaries.

The Notes will also be effectively subordinated to all existing and future obligations, including Indebtedness, of any Unrestricted Subsidiaries. Claims of creditors of these Subsidiaries, including trade creditors, will generally have priority as to the assets of these Subsidiaries over the claims of the Issuer and the holders of the Issuer s Indebtedness, including the Notes.

As of February 28, 2006, assuming this offering and the Capital Transactions had occurred on that date, the Issuer would have had no secured Indebtedness. On the same date, and on the same basis, the Issuer would have had approximately $36.8 million in letters of credit outstanding and approximately $613.2 million of undrawn borrowings available under the Credit Facilities. Although the Indenture contains limitations on the amount of additional secured Indebtedness that the Issuer and the Restricted Subsidiaries may incur, under certain circumstances, the amount of this Indebtedness could be substantial. See Certain Covenants Limitations on Additional Indebtedness and Limitations on Liens.

NOTE GUARANTEES

The Issuer s obligations under the Notes and the Indenture will be jointly and severally guaranteed (the **Note Guarantees**) by each Restricted Subsidiary (other than any Foreign Subsidiary or any Receivables Subsidiary) that either (i) guarantees any Indebtedness of the Issuer (other than Indebtedness under the Credit Agreement) or guarantees any Indebtedness (other than Indebtedness incurred pursuant to clauses (4), (5), (6), (7), (8), (9), (11), (12) or (14) of the definition of Permitted Indebtedness) of any other Restricted Subsidiary or (ii) incurs any Indebtedness other than Permitted Indebtedness. The Issuer may also cause any other Restricted Subsidiary to become a Guarantor pursuant to the terms of the Indenture.

On the Issue Date, none of our Subsidiaries will be obligated to guarantee the Notes. In addition, Unrestricted Subsidiaries, Receivables Subsidiaries and Foreign Subsidiaries will not be Guarantors. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, these non-guarantor Subsidiaries will pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us. Due to losses incurred during the twelve months ended February 28, 2006 at the subsidiary level, all of our consolidated net income was generated by the Issuer and not by non-guarantor Subsidiaries during this period. However, during the twelve months ended February 28, 2006, these non-guarantor Subsidiaries represented approximately 40% of our net sales and, as of February 28, 2006, held approximately 41% of our combined assets and had approximately $82.3 million of Indebtedness and other liabilities (including trade payables), to which the Notes would have been structurally subordinated.

As of the date of the Indenture, all of our Subsidiaries other than Hatchery will be Restricted Subsidiaries. However, under the circumstances described below under the subheading Certain Covenants Limitation on Designation of Unrestricted Subsidiaries, the Issuer will be permitted to designate any of its Subsidiaries as Unrestricted Subsidiaries. The effect of designating a Subsidiary as an Unrestricted Subsidiary will be that:

- an Unrestricted Subsidiary will not be subject to many of the restrictive covenants in the Indenture;
- a Subsidiary that has previously been a Guarantor and that is designated an Unrestricted Subsidiary will be released from its Note Guarantee and its obligations under the Indenture; and
- the assets, income, cash flow and other financial results of an Unrestricted Subsidiary will not be consolidated with those of the Issuer for purposes of calculating compliance with the restrictive covenants contained in the Indenture.

Table of Contents

The obligations of any Guarantor under its Note Guarantee will be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor (including, without limitation, any guarantees under the Credit Agreement) and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Note Guarantee or pursuant to its contribution obligations under the Indenture, result in the obligations of such Guarantor under its Note Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Any Guarantor that makes a payment for distribution under its Note Guarantee is entitled to a contribution from each other Guarantor in a *pro rata* amount based on adjusted net assets of each Guarantor.

A Guarantor shall be released from its obligations under its Note Guarantee and its obligations under the Indenture:

(1) in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of a majority of the Voting Stock of such Guarantor then held by the Issuer and the Restricted Subsidiaries; or

(2) if such Guarantor is designated as an Unrestricted Subsidiary or otherwise ceases to be a Restricted Subsidiary, in each case in accordance with the provisions of the Indenture, upon effectiveness of such designation or when it first ceases to be a Restricted Subsidiary, respectively; or

(3) if such Guarantor would no longer be required to issue a Note Guarantee as required under Certain Covenants Future Note Guarantees ; *provided* that a Guarantor shall not be permitted to be released from its Note Guarantee if it is an obligor with respect to Indebtedness that would not, under Certain Covenants Limitations on Additional Indebtedness, be permitted to be incurred by a Restricted Subsidiary that is not a Guarantor.

OPTIONAL REDEMPTION

Except as set forth below, the Notes may not be redeemed prior to June 1, 2011. At any time or from time to time on or after June 1, 2011, the Issuer, at its option, may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest thereon, if any, to the redemption date, if redeemed during the 12-month period beginning June 1 of the years indicated:

Year	Optional Redemption Price
2011	103.688%
2012	102.458%
2013	101.229%
2014 and thereafter	100.000%

In addition, at any time prior to June 1, 2011, the Notes may also be redeemed or purchased (by the Issuer or any other Person) in whole or in part, at the Issuer s option, at a price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued but unpaid interest, if any, to, the date of redemption or purchase (the **Redemption Date**) (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Applicable Premium means, with respect to a Note at any Redemption Date, the greater of:

(1) 1.0% of the principal amount of such Note; and

(2) the excess of:

(a) the present value at such Redemption Date of (1) the redemption price of such Note on June 1, 2011 (such redemption price being that described above plus (2) all required remaining scheduled interest payments due on such Note through June 1, 2011, other than accrued interest to such redemption date, computed using a discount rate equal to the Treasury Rate plus 50 basis points per annum discounted on a semi-annual bond equivalent basis, over

(b) the principal amount of such Note on such Redemption Date.

Calculation of the Applicable Premium will be made by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate; *provided*, *however*, that such calculation shall not be a duty or obligation of the Trustee.

Treasury Rate means, with respect to a Redemption Date, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two Business Days prior to such Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such Redemption Date to June 1, 2011; *provided*, *however*, that if the period from such Redemption Date to June 1, 2011 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from such Redemption Date to June 1, 2011 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Redemption with Proceeds from Equity Offerings. At any time or from time to time prior to June 1, 2009, the Issuer, at its option, may redeem up to 35% of the aggregate principal amount of the Notes issued under the Indenture with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to 107.375% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption; *provided* that (1) at least 65% of the aggregate principal amount of Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of any such Qualified Equity Offering.

SELECTION AND NOTICE OF REDEMPTION

In the event that less than all of the Notes are to be redeemed at any time pursuant to an optional redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if the Notes are not then listed on a national security exchange, on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate; *provided*, *however*, that no Notes of a principal amount of $1,000 or less shall be redeemed in part. In addition, if a partial redemption is made pursuant to the provisions described under Optional Redemption Redemption with Proceeds from Equity Offerings, selection of the Notes or portions thereof for redemption shall be made by the Trustee only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of The Depository Trust Company), unless that method is otherwise prohibited.

Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the date of redemption to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a satisfaction and discharge of the Indenture. If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of the Note to be redeemed. A new Note in a principal amount equal to the unredeemed portion of the Note will be issued in the name of the Holder of the Note upon cancellation of the original Note. On and after the date of redemption, interest will cease to accrue on Notes or portions thereof called for redemption so long as the Issuer has deposited with the paying agent for the Notes funds in satisfaction of the redemption price (including accrued and unpaid interest on the Notes to be redeemed) pursuant to the Indenture.

Table of Contents

CHANGE OF CONTROL

Upon the occurrence of any Change of Control, each Holder will have the right to require that the Issuer purchase that Holder s Notes for a cash price (the **Change of Control Purchase Price**) equal to 101% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest thereon, if any, to the date of purchase.

Within 30 days following any Change of Control, the Issuer will mail, or caused to be mailed, to the Holders a notice:

(1) describing the transaction or transactions that constitute the Change of Control;

(2) offering to purchase, pursuant to the procedures required by the Indenture and described in the notice (a **Change of Control Offer**), on a date specified in the notice (which shall be a Business Day not earlier than 30 days nor later than 60 days from the date the notice is mailed) and for the Change of Control Purchase Price, all Notes properly tendered by such Holder pursuant to such Change of Control Offer; and

(3) describing the procedures that Holders must follow to accept the Change of Control Offer. The Change of Control Offer is required to remain open for at least 20 Business Days or for such longer period as is required by law.

The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the date of purchase.

If a Change of Control Offer is made, there can be no assurance that the Issuer will have available funds sufficient to pay for all or any of the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In addition, we cannot assure you that in the event of a Change of Control the Issuer will be able to obtain the consents necessary to consummate a Change of Control Offer from the lenders under agreements governing outstanding Indebtedness which may prohibit the offer.

The provisions described above that require us to make a Change of Control Offer following a Change of Control will be applicable regardless of whether any other provisions of the Indenture are applicable to the transaction giving rise to the Change of Control. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the Notes to require that the Issuer purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer s obligation to make a Change of Control Offer will be satisfied if a third party makes the Change of Control Offer in the manner and at the times and otherwise in compliance with the requirements applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer.

With respect to any disposition of assets, the phrase all or substantially all as used in the Indenture (including as set forth under the definition of Change of Control and Certain Covenants Limitations on Mergers, Consolidations, Etc. below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the Indenture) and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of all or substantially all of the assets of the Issuer, and therefore it may be unclear as to whether a Change of Control has occurred and whether the Holders have the right to require the Issuer to purchase Notes.

The Issuer will comply with applicable tender offer rules, including the requirements of Rule 14e-l under the Exchange Act and any other applicable laws and regulations in connection with the purchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of this compliance.

Table of Contents

CERTAIN COVENANTS

Limitations on Additional Indebtedness. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness; provided that the Issuer or any Guarantor may incur additional Indebtedness and any Restricted Subsidiary may incur Acquired Indebtedness, in each case, if, after giving effect thereto, the Consolidated Interest Coverage Ratio would be at least 2.00 to 1.00 (the **Coverage Ratio Exception**).

Notwithstanding the above, each of the following shall be permitted (the **Permitted Indebtedness**):

(1) Indebtedness of the Issuer and any Restricted Subsidiary under the Credit Facilities in an aggregate principal amount at any time outstanding not to exceed $650.0 million;

(2) the Notes issued on the Issue Date and the Note Guarantees;

(3) Indebtedness of the Issuer and the Restricted Subsidiaries to the extent outstanding on the Issue Date after giving effect to the intended use of proceeds of the Notes (other than Indebtedness referred to in clause (1), (2) or (5));

(4) Indebtedness under Hedging Obligations entered into for *bona fide* hedging purposes of the Issuer or any Restricted Subsidiary not for the purpose of speculation and guarantees thereof by the Issuer or any Restricted Subsidiary; *provided* that in the case of Hedging Obligations relating to interest rates, (a) such Hedging Obligations relate to payment obligations on Indebtedness otherwise permitted to be incurred by this covenant, and (b) the notional principal amount of such Hedging Obligations at the time incurred does not exceed the principal amount of the Indebtedness to which such Hedging Obligations relate;

(5) Indebtedness of the Issuer owed to a Restricted Subsidiary and Indebtedness of any Restricted Subsidiary owed to the Issuer or any other Restricted Subsidiary; *provided*, *however*, that upon any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or such Indebtedness being owed to any Person other than the Issuer or a Restricted Subsidiary, the Issuer or such Restricted Subsidiary, as applicable, shall be deemed to have incurred Indebtedness not permitted by this clause (5);

(6) Indebtedness in respect of bid, performance or surety bonds issued for the account of the Issuer or any Restricted Subsidiary in the ordinary course of business, including guarantees or obligations of the Issuer or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed);

(7) Purchase Money Indebtedness and Capitalized Lease Obligations incurred by the Issuer or any Restricted Subsidiary, and Refinancing Indebtedness thereof, in an aggregate amount not to exceed at any time outstanding $25.0 million and guarantees thereof by the Issuer or any Restricted Subsidiary;

(8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within five Business Days of incurrence;

(9) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(10) Refinancing Indebtedness with respect to Indebtedness incurred pursuant to the Coverage Ratio Exception or clause (2) or (3) above or this clause (10);

(11) indemnification, adjustment of purchase price, earn-out or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets of the Issuer or any Restricted Subsidiary or Equity Interests of a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interests for the purpose of financing or in contemplation of any such acquisition;

(12) Indebtedness of Foreign Subsidiaries in an aggregate amount not to exceed $30.0 million at any time outstanding and guarantees thereof by the Issuer or any Restricted Subsidiary;

(13) the incurrence by a Receivables Subsidiary of Indebtedness in a Qualified Receivables Transaction that is without recourse to the Issuer or to any other Subsidiary of the Issuer or their assets (other than such Receivables Subsidiary and its assets and, as to the Issuer or any Subsidiary of the Issuer, other than pursuant to representations, warranties, covenants and indemnities customary for such transactions) and is not guaranteed by any such Person; and

(14) Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate amount not to exceed $25.0 million at any time outstanding.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (14) above or is entitled to be incurred pursuant to the Coverage Ratio Exception, the Issuer shall, in its sole discretion, classify such item of Indebtedness and may divide and classify such Indebtedness in more than one of the types of Indebtedness described, except that Indebtedness incurred under the Credit Facilities on the Issue Date shall be deemed to have been incurred under clause (1) above, and may later reclassify any item of Indebtedness described in clauses (1) through (14) above (*provided* that at the time of reclassification it meets the criteria in such category or categories). In addition, for purposes of determining any particular amount of Indebtedness under this covenant, guarantees, Liens or letter of credit obligations supporting Indebtedness otherwise included in the determination of such particular amount shall not be included so long as incurred by a Person that could have incurred such Indebtedness.

Limitations on Restricted Payments. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment if at the time of such Restricted Payment:

(1) a Default shall have occurred and be continuing or shall occur as a consequence thereof;

(2) the Issuer cannot incur $1.00 of additional Indebtedness pursuant to the Coverage Ratio Exception; or

(3) the amount of such Restricted Payment, when added to the aggregate amount of all other Restricted Payments made after the Issue Date (other than Restricted Payments made pursuant to clauses (2), (3), (4), (5), (6), (7) or (8) of the next paragraph), exceeds the sum (the **Restricted Payments Basket**) of (without duplication):

(a) 50% of Consolidated Net Income for the period (taken as one accounting period) commencing on the first day of the fiscal quarter in which the Issue Date occurs to and including the last day of the fiscal quarter ended immediately prior to the date of such calculation for which consolidated financial statements are available (or, if such Consolidated Net Income shall be a deficit, minus 100% of such aggregate deficit), *plus*

(b) 100% of the aggregate net cash proceeds received by the Issuer either (x) as contributions to the common equity of the Issuer after the Issue Date or (y) from the issuance and sale of Qualified Equity Interests after the Issue Date, other than (A) any such proceeds which are used to redeem Notes in accordance with the provisions under Optional Redemption Redemption with Proceeds from Equity Offerings, or (B) any such proceeds or assets received from a Subsidiary of the Issuer, *plus*

(c) the aggregate amount by which Indebtedness incurred by the Issuer or any Restricted Subsidiary subsequent to the Issue Date is reduced on the Issuer s balance sheet upon the conversion or exchange (other than by a Subsidiary of the Issuer) into Qualified Equity Interests (less the amount of any cash, or the fair value of assets, distributed by the Issuer or any Restricted Subsidiary upon such conversion or exchange), *plus*

(d) in the case of the disposition or repayment of or return on any Investment that was treated as a Restricted Payment made after the Issue Date, an amount (to the extent not included in the computation of Consolidated Net Income) equal to the lesser of (i) 100% of the aggregate amount received by the Issuer or any Restricted Subsidiary in cash or other property (valued at the Fair Market Value thereof) as the return of capital with respect to such Investment and (ii) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition of such Investment and net of taxes, *plus*

(e) upon a Redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the lesser of (i) the Fair Market Value of the Issuer s proportionate interest in such Subsidiary immediately following such Redesignation, and (ii) the aggregate amount of the Issuer s Investments in such Subsidiary to the extent such Investments reduced the Restricted Payments Basket and were not previously repaid or otherwise reduced.

The foregoing provisions will not prohibit:

(1) the payment by the Issuer or any Restricted Subsidiary of any dividend within 60 days after the date of declaration thereof, if on the date of declaration the payment would have complied with the provisions of the Indenture;

(2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests;

(3) other than pursuant to clause (8) below, the redemption of Equity Interests of the Issuer held by officers, directors or employees or former officers, directors or employees (or their transferees, estates or beneficiaries under their estates), upon their death, disability, retirement, severance or termination of employment or service; *provided* that the aggregate cash consideration paid for all such redemptions shall not exceed (A) $5.0 million during any calendar year (with unused amounts being available to be used in the following calendar year, but not in any succeeding calendar year) *plus* (B) the amount of any net cash proceeds received by or contributed to the Issuer from the issuance and sale after the Issue Date of Qualified Equity Interests of the Issuer to its officers, directors or employees that have not been applied to the payment of Restricted Payments pursuant to this clause (3), *plus* (C) the net cash proceeds of any key-man life insurance policies that have not been applied to the payment of Restricted Payments pursuant to this clause (3);

(4) repurchases of Equity Interests that occur or are deemed to occur upon the exercise of stock options if the Equity Interests represents a portion of the exercise price thereof;

(5) Restricted Payments pursuant to the Transactions;

(6) Restricted Payments if after giving effect thereto the Issuer s Net Leverage Ratio is not greater than 3.0 to 1.0;

(7) other Restricted Payments in an amount not to exceed $50.0 million; provided that Restricted Payments made pursuant to this clause (7) shall not exceed $25.0 million in the aggregate in any twelve-month period; or

(8) the purchase or retirement of Class B Common Stock of the Issuer from any Permitted Holder in an aggregate amount not to exceed $10.0 million in any twelve-month period;

provided that no proceeds from the issuance and sale of Qualified Equity Interests used to make a payment pursuant to clause (2) or (3)(B) above shall increase the Restricted Payments Basket.

Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on or in respect of its Equity Interests;

(b) make loans or advances or pay any Indebtedness or other obligation owed to the Issuer or any other Restricted Subsidiary; or

(c) transfer any of its assets to the Issuer or any other Restricted Subsidiary;

except for:

(1) encumbrances or restrictions existing under or by reason of applicable law, regulation or order;

(2) encumbrances or restrictions existing under the Indenture, the Notes and the Note Guarantees;

(3) non-assignment, pledge or security interest provisions of any contract or any lease entered into in the ordinary course of business;

(4) encumbrances or restrictions existing under agreements existing on the date of the Indenture (including, without limitation, the Credit Facilities) as in effect on that date;

(5) restrictions relating to any Lien permitted under the Indenture imposed by the holder of such Lien;

(6) restrictions imposed under any agreement to sell assets permitted under the Indenture to any Person pending the closing of such sale;

(7) any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;

(8) any other agreement governing Indebtedness entered into after the Issue Date that contains encumbrances and restrictions that are not materially more restrictive with respect to any Restricted Subsidiary than those in effect on the Issue Date with respect to that Restricted Subsidiary pursuant to agreements in effect on the Issue Date;

(9) customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements and other similar agreements that restrict the transfer of ownership interests in such partnership, limited liability company, joint venture or similar Person;

(10) Purchase Money Indebtedness incurred in compliance with the covenant described under Limitations on Additional Indebtedness that impose restrictions of the nature described in clause (c) above on the assets acquired;

(11) restrictions on cash or other deposits or net worth imposed by suppliers or landlords under contracts entered into in the ordinary course of business;

(12) encumbrances or restrictions contained in Indebtedness of Foreign Subsidiaries permitted to be incurred under the Indenture;

(13) any encumbrances or restrictions imposed by any amendments or refinancings of the contracts, instruments or obligations referred to in clauses (1) through (12) above; *provided* that such amendments or refinancings are not materially more restrictive with respect to such encumbrances and restrictions than those prior to such amendment or refinancing; and

(14) Indebtedness or other contractual requirements of a Receivables Subsidiary in connection with a Qualified Receivables Transaction, provided that such restrictions apply only to such Receivables Subsidiary and contractual restrictions against the sale of accounts receivable or the assets related thereto other than in connection with a Qualified Receivables Transaction.

Limitations on Transactions with Affiliates. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, in one transaction or a series of related transactions, sell, lease, transfer or otherwise dispose of any of its assets to, or purchase any assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (an **Affiliate Transaction**), unless:

(1) such Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction at such time on an arm s-

Table of Contents

length basis by the Issuer or that Restricted Subsidiary from a Person that is not an Affiliate of the Issuer or that Restricted Subsidiary; and

(2) the Issuer delivers to the Trustee:

(a) with respect to any Affiliate Transaction involving aggregate value in excess of $10.0 million, an Officers Certificate certifying that such Affiliate Transaction complies with clause (1) above and a Secretary s Certificate which sets forth and authenticates a resolution that has been adopted by the Independent Directors approving such Affiliate Transaction; and

(b) with respect to any Affiliate Transaction involving aggregate value of $25.0 million or more, the certificates described in the preceding clause (a) and a written opinion as to the fairness of such Affiliate Transaction to the Issuer or such Restricted Subsidiary from a financial point of view issued by an Independent Financial Advisor to the Board of Directors of the Issuer.

The foregoing restrictions shall not apply to:

(1) transactions exclusively between or among (a) the Issuer and one or more Restricted Subsidiaries or (b) Restricted Subsidiaries; *provided,* in each case, that no Affiliate of the Issuer (other than another Restricted Subsidiary) owns Equity Interests of any such Restricted Subsidiary unless otherwise required by applicable law;

(2) director, officer and employee compensation (including bonuses) and other benefits (including insurance policies, retirement, health, stock option and other benefit plans) and indemnification arrangements, in each case determined to be reasonable by the Independent Directors;

(3) the entering into of a tax sharing agreement, or payments pursuant thereto, between the Issuer and/or one or more Subsidiaries, on the one hand, and any other Person with which the Issuer or such Subsidiaries are required or permitted to file a consolidated tax return or with which the Issuer or such Subsidiaries are part of a consolidated group for tax purposes to be used by such Person to pay taxes, and which payments by the Issuer and the Restricted Subsidiaries are not in excess of the tax liabilities that would have been payable by them on a stand-alone basis;

(4) loans and advances permitted by clause (3) of the definition of Permitted Investments ;

(5) Restricted Payments of the type described in clause (1) or (2) of the definition of Restricted Payment and which are made in accordance with the covenant described under Limitations on Restricted Payments ;

(6) (x) any agreement in effect on the Issue Date and disclosed in the registration statement (through incorporation by reference or otherwise), of which this prospectus supplement is a part, relating to the Notes, as in effect on the Issue Date or as thereafter amended or replaced in any manner, that, taken as a whole, is not more disadvantageous to the Holders or the Issuer in any material respect than such agreement as it was in effect on the Issue Date or (y) any transaction pursuant to any agreement referred to in the immediately preceding clause (x);

(7) transactions between or among the Issuer or any Restricted Subsidiary participating in a Qualified Receivables Transaction, on the one hand, and/or any Receivables Subsidiary, on the other hand, or transactions between a Receivables Subsidiary and any Person in which the Receivables Subsidiary has an Investment;

(8)

any transaction with a joint venture or similar entity which would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such joint venture or similar entity; *provided* that, other than with respect to the Hatchery, no Affiliate of the Issuer or any of its Subsidiaries other than the Issuer or a Restricted Subsidiary shall have a beneficial interest in such joint venture or similar entity; and

(9) (a) any transaction with an Affiliate where the only consideration paid by the Issuer or any Restricted Subsidiary is Qualified Equity Interests or (b) the issuance or sale of any Qualified Equity Interests.

Limitations on Liens. The Issuer shall not, and shall not permit any Guarantor to, directly or indirectly, create, incur, assume or permit or suffer to exist any Lien (other than Permitted Liens) of any nature whatsoever against any assets of the Issuer or any Guarantor (including Equity Interests of a Restricted Subsidiary), whether owned at the Issue Date or thereafter acquired, which Lien secures Indebtedness or trade payables, unless contemporaneously therewith:

(1) in the case of any Lien securing an obligation that ranks pari passu with the Notes or a Note Guarantee, effective provision is made to secure the Notes or such Note Guarantee, as the case may be, at least equally and ratably with or prior to such obligation with a Lien on the same collateral; and

(2) in the case of any Lien securing an obligation that is subordinated in right of payment to the Notes or a Note Guarantee, effective provision is made to secure the Notes or such Note Guarantee, as the case may be, with a Lien on the same collateral that is prior to the Lien securing such subordinated obligation,

in each case, for so long as such obligation is secured by such Lien.

Limitations on Asset Sales. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale unless at least 75% of the total consideration in such Asset Sale consists of cash or Cash Equivalents.

For purposes of the preceding paragraph, the following shall be deemed to be cash:

(a) the amount (without duplication) of any Indebtedness of the Issuer or such Restricted Subsidiary that is expressly assumed by the transferee in such Asset Sale and with respect to which the Issuer or such Restricted Subsidiary, as the case may be, is unconditionally released by the holder of such Indebtedness,

(b) the amount of any obligations or Publicly Traded Securities received from such transferee that are within 90 days converted by the Issuer or such Restricted Subsidiary to cash (to the extent of the cash actually so received), and

(c) the Fair Market Value of (i) any assets (other than securities) received by the Issuer or any Restricted Subsidiary to be used by it in a Permitted Business, (ii) Equity Interests in a Person that is a Restricted Subsidiary or in a Person engaged in a Permitted Business that shall become a Restricted Subsidiary immediately upon the acquisition of such Person by the Issuer or (iii) a combination of (i) and (ii).

If at any time any non-cash consideration received by the Issuer or any Restricted Subsidiary, as the case may be, in connection with any Asset Sale is repaid or converted into or sold or otherwise disposed of for cash (other than interest received with respect to any such non-cash consideration), then the date of such repayment, conversion or disposition shall be deemed to constitute the date of an Asset Sale hereunder and the Net Available Proceeds thereof shall be applied in accordance with this covenant.

If the Issuer or any Restricted Subsidiary engages in an Asset Sale, the Issuer or such Restricted Subsidiary shall, no later than 365 days following the consummation thereof, apply all or any of the Net Available Proceeds therefrom to:

(1) satisfy all mandatory repayment obligations under any Credit Facility arising by reason of such Asset Sale;

(2) repay any Indebtedness which was secured by the assets sold in such Asset Sale;

(3) in the case of any Asset Sale by a Foreign Subsidiary, repay any liability of one or more Foreign Subsidiaries;

(4) (A) invest all or any part of the Net Available Proceeds thereof in the purchase of assets (other than securities) to be used by the Issuer or any Restricted Subsidiary in the Permitted Business, (B) acquire Qualified Equity Interests in a Person that is a Restricted Subsidiary or in a Person engaged in a Permitted Business that shall become a Restricted Subsidiary immediately upon the consummation of such acquisition or (C) a combination of (A) and (B); and/or

Table of Contents

(5) make a Net Proceeds Offer (and redeem Pari Passu Indebtedness) in accordance with the procedures described below and in the Indenture. The amount of Net Available Proceeds not applied or invested as provided in clauses (1), (2), (3) or (4) of this paragraph will constitute **Excess Proceeds**.

When the aggregate amount of Excess Proceeds equals or exceeds $20.0 million, the Issuer will be required to make an offer to purchase from all Holders and, if applicable, redeem (or make an offer to do so) any Pari Passu Indebtedness of the Issuer the provisions of which require the Issuer to redeem such Indebtedness with the proceeds from any Asset Sales (or offer to do so), in an aggregate principal amount of Notes and such Pari Passu Indebtedness equal to the amount of such Excess Proceeds as follows:

(1) the Issuer will (a) make an offer to purchase (a **Net Proceeds Offer**) to all Holders in accordance with the procedures set forth in the Indenture, and (b) redeem (or make an offer to do so) any such other Pari Passu Indebtedness, pro rata in proportion to the respective principal amounts of the Notes and such other Indebtedness required to be redeemed, the maximum principal amount of Notes and Pari Passu Indebtedness that may be redeemed out of the amount (the **Payment Amount**) of such Excess Proceeds;

(2) the offer price for the Notes will be payable in cash in an amount equal to 100% of the principal amount of the Notes tendered pursuant to a Net Proceeds Offer, plus accrued and unpaid interest thereon, if any, to the date such Net Proceeds Offer is consummated (the **Offered Price**), in accordance with the procedures set forth in the Indenture and the redemption price for such Pari Passu Indebtedness (the **Pari Passu Indebtedness Price**) shall be as set forth in the related documentation governing such Indebtedness;

(3) if the aggregate Offered Price of Notes validly tendered and not withdrawn by Holders thereof exceeds the *pro rata* portion of the Payment Amount allocable to the Notes, Notes to be purchased will be selected on a *pro rata* basis; and

(4) upon completion of such Net Proceeds Offer in accordance with the foregoing provisions, the amount of Excess Proceeds with respect to which such Net Proceeds Offer was made shall be deemed to be zero.

To the extent that the sum of the aggregate Offered Price of Notes tendered pursuant to a Net Proceeds Offer and the aggregate Pari Passu Indebtedness Price paid to the holders of such Pari Passu Indebtedness is less than the Payment Amount relating thereto (such shortfall constituting a **Net Proceeds Deficiency**), the Issuer may use the Net Proceeds Deficiency, or a portion thereof, for general corporate purposes, subject to the provisions of the Indenture.

In the event of the transfer of substantially all (but not all) of the assets of the Issuer and the Restricted Subsidiaries as an entirety to a Person in a transaction covered by and effected in accordance with the covenant described under Limitations on Mergers, Consolidations, Etc., the successor shall be deemed to have sold for cash at Fair Market Value the assets of the Issuer and the Restricted Subsidiaries not so transferred for purposes of this covenant, and the successor shall comply with the provisions of this covenant with respect to such deemed sale as if it were an Asset Sale (with such Fair Market Value being deemed to be Net Available Proceeds for such purpose).

The Issuer will comply with applicable tender offer rules, including the requirements of Rule 14e-1 under the Exchange Act and any other applicable laws and regulations in connection with the purchase of Notes pursuant to a Net Proceeds Offer. To the extent that the provisions of any securities laws or regulations conflict with the Limitations on Asset Sales provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Limitations on Asset Sales provisions of the Indenture by virtue of this compliance.

Limitations on Designation of Unrestricted Subsidiaries. After the Issue Date, the Issuer may designate any Subsidiary (including any newly formed or newly acquired Subsidiary) of the Issuer as an Unrestricted Subsidiary under the Indenture (a **Designation**) only if:

(1) no Default shall have occurred and be continuing at the time of or after giving effect to such Designation; and

Table of Contents

(2) the Issuer would be permitted to make, at the time of such Designation, (a) a Permitted Investment or (b) an Investment pursuant to the first paragraph of Limitations on Restricted Payments above, in either case, in an amount (the **Designation Amount**) equal to the Fair Market Value of the Issuer s proportionate interest in such Subsidiary on such date.

After the Issue Date, no Subsidiary shall be Designated as an Unrestricted Subsidiary unless such Subsidiary has no Indebtedness other than Non-Recourse Debt.

If, at any time, any Unrestricted Subsidiary fails to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of the Subsidiary and any Liens on assets of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary at such time and, if the Indebtedness is not permitted to be incurred under the covenant described under Limitations on Additional Indebtedness or the Lien is not permitted under the covenant described under Limitations on Liens, the Issuer shall be in default of the applicable covenant.

The Issuer may redesignate an Unrestricted Subsidiary as a Restricted Subsidiary (a **Redesignation**) only if:

(1) no Default shall have occurred and be continuing at the time of and after giving effect to such Redesignation; and

(2) all Liens, Indebtedness and Investments of such Unrestricted Subsidiary outstanding immediately following such Redesignation would, if incurred or made at such time, have been permitted to be incurred or made for all purposes of the Indenture.

All Designations and Redesignations must be evidenced by resolutions of the Board of Directors of the Issuer, delivered to the Trustee certifying compliance with the foregoing provisions.

Limitations on Sale and Leaseback Transactions. The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any Sale and Leaseback Transaction; *provided* that the Issuer or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(1) the Issuer or such Restricted Subsidiary could have (a) incurred the Indebtedness attributable to such Sale and Leaseback Transaction pursuant to the covenant described under Limitations on Additional Indebtedness and (b) incurred a Lien to secure such Indebtedness without equally and ratably securing the Notes pursuant to the covenant described under Limitations on Liens ;

(2) the gross cash proceeds of such Sale and Leaseback Transaction are at least equal to the Fair Market Value of the asset that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in such Sale and Leaseback Transaction is permitted by, and the Issuer or the applicable Restricted Subsidiary applies the proceeds of such transaction in accordance with, the covenant described under Limitations on Asset Sales.

Limitations on Mergers, Consolidations, Etc. The Issuer will not, directly or indirectly, in a single transaction or a series of related transactions, (a) consolidate or merge with or into another Person, or sell, lease, transfer, convey or otherwise dispose of or assign all or substantially all of the assets of the Issuer or the Issuer and the Restricted Subsidiaries (taken as a whole) or (b) adopt a Plan of Liquidation unless, in either case:

(1) either:

(a) the Issuer will be the surviving or continuing Person; or

(b) the Person formed by or surviving such consolidation or merger or to which such sale, lease, conveyance or other disposition shall be made (or, in the case of a Plan of Liquidation, any Person to which assets are transferred) (collectively, the **Successor**) is a corporation, limited liability company or limited partnership organized and existing under the laws of any State of the United States of

America or the District of Columbia, and the Successor expressly assumes, by agreements in form and substance reasonably satisfactory to the Trustee, all of the obligations of the Issuer under the Notes and the Indenture;

(2) immediately prior to and immediately after giving effect to such transaction and the assumption of the obligations as set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, no Default shall have occurred and be continuing; and

(3) immediately after giving effect to such transaction and the assumption of the obligations set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, the Issuer or the Successor, as the case may be, could incur $1.00 of additional Indebtedness pursuant to the Coverage Ratio Exception.

For purposes of this covenant, any Indebtedness of the Successor which was not Indebtedness of the Issuer immediately prior to the transaction shall be deemed to have been incurred in connection with such transaction.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries, the Equity Interests of which constitute all or substantially all of the properties and assets of the Issuer, will be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

Upon any consolidation, combination or merger of the Issuer or a Guarantor, or any transfer of all or substantially all of the assets of the Issuer in accordance with the foregoing, in which the Issuer or such Guarantor is not the continuing obligor under the Notes or its Note Guarantee, the surviving entity formed by such consolidation or into which the Issuer or such Guarantor is merged or the Person to which the conveyance, lease or transfer by the Issuer is made will succeed to, and be substituted for, and may exercise every right and power of, the Issuer or such Guarantor under the Indenture, the Notes and the Note Guarantees with the same effect as if such surviving entity had been named therein as the Issuer or such Guarantor and, except in the case of a lease, the Issuer or such Guarantor, as the case may be, will be released from the obligation to pay the principal of and interest on the Notes or in respect of its Note Guarantee, as the case may be, and all of the Issuer s or such Guarantor s other obligations and covenants under the Notes, the Indenture and its Note Guarantee, if applicable.

Notwithstanding the foregoing, any Restricted Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to the Issuer or another Restricted Subsidiary.

Future Note Guarantees. If, after the Issue Date, (a) any Restricted Subsidiary (including any newly formed, newly acquired or newly Redesignated Restricted Subsidiary) either (i) guarantees any Indebtedness of the Issuer (other than Indebtedness under the Credit Agreement) or guarantees any Indebtedness (other than Indebtedness incurred pursuant to clauses (4), (5), (6), (7), (8), (9), (11), (12) or (14) of the definition of Permitted Indebtedness) of any other Restricted Subsidiary or (ii) incurs any Indebtedness other than Permitted Indebtedness or (b) the Issuer otherwise elects to have any Restricted Subsidiary become a Guarantor, then, in each such case, the Issuer shall cause such Restricted Subsidiary to:

(1) execute and deliver to the Trustee (a) a supplemental indenture in form and substance satisfactory to the Trustee pursuant to which such Restricted Subsidiary shall unconditionally guarantee all of the Issuer s obligations under the Notes and the Indenture and (b) a notation of guarantee in respect of its Note Guarantee; and

(2) deliver to the Trustee one or more opinions of counsel that such supplemental indenture (a) has been duly authorized, executed and delivered by such Restricted Subsidiary and (b) constitutes a valid and legally binding obligation of such Restricted Subsidiary in accordance with its terms.

Table of Contents

Reports. Whether or not required by the SEC, so long as any Notes are outstanding, the Issuer will furnish to the Holders of Notes, or file electronically with the SEC through the SEC s Electronic Data Gathering, Analysis and Retrieval System (or any successor system), within the time periods that would be applicable to the Issuer under Section 13(a) or 15(d) of the Exchange Act:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Issuer were required to file these Forms, including a Management s Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual information only, a report on the annual financial statements by the Issuer s certified independent accountants; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if the Issuer were required to file these reports.

In addition, whether or not required by the SEC, the Issuer will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC s rules and regulations (unless the SEC will not accept the filing) and make the information available to securities analysts and prospective investors upon request. The Issuer and the Guarantors have agreed that, for so long as any Notes remain outstanding, the Issuer will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The Issuer shall file with the Trustee promptly after it files such annual and quarterly reports, information, documents and other reports with the SEC, copies of its annual report and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Issuer is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. The Issuer also shall comply with the other provisions of Section 314(a) of the Trust Indenture Act of 1939, as amended.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee s receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer s compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers Certificates).

Covenant Termination. Immediately after the Notes have reached Investment Grade Status, and notwithstanding that the Notes may later cease to have an Investment Grade Rating from either or both of the Rating Agencies, the Issuer and its Restricted Subsidiaries will be released from their obligations to comply with the restrictive covenants described under Change of Control and Certain Covenants, except for the covenants described under the following headings:

(a) Limitations on Mergers, Consolidations, Etc.

(b) clauses (1)(b) and (2) of the covenant described under Limitations on Sale and Leaseback Transactions,

(c) Limitations on Liens, and

(d) Reports .

Immediately after the Notes have reached Investment Grade Status the Issuer shall not designate any Subsidiary of the Issuer as an Unrestricted Subsidiary under the Indenture.

EVENTS OF DEFAULT

Each of the following is an Event of Default :

(1) failure by the Issuer to pay interest on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;

Table of Contents

(2) failure by the Issuer to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;

(3) failure by the Issuer to comply with any of its agreements or covenants described above under Certain Covenants Limitations on Mergers, Consolidations, Etc., or in respect of its obligations to make a Change of Control Offer as described under Change of Control);

(4) failure by the Issuer to comply with any other agreement or covenant in the Indenture and continuance of this failure for 60 days after written notice of the failure has been given to the Issuer by the Trustee or by the Holders of at least 25% of the aggregate principal amount of the Notes then outstanding;

(5) default under any mortgage, indenture or other instrument or agreement under which there may be issued or by which there may be secured or evidenced Indebtedness of the Issuer or any Restricted Subsidiary, whether such Indebtedness now exists or is incurred after the Issue Date, which default:

(a) is caused by a failure to pay at final maturity principal on such Indebtedness within the applicable express grace period and any extensions thereof,

(b) results in the acceleration of such Indebtedness prior to its express final maturity, or

(c) results in the commencement of judicial proceedings to foreclose upon, or to exercise remedies under applicable law or applicable security documents to take ownership of, the assets securing such Indebtedness, and

in each case, the principal amount of such Indebtedness, together with any other Indebtedness with respect to which an event described in clause (a), (b) or (c) has occurred and is continuing, aggregates $20.0 million or more;

(6) one or more judgments or orders that exceed $20.0 million in the aggregate (net of amounts covered by insurance or bonded) for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Restricted Subsidiary and such judgment or judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;

(7) the Issuer or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a Custodian of it or for all or substantially all of its assets, or

(d) makes a general assignment for the benefit of its creditors;

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Issuer or any Significant Subsidiary as debtor in an involuntary case,

(b) appoints a Custodian of the Issuer or any Significant Subsidiary or a Custodian for all or substantially all of the assets of the Issuer or any Significant Subsidiary, or

(c) orders the liquidation of the Issuer or any Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days; or

(9) any Note Guarantee of any Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee and the Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Note Guarantee (other than by reason of release of a Guarantor from its Note Guarantee in accordance with the terms of the Indenture and the Note Guarantee).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above with respect to the Issuer), shall have occurred and be continuing under the Indenture, the Trustee, by written notice to the Issuer, or

Table of Contents

the Holders of at least 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer and the Trustee, may declare all amounts owing under the Notes to be due and payable. Upon such declaration of acceleration, the aggregate principal of and accrued and unpaid interest on the outstanding Notes shall immediately become due and payable; *provided*, *however*, that after such acceleration, but before a judgment or decree based on acceleration, the Holders of a majority in aggregate principal amount of such outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal and interest, have been cured or waived as provided in the Indenture. If an Event of Default specified in clause (7) or (8) with respect to the Issuer occurs, all outstanding Notes shall become due and payable without any further action or notice.

The Trustee shall, within 30 days after the occurrence of any Default with respect to the Notes, give the Holders notice of all uncured Defaults thereunder known to it; *provided*, *however*, that, except in the case of an Event of Default in payment with respect to the Notes or a Default in complying with Certain Covenants Limitations on Mergers, Consolidations, Etc., the Trustee shall be protected in withholding such notice if and so long as a committee of its trust officers in good faith determines that the withholding of such notice is in the interest of the Holders.

No Holder will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless the Trustee:

(1) has failed to act for a period of 60 days after receiving written notice of a continuing Event of Default by such Holder and a request to act by Holders of at least 25% in aggregate principal amount of Notes outstanding;

(2) has been offered indemnity satisfactory to it in its reasonable judgment; and

(3) has not received from the Holders of a majority in aggregate principal amount of the outstanding Notes a direction inconsistent with such request.

However, such limitations do not apply to a suit instituted by a Holder of any Note for enforcement of payment of the principal of or interest on such Note on or after the due date therefor (after giving effect to the grace period specified in clause (1) of the first paragraph of this Events of Default section).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture and, upon any Officer of the Issuer becoming aware of any Default, a statement specifying such Default and what action the Issuer is taking or proposes to take with respect thereto.

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors discharged with respect to the outstanding Notes (**Legal Defeasance**). Legal Defeasance means that the Issuer and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and the Note Guarantees, and the Indenture shall cease to be of further effect as to all outstanding Notes and Note Guarantees, except as to

(1) rights of Holders to receive payments in respect of the principal of and interest on the Notes when such payments are due from the trust funds referred to below,

(2) the Issuer s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes, and the maintenance of an office or agency for payment and money for security payments held in trust,

(3) the rights, powers, trust, duties, and immunities of the Trustee, and the Issuer s obligation in connection therewith, and

(4) the Legal Defeasance provisions of the Indenture.

Table of Contents

In addition, the Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors released with respect to most of the covenants under the Indenture, except as described otherwise in the Indenture (**Covenant Defeasance**), and thereafter any omission to comply with such obligations shall not constitute a Default. In the event Covenant Defeasance occurs, certain Events of Default (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) will no longer apply. Covenant Defeasance will not be effective until such bankruptcy, receivership, rehabilitation and insolvency events no longer apply. The Issuer may exercise its Legal Defeasance option regardless of whether it previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) in the opinion of a nationally recognized firm of independent public accountants selected by the Issuer, to pay the principal of and interest on the Notes on the stated date for payment or on the redemption date of the principal or installment of principal of or interest on the Notes,

(2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States confirming that:

(a) the Issuer has received from, or there has been published by the Internal Revenue Service, a ruling, or

(b) since the date of the Indenture, there has been a change in the applicable U.S. federal income tax law,

in each case to the effect that, and based thereon this opinion of counsel shall confirm that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred,

(3) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Covenant Defeasance had not occurred,

(4) no Default shall have occurred and be continuing on the date of such deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit),

(5) the Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a Default under the Indenture or a default under any other material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than any such Default or default resulting solely from the borrowing of funds to be applied to such deposit),

(6) the Issuer shall have delivered to the Trustee an Officers Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others, and

(7) the Issuer shall have delivered to the Trustee an Officers Certificate and an opinion of counsel, each stating that the conditions provided for in, in the case of the Officers Certificate, clauses (1) through (6) and, in the case of the opinion of counsel, clauses (2) and/or (3) and (5) of

this paragraph have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of and interest on the Notes when due, then our obligations and the obligations of Guarantors under the Indenture will be revived and no such defeasance will be deemed to have occurred.

Table of Contents

SATISFACTION AND DISCHARGE

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes which shall survive until all Notes have been canceled) as to all outstanding Notes when either

(1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from this trust) have been delivered to the Trustee for cancellation, or

(2) (a) all Notes not delivered to the Trustee for cancellation otherwise (i) have become due and payable, (ii) will become due and payable, or may be called for redemption, within one year or (iii) have been called for redemption pursuant to the provisions described under Optional Redemption, and, in any case, the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) to pay and discharge the entire Indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation,

(b) the Issuer has paid all sums payable by it under the Indenture, and

(c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the date of redemption, as the case may be.

In addition, the Issuer must deliver an Officers Certificate and an opinion of counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

TRANSFER AND EXCHANGE

A Holder will be able to register the transfer of or exchange Notes only in accordance with the provisions of the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Without the prior consent of the Issuer, the Registrar is not required (1) to register the transfer of or exchange any Note selected for redemption, (2) to register the transfer of or exchange any Note for a period of 15 days before a selection of Notes to be redeemed or (3) to register the transfer or exchange of a Note between a record date and the next succeeding interest payment date.

The Notes will be issued in registered form and the registered Holder will be treated as the owner of such Note for all purposes.

AMENDMENT, SUPPLEMENT AND WAIVER

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in principal amount of the Notes then outstanding, and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in principal amount of the Notes then outstanding; *provided* that, without the consent of each Holder affected, no amendment or waiver may:

(1) reduce, or change the maturity of, the principal of any Note (it being understood that any amendment or waiver of the covenant requiring the application of Net Available Proceeds to make a Net Proceeds Offer shall not constitute a change of the maturity of the principal of any Note under this clause (1));

(2) reduce the rate of or extend the time for payment of interest on any Note;

Table of Contents

(3) reduce any premium payable upon redemption of the Notes or change the date on which any Notes are subject to redemption (other than provisions relating to the purchase of Notes described above under Change of Control and Certain Covenants Limitations on Asset Sales, except that if a Change of Control has occurred, no amendment or other modification of the obligation of the Issuer to make a Change of Control Offer relating to such Change of Control shall be made without the consent of each Holder of the Notes affected);

(4) make any Note payable in money or currency other than that stated in the Notes;

(5) modify or change any provision of the Indenture or the related definitions to affect the ranking of the Notes or any Note Guarantee in a manner that adversely affects the Holders;

(6) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;

(7) waive a default in the payment of principal of or premium or interest on any Notes (except a rescission of acceleration of the Notes by the Holders thereof as provided in the Indenture and a waiver of the payment default that resulted from such acceleration);

(8) impair the rights of Holders to receive payments of principal of or interest on the Notes on or after the due date therefor or to institute suit for the enforcement of any payment on the Notes;

(9) release any Guarantor that is a Significant Subsidiary from any of its obligations under its Note Guarantee or the Indenture, except as permitted by the Indenture; or

(10) make any change in these amendment and waiver provisions.

Notwithstanding the foregoing, the Issuer and the Trustee may amend the Indenture, the Note Guarantees or the Notes without the consent of any Holder, to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Issuer s or a Guarantor s obligations to the Holders in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with Certain Covenants Limitations on Mergers, Consolidations, Etc., to release any Guarantor from any of its obligations under its Note Guarantee or the Indenture (to the extent permitted by the Indenture), to make any change that does not materially adversely affect the rights of any Holder or, in the case of the Indenture, to maintain the qualification of the Indenture under the Trust Indenture Act.

NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND STOCKHOLDERS

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer under the Notes or the Indenture or of any Guarantor under its Note Guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and the Note Guarantees. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

CONCERNING THE TRUSTEE

The Bank of Nova Scotia Trust Company of New York is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with regard to the Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict within 90 days, apply to the SEC for permission to continue (if the Indenture has been qualified under the Trust Indenture Act) or resign.

Table of Contents

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee.

GOVERNING LAW

The Indenture, the Notes and the Note Guarantees will be governed by, and construed in accordance with, the laws of the State of New York.

CERTAIN DEFINITIONS

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

Acquired Indebtedness means (1) with respect to any Person that becomes a Restricted Subsidiary after the Issue Date, Indebtedness of such Person and its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary and (2) with respect to the Issuer or any Restricted Subsidiary, any Indebtedness of a Person (other than the Issuer or a Restricted Subsidiary) existing at the time such Person is merged with or into the Issuer or a Restricted Subsidiary, or Indebtedness expressly assumed by the Issuer or any Restricted Subsidiary in connection with the acquisition of an asset or assets from another Person, which Indebtedness was not, in any case, incurred by such other Person in connection with, or in contemplation of, such merger or acquisition.

Affiliate of any Person means any other Person which directly or indirectly controls or is controlled by, or is under direct or indirect common control with, the referent Person. For purposes of this definition, **control** of a Person shall mean the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise. No Person (other than the Issuer or any Subsidiary of the Issuer) in whom a Receivables Subsidiary makes an Investment in connection with a Qualified Receivables Transaction will be deemed to be an Affiliate of the Issuer or any of its Subsidiaries solely by reason of such Investment.

amend means to amend, supplement, restate, amend and restate or otherwise modify, including successively, and **amendment** shall have a correlative meaning.

asset means any asset or property.

Asset Acquisition means:

(1) an Investment by the Issuer or any Restricted Subsidiary of the Issuer in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary of the Issuer, or shall be merged with or into the Issuer or any Restricted Subsidiary of the Issuer, or

(2) the acquisition by the Issuer or any Restricted Subsidiary of the Issuer of all or substantially all of the assets of any other Person or any division or line of business of any other Person.

Asset Sale means any sale, issuance, conveyance, transfer, lease, assignment or other disposition by the Issuer or any Restricted Subsidiary to any Person other than the Issuer or any Restricted Subsidiary (including by means of a Sale and Leaseback Transaction or a merger or consolidation) (collectively, for purposes of this definition, a

transfer), in one transaction or a series of related transactions, of any assets of the Issuer or any of its Restricted Subsidiaries other than in the ordinary course of business. For purposes of this definition, the term Asset Sale shall not include:

(1) transfers of cash or Cash Equivalents;

(2) transfers of assets (including Equity Interests) that are governed by, and made in accordance with, the covenant described under Certain Covenants Limitations on Mergers, Consolidations, Etc. ;

(3) Permitted Investments and Restricted Payments permitted under the covenant described under Certain Covenants Limitations on Restricted Payments ;

(4) the creation of or realization on any Lien permitted under the Indenture;

(5) transfers of damaged, worn-out or obsolete equipment or assets;

(6) sales of accounts receivable and related assets of the type specified in the definition of Qualified Receivables Transaction to a Receivables Subsidiary for the fair market value thereof;

(7) transfers of accounts receivable and related assets of the type specified in the definition of Qualified Receivables Transaction (or a fractional undivided interest therein) by a Receivables Subsidiary in a Qualified Receivables Transaction;

(8) sales or grants of licenses or sublicenses to use the trademarks, copyrights, patents, trade secrets, know-how and other intellectual property, and licenses, leases or subleases of other assets, of the Issuer or any Restricted Subsidiary;

(9) sales of inventory in the ordinary course of business; and

(10) any transfer or series of related transfers that, but for this clause, would be Asset Sales if, after giving effect to such transfers, the aggregate Fair Market Value of the assets transferred in such transaction or any such series of related transactions does not exceed $5.0 million.

Attributable Indebtedness , when used with respect to any Sale and Leaseback Transaction, means, as at the time of determination, the present value (discounted at a rate borne by the Notes, compounded on a semi-annual basis) of the total obligations of the lessee for rental payments during the remaining term of the lease included in any such Sale and Leaseback Transaction.

Bankruptcy Law means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

Board of Directors means, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing or, in each case, other than for purposes of the definition of Change of Control, any duly authorized committee of such body.

Business Day means a day other than a Saturday, Sunday or other day on which banking institutions in New York are authorized or required by law to close.

Capitalized Lease means a lease required to be capitalized for financial reporting purposes in accordance with GAAP.

Capitalized Lease Obligations of any Person means the obligations of such Person to pay rent or other amounts under a Capitalized Lease, and the amount of such obligation shall be the capitalized amount thereof determined in accordance with GAAP.

Table of Contents

Cash Equivalents means:

(1) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than one year from the date of acquisition;

(2) U.S. dollar denominated time deposits, certificates of deposit and bankers acceptances of (x) any lender under the Credit Agreement, (y) any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 or (z) any bank (or the parent company of such bank) whose short-term commercial paper rating from S&P is at least A-1, A-2 or the equivalent thereof or from Moody s is at least P-1, P-2 or the equivalent thereof (any such bank, an Approved Bank), in each case with maturities of not more than six months from the date of acquisition;

(3) commercial paper issued by any lender under the Credit Agreement or Approved Bank or by the parent company of any lender under the Credit Agreement or Approved Bank and commercial paper issued by, or guaranteed by, any industrial or financial company with a short-term commercial paper rating of at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody s, or guaranteed by any industrial company with a long-term unsecured debt rating of at least A or A2, or the equivalent of each thereof, from S&P or Moody s, as the case may be, and in each case maturing within 180 days after the date of acquisition;

(4) fully collateralized repurchase agreements entered into with any lender under the Credit Agreement or Approved Bank having a term of not more than 30 days and covering securities described in clause (1) above;

(5) investments in money market funds substantially all the assets of which are compromised of securities of the types described in clauses (1) through (4) above;

(6) investments in money market funds access to which is provided as part of sweep accounts maintained with a lender under the Credit Agreement or an Approved Bank;

(7) investments in industrial development revenue bonds that (a) re-set interest rates not less frequently than quarterly, (b) are entitled to the benefit of a remarketing arrangement with an established broker dealer, and (c) are supported by a direct pay letter of credit covering principal and accrued interest that is issued by an Approved Bank;

(8) investments in pooled funds or investment accounts consisting of investments of the nature described in the foregoing clause (7);

(9) investments in auction rate securities that (a) are money market or debt instruments with a long term nominal maturity issued by a municipality or mutual fund company or other similar entity, (b) re-set interest through a dutch auction process, and (c) are rated AAA or AA by S&P or the equivalent rating by Moody s; and

(10) with respect to any Foreign Subsidiary of the Issuer, the approximate equivalent of any of clauses (1) through (9) above in the jurisdiction in which such Foreign Subsidiary is organized.

Change of Control means the occurrence of any of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation or the pledge of assets under any Credit Facility permitted to be incurred under the Indenture), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act) other than a Permitted Holder or a Related Party of a Permitted Holder; or

(2) the first day on which a majority of the members of the Board of Directors of the Issuer are not Continuing Directors; or

Table of Contents

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as defined above), other than the Permitted Holders and their Related Parties, becomes the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of the Issuer, measured by voting power rather than number of shares; or

(4) the adoption of a plan relating to the liquidation or dissolution of the Issuer.

For purposes of this definition, a Person shall not be deemed to have beneficial ownership of securities subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement.

Consolidated Amortization Expense for any period means the amortization expense of the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP and including, without duplication, amortization expense with respect to discontinued operations.

Consolidated Cash Flow for any period means, without duplication, the sum of the amounts for such period of:

(1) Consolidated Net Income, *plus*

(2) in each case only to the extent (and in the same proportion) deducted in determining Consolidated Net Income and with respect to the portion of Consolidated Net Income attributable to any Restricted Subsidiary only if a corresponding amount would be permitted at the date of determination to be distributed to the Issuer by such Restricted Subsidiary, pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders,

(a) Consolidated Income Tax Expense,

(b) Consolidated Amortization Expense (but only to the extent not included in Consolidated Interest Expense),

(c) Consolidated Depreciation Expense,

(d) Consolidated Interest Expense (including debt issuance costs and other financing fees and expenses incurred in connection with the Transactions), and

(e) all other non-cash items reducing the Consolidated Net Income (excluding any non-cash charge that results in an accrual of a reserve for cash charges in any future period) for such period,

in each case determined on a consolidated basis in accordance with GAAP, *minus*

(3) the aggregate amount of all non-cash items, determined on a consolidated basis, to the extent such items increased Consolidated Net Income for such period.

Consolidated Depreciation Expense for any period means the depreciation expense of the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP and including, without duplication, depreciation expense with respect to discontinued operations.

Consolidated Income Tax Expense for any period means the provision for taxes of the Issuer and the Restricted Subsidiaries or any penalty or interest related thereto, determined on a consolidated basis in accordance with GAAP and including, without duplication, provision for taxes with respect to discontinued operations.

Consolidated Interest Coverage Ratio means the ratio of Consolidated Cash Flow during the most recent four consecutive full fiscal quarters for which financial statements are available (the **Four-Quarter Period**)

Table of Contents

ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Interest Coverage Ratio (the **Transaction Date**) to Consolidated Interest Expense for the Four-Quarter Period. For purposes of this definition, Consolidated Cash Flow and Consolidated Interest Expense shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence of any Indebtedness or the issuance of any Preferred Stock of the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) and any repayment of other Indebtedness or redemption of other Preferred Stock (and the application of the proceeds therefrom) (other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to any revolving credit arrangement) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such incurrence, repayment, issuance or redemption, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four-Quarter Period; and

(2) any Asset Sale or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Issuer or any Restricted Subsidiary (including any Person who becomes a Restricted Subsidiary as a result of such Asset Acquisition) incurring Acquired Indebtedness and also including any Consolidated Cash Flow (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Securities Act) associated with any such Asset Acquisition) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such Asset Sale or Asset Acquisition (including the incurrence of, or assumption or liability for, any such Indebtedness or Acquired Indebtedness) occurred on the first day of the Four-Quarter Period.

In calculating Consolidated Interest Expense for purposes of determining the denominator (but not the numerator) of this Consolidated Interest Coverage Ratio:

(1) interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date;

(2) if interest on any Indebtedness actually incurred on the Transaction Date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the Transaction Date will be deemed to have been in effect during the Four-Quarter Period; and

(3) notwithstanding clause (1) or (2) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Hedging Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of these agreements.

Consolidated Interest Expense for any period means the sum, without duplication, of the total interest expense of the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP and including, without duplication,

(1) imputed interest on Capitalized Lease Obligations and Attributable Indebtedness,

(2) commissions, discounts and other fees and charges owed with respect to letters of credit securing financial obligations, bankers acceptance financing and receivables financings,

(3) the net costs associated with Hedging Obligations related to interest rates,

(4) amortization of debt issuance costs, debt discount or premium and other financing fees and expenses (other than debt issuance costs and other financing fees and expenses incurred in connection with the Transactions),

(5) the interest portion of any deferred payment obligations,

(6) all other non-cash interest expense,

Table of Contents

(7) capitalized interest,

(8) the product of (a) all dividend payments on any series of Disqualified Equity Interests of the Issuer or any Preferred Stock of any Restricted Subsidiary (other than any such Disqualified Equity Interests or any Preferred Stock held by the Issuer or a Wholly-Owned Restricted Subsidiary or to the extent paid in Qualified Equity Interests), *multiplied by* (b) a fraction, the numerator of which is one and the denominator of which is one *minus* the then current combined federal, state and local statutory tax rate of the Issuer and the Restricted Subsidiaries, expressed as a decimal,

(9) all interest payable with respect to discontinued operations, and

(10) all interest on any Indebtedness described in clause (7) or (8) of the definition of Indebtedness.

Consolidated Net Income for any period means the net income (or loss) of the Issuer and the Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded from such net income (to the extent otherwise included therein), without duplication:

(1) the net income (or loss) of any Person (other than a Restricted Subsidiary) in which any Person other than the Issuer and the Restricted Subsidiaries has an ownership interest, except to the extent that cash in an amount equal to any such income has actually been received by the Issuer or any of its Wholly-Owned Restricted Subsidiaries during such period;

(2) except to the extent includible in the consolidated net income of the Issuer pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary or (b) the assets of such Person are acquired by the Issuer or any Restricted Subsidiary;

(3) the net income of any Restricted Subsidiary during such period to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary during such period, except that the Issuer s equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining Consolidated Net Income;

(4) for the purposes of calculating the Restricted Payments Basket only, in the case of a successor to the Issuer by consolidation, merger or transfer of its assets, any income (or loss) of the successor prior to such merger, consolidation or transfer of assets;

(5) other than for purposes of calculating the Restricted Payments Basket, any gain (or loss), together with any related provisions for taxes on any such gain (or the tax effect of any such loss), realized during such period by the Issuer or any Restricted Subsidiary upon (a) the acquisition of any securities, or the extinguishment of any Indebtedness, of the Issuer or any Restricted Subsidiary or (b) any Asset Sale by the Issuer or any Restricted Subsidiary;

(6) gains and losses due solely to fluctuations in currency values and the related tax effects according to GAAP;

(7) unrealized gains and losses with respect to Hedging Obligations;

(8) the cumulative effect of any change in accounting principles; and

(9) other than for purposes of calculating the Restricted Payments Basket, any extraordinary or nonrecurring gain (or extraordinary or nonrecurring loss), together with any related provision for taxes on any such extraordinary or nonrecurring gain (or the tax effect of any such extraordinary or nonrecurring loss), realized by the Issuer or any Restricted Subsidiary during such period.

In addition any return of capital with respect to an Investment that increased the Restricted Payments Basket pursuant to clause (3)(d) of the first paragraph under Certain Covenants Limitations on Restricted Payments or decreased the amount of Investments outstanding pursuant to clause (12) of the definition of

Table of Contents

Permitted Investments shall be excluded from Consolidated Net Income for purposes of calculating the Restricted Payments Basket.

For purposes of this definition of Consolidated Net Income, **nonrecurring** means any gain or loss as of any date that is not reasonably likely to recur within the two years following such date; *provided* that if there was a gain or loss similar to such gain or loss within the two years preceding such date, such gain or loss shall not be deemed nonrecurring.

Continuing Directors means, as of any date of determination, any member of the Board of Directors of the Issuer who: (1) was a member of such Board of Directors on the date of the Indenture; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

Coverage Ratio Exception has the meaning set forth in the proviso in the first paragraph of the covenant described under Certain Covenants Limitations on Additional Indebtedness.

Credit Agreement means the Credit Agreement dated April 4, 2006 by and among the Issuer, as Borrower, the foreign subsidiary borrowers party thereto, National City Bank, as global agent, National City Bank and UBS Securities LLC, as lead arrangers and UBS Securities LLC, as syndication agent, and the other agents and lenders named therein, including any notes, guarantees, collateral and security documents, instruments and agreements executed in connection therewith (including Hedging Obligations related to the Indebtedness incurred thereunder), and in each case as amended, as amended and restated, as modified, or as refinanced from time to time and whether with the same or any other agents, lender or group of lenders.

Credit Facilities means one or more debt facilities (which may be outstanding at the same time and including, without limitation, the Credit Agreement, but excluding any Qualified Receivables Transaction that may be outstanding at any time) providing for revolving credit loans, term loans or letters of credit and, in each case, as such agreements may be amended, refinanced or otherwise restructured, in whole or in part from time to time (including increasing the amount of available borrowings thereunder or adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder) with respect to all or any portion of the Indebtedness under such agreement or agreements or any successor or replacement agreement or agreements and whether by the same or any other agent, lender or group of lenders.

Custodian means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

Default means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

Designation has the meaning given to this term in the covenant described under Certain Covenants Limitations on Designation of Unrestricted Subsidiaries.

Designation Amount has the meaning given to this term in the covenant described under Certain Covenants Limitations on Designation of Unrestricted Subsidiaries.

Disqualified Equity Interests of any Person means any class of Equity Interests of such Person that, by its terms, or by the terms of any related agreement or of any security into which it is convertible, puttable or exchangeable, is, or upon the happening of any event or the passage of time would be, required to be redeemed by such Person, whether or not at the option of the holder thereof, or matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, in whole or in part, on or prior to the date which is 91 days after the final maturity date of the Notes; *provided*, *however*, that any class of Equity Interests of such Person that, by its terms, authorizes such Person to satisfy in full its obligations with respect to the payment of dividends or upon maturity, redemption (pursuant to a sinking fund or otherwise) or repurchase thereof or otherwise by the delivery of Equity Interests that are not Disqualified Equity Interests, and that is not convertible, puttable or exchangeable for Disqualified Equity Interests or Indebtedness, will not be deemed to be Disqualified Equity Interests so long as such Person satisfies its obligations with respect thereto solely by the delivery of Equity Interests that are not Disqualified Equity Interests; *provided*, *further*, *however*, that any Equity Interests that would not constitute Disqualified Equity Interests but for provisions thereof giving holders thereof (or the holders of any security into or for which such Equity Interests are convertible, exchangeable or exercisable) the right to require the Issuer to redeem such Equity Interests upon the occurrence of a change in control or an asset sale occurring prior to the 91st day after the final maturity date of the Notes shall not constitute Disqualified Equity Interests if the change of control or asset sale provisions applicable to such Equity Interests are no more favorable to such holders than the provisions described under Change of Control and Certain Covenants Limitations on Asset Sales, respectively, and such Equity Interests specifically provide that the Issuer will not redeem any such Equity Interests pursuant to such provisions prior to the Issuer s purchase of the Notes as required pursuant to the provisions described under Change of Control and Certain Covenants Limitations on Asset Sales, respectively.

Equity Interests of any Person means (1) any and all shares or other equity interests (including common stock, preferred stock, limited liability company interests and partnership interests) in such Person and (2) all rights to purchase, warrants or options (whether or not currently exercisable), participations or other equivalents of or interests in (however designated) such shares or other interests in such Person.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Fair Market Value means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Issuer or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

Foreign Subsidiary means any Restricted Subsidiary of the Issuer which (i) is not organized under the laws of (x) the United States or any state thereof or (y) the District of Columbia and (ii) conducts substantially all of its business operations outside the United States of America.

GAAP means generally accepted accounting principles in the United States, as in effect on the Issue Date.

guarantee means a direct or indirect guarantee by any Person of any Indebtedness of any other Person and includes any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services (unless such purchase arrangements are on arm s-length terms and are entered into in the ordinary course of business), to take-or-pay, or to maintain financial statement conditions or otherwise); or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); **guarantee**, when used as a verb, and **guaranteed** have correlative meanings.

Guarantors means each Person that is required to, or at the election of the Issuer does, become a Guarantor by the terms of the Indenture after the Issue Date, in each case, until such Person is released from its Note Guarantee in accordance with the terms of the Indenture.

Hatchery means The Hatchery, LLC, a Delaware limited liability company.

Hedging Obligations of any Person means the net obligations of such Person under swap, cap, collar, forward purchase or similar agreements or arrangements dealing with interest rates, currency exchange rates or commodity prices, either generally or under specific contingencies.

Holder means any registered holder, from time to time, of the Notes.

incur means, with respect to any Indebtedness or Obligation, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to such Indebtedness or Obligation; *provided* that (1) the Indebtedness of a Person existing at the time such Person became a Restricted Subsidiary shall be deemed to have been incurred by such Restricted Subsidiary and (2) neither the accrual of interest nor the accretion of original issue discount or the accretion or accumulation of dividends on any Equity Interests shall be deemed to be an incurrence of Indebtedness.

Indebtedness of any Person at any date means, without duplication:

(1) all liabilities, contingent or otherwise, of such Person for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof);

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, letters of guaranty, bankers acceptances and similar credit transactions;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except trade payables, obligations to pay royalty fees or other payments under license agreements and accrued expenses incurred by such Person in the ordinary course of business in connection with obtaining goods, materials or services;

(5) the maximum fixed redemption or repurchase price of all Disqualified Equity Interests of such Person;

(6) all Capitalized Lease Obligations of such Person;

(7) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

(8) all Indebtedness of others guaranteed by such Person to the extent of such guarantee; *provided* that Indebtedness of the Issuer or its Subsidiaries that is guaranteed by the Issuer or the Issuer s Subsidiaries shall only be counted once in the calculation of the amount of Indebtedness of the Issuer and its Subsidiaries on a consolidated basis;

(9) all Attributable Indebtedness;

(10) to the extent not otherwise included in this definition, Hedging Obligations of such Person; and

(11) all obligations of such Person under conditional sale or other title retention agreements relating to assets purchased by such Person.

The amount of any Indebtedness which is incurred at a discount to the principal amount at maturity thereof as of any date shall be deemed to have been incurred at the accreted value thereof as of such date. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability of such Person for any such contingent obligations at such date and, in the case of clause (7), the lesser of (a) the Fair Market Value of any asset subject to a Lien securing the

Indebtedness of others on the date that the Lien attaches and (b) the amount of the Indebtedness secured. For purposes of clause (5), the maximum fixed redemption or repurchase price of any Disqualified Equity Interests that do not have a fixed redemption or repurchase price shall be calculated in accordance with the terms of such Disqualified Equity Interests as if such Disqualified Equity Interests were redeemed or repurchased on any date on which an amount of Indebtedness outstanding shall be required to be determined pursuant to the Indenture.

Independent Director means a director of the Issuer who:

(1) is independent with respect to the transaction at issue;

(2) does not have any material financial interest in the Issuer or any of its Affiliates (other than as a result of holding securities of the Issuer); and

(3) has not and whose Affiliates or affiliated firm has not, at any time during the twelve months prior to the taking of any action hereunder, directly or indirectly, received, or entered into any understanding or agreement to receive, any compensation, payment or other benefit, of any type or form, from the Issuer or any of its Affiliates, other than customary directors fees for serving on the Board of Directors of the Issuer or any Affiliate and reimbursement of out-of-pocket expenses for attendance at the Issuer s or Affiliate s board and board committee meetings (*provided* that a director of the Issuer that otherwise meets the independence requirements of the New York Stock Exchange, as determined in the good faith judgment of the Issuer s Board of Directors, shall not be disqualified from being an Independent Director solely as a result of this clause (3)).

Independent Financial Advisor means an accounting, appraisal or investment banking firm of nationally recognized standing that is, in the reasonable judgment of the Issuer s Board of Directors, qualified to perform the task for which it has been engaged and disinterested and independent with respect to the Issuer and its Affiliates.

interest means, with respect to the Notes, interest on the Notes.

Investments of any Person means:

(1) all direct or indirect investments by such Person in any other Person in the form of loans, advances or capital contributions or other credit extensions constituting Indebtedness of such other Person, and any guarantee of Indebtedness of any other Person;

(2) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Equity Interests or other securities of any other Person (other than any such purchase that constitutes a Restricted Payment of the type described in clause (2) of the definition thereof);

(3) all other items that would be classified as investments on a balance sheet of such Person prepared in accordance with GAAP (including, if required by GAAP, purchases of assets outside the ordinary course of business); and

(4) the Designation of any Subsidiary as an Unrestricted Subsidiary.

Except as otherwise expressly specified in this definition, the amount of any Investment (other than an Investment made in cash) shall be the Fair Market Value thereof on the date such Investment is made. The amount of Investment pursuant to clause (4) shall be the Designation Amount determined in accordance with the covenant described under Certain Covenants Limitations on Designation of Unrestricted Subsidiaries. If the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any Restricted Subsidiary, or any Restricted Subsidiary issues any Equity Interests, in either case, such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary, the Issuer shall be deemed to have made an Investment on the date of any such sale or other disposition equal to the Fair Market Value of the Equity Interests of and all other Investments in such Restricted Subsidiary retained. Notwithstanding the foregoing, purchases or redemptions of Equity Interests of the Issuer shall be deemed not to be Investments.

Investment Grade Rating means a rating equal to or higher than Baa3 (or the equivalent) by Moody s and BBB (or the equivalent) by S&P.

Investment Grade Status shall be deemed to have been reached on the date that the Notes have an Investment Grade Rating from both Rating Agencies, *provided* that no Default or Event of Default has occurred and is continuing on such date.

Issue Date means the date on which the Notes are originally issued.

Lien means, with respect to any asset, any mortgage, deed of trust, lien (statutory or other), pledge, lease, easement, restriction, covenant, charge, security interest or other encumbrance of any kind or nature in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement.

Table of Contents

Moody s means Moody s Investors Service, Inc., and its successors.

Net Available Proceeds means, with respect to any Asset Sale, the proceeds thereof in the form of cash or Cash Equivalents, net of:

(1) brokerage commissions and other fees and expenses (including fees, discounts and expenses of legal counsel, accountants and investment banks, consultants and placement agents) of such Asset Sale;

(2) provisions for taxes payable as a result of such Asset Sale (after taking into account any available tax credits or deductions and any tax sharing arrangements);

(3) amounts required to be paid to any Person (other than the Issuer or any Restricted Subsidiary and other than under a Credit Facility) owning a beneficial interest in the assets subject to the Asset Sale or having a Lien thereon;

(4) payments of unassumed liabilities (not constituting Indebtedness) relating to the assets sold at the time of, or within 30 days after the date of, such Asset Sale; and

(5) appropriate amounts to be provided by the Issuer or any Restricted Subsidiary, as the case may be, as a reserve required in accordance with GAAP against any adjustment in the sale price of such asset or assets or liabilities associated with such Asset Sale and retained by the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including pensions and other postemployment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officers Certificate delivered to the Trustee; *provided, however,* that any amounts remaining after adjustments, revaluations or liquidations of such reserves shall constitute Net Available Proceeds.

Net Leverage Ratio means the ratio of (a) pro forma consolidated Indebtedness of the Issuer and its Restricted Subsidiaries less unrestricted cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries at the date of the transaction giving rise to the need to calculate the Net Leverage Ratio to (b) Consolidated Cash Flow for the Four Quarter Period; *provided, however,* that for the purposes of this definition of Net Leverage Ratio, the expenses incurred through the end of fiscal year 2008 related to the Win at Cards initiative and scan-based trading arrangements of the Issuer and its Restricted Subsidiaries shall, without duplication, be added back to Consolidated Cash Flow to the extent deducted in determining Consolidated Net Income.

Non-Recourse Debt means Indebtedness of an Unrestricted Subsidiary:

(1) as to which neither the Issuer nor any Restricted Subsidiary (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; and

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Credit Agreement or Notes) of the Issuer or any Restricted Subsidiary to declare a default on the other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

Obligation means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under the documentation governing any Indebtedness.

Officer means any of the following of the Issuer: the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Senior Vice President or Vice President, the Treasurer, Assistant Treasurer, Secretary or the Assistant Secretary.

Officers Certificate means a certificate signed by two Officers.

Pari Passu Indebtedness means any Indebtedness of the Issuer or any Guarantor that ranks *pari passu* in right of payment with the Notes or the Note Guarantees, as applicable.

Table of Contents

Permitted Business means the businesses engaged in by the Issuer and its Subsidiaries on the Issue Date as described in this prospectus supplement and businesses that are reasonably related thereto or reasonable extensions thereof.

Permitted Holders mean Morry Weiss, Judith S. Weiss, Harry H. Stone, Gary Weiss, Jeffrey Weiss, Zev Weiss, Elie Weiss, the Irving I. Stone Limited Liability Co., The Irving Stone Irrevocable Trust originally dated April 21, 1947, as amended, the Irving I. Stone Oversight Trust, the Irving Stone Support Foundation, The Irving I. Stone Foundation, the 540 Investment Company Limited Partnership and the American Greetings Corporation Retirement Profit Sharing and Savings Plan or any Person controlled by, or any successor Person to, any of the foregoing.

Permitted Investment means:

(1) Investments by the Issuer or any Restricted Subsidiary in (a) any Restricted Subsidiary or (b) in any Person that will become immediately after such Investment a Restricted Subsidiary or that will merge or consolidate into the Issuer or a Restricted Subsidiary;

(2) Investments in the Issuer by any Restricted Subsidiary;

(3) loans and advances to directors, employees and officers of the Issuer and the Restricted Subsidiaries for bona fide business purposes and to purchase Equity Interests of the Issuer not in excess of $5.0 million in aggregate principal amount at any one time outstanding;

(4) Hedging Obligations entered into for *bona fide* hedging purposes of the Issuer or any Restricted Subsidiary not for the purpose of speculation;

(5) cash and Cash Equivalents;

(6) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however,* that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the circumstances;

(7) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;

(8) the Indebtedness of a Receivables Subsidiary to the Issuer or a Restricted Subsidiary and Indebtedness of a Restricted Subsidiary to the Issuer, in each case, in connection with a Qualified Receivables Transaction;

(9) Investments made by the Issuer or any Restricted Subsidiary as a result of consideration received in connection with an Asset Sale made in compliance with the covenant described under Certain Covenants Limitations on Asset Sales ;

(10) lease, utility and other similar deposits in the ordinary course of business;

(11) Investments made by the Issuer or a Restricted Subsidiary for consideration consisting only of Qualified Equity Interests of the Issuer;

(12) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments;

(13) the acquisition by a Receivables Subsidiary in connection with a Qualified Receivables Transaction of Equity Interests of a trust or other Person established by such Receivables Subsidiary to effect such Qualified Receivables Transaction; and any other Investment by the Issuer or a Subsidiary of the Issuer in a Receivables Subsidiary or any Investment by a Receivables Subsidiary in any other Person in connection with a Qualified Receivables Transaction; *provided,* that such other Investment is in the form of a note or other instrument that the Receivables Subsidiary or other Person is required to repay as soon as practicable from available cash collections less amounts required to be established as reserves pursuant to contractual agreements with entities that are not Affiliates of the Issuer entered into as part of a Qualified Receivables Transaction; and

Table of Contents

(14) other Investments in an aggregate amount not to exceed $50.0 million at any one time outstanding (with each Investment being valued as of the date made and without regard to subsequent changes in value); provided that no Investment made in reliance on this clause (14) shall be made in any Person that is the direct or indirect holder of a majority of the outstanding Equity Interests of the Issuer.

The amount of Investments outstanding at any time pursuant to clause (14) above shall be deemed to be reduced:

(a) upon the disposition or repayment of or return on any Investment made pursuant to clause (14) above, by an amount equal to the return of capital with respect to such Investment to the Issuer or any Restricted Subsidiary (to the extent not included in the computation of Consolidated Net Income); and

(b) upon a Redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, by an amount equal to the lesser of (x) the Fair Market Value of the Issuer s proportionate interest in such Subsidiary immediately following such Redesignation, and (y) the aggregate amount of Investments in such Subsidiary that increased (and did not previously decrease) the amount of Investments outstanding pursuant to clause (14) above.

Permitted Liens means the following types of Liens:

(1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which the Issuer or the Restricted Subsidiaries shall have set aside on its books such reserves as may be required pursuant to GAAP;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;

(3) Liens incurred or deposits made in the ordinary course of business in connection with workers compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(4) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person s obligations in respect of bankers acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods and Liens upon inventory on consignment incurred by the consignee or in connection with any scan-based trading arrangements by the retail customer thereof;

(5) judgment Liens not giving rise to a Default so long as such Liens are adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which the proceedings may be initiated has not expired;

(6) easements, rights-of-way, zoning restrictions and other similar charges, restrictions or encumbrances in respect of real property or immaterial imperfections of title which do not, in the aggregate, impair in any material respect the ordinary conduct of the business of the Issuer and the Restricted Subsidiaries taken as a whole;

(7) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other assets relating to such letters of credit and products and proceeds thereof;

(8) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and setoff;

(9) bankers Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by the Issuer or any Restricted Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts

are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; *provided* that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

(10) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Issuer or any Restricted Subsidiary;

(11) Liens arising from filing Uniform Commercial Code financing statements regarding leases;

(12) Liens securing all of the Notes and Liens securing any Note Guarantee;

(13) Liens securing Hedging Obligations entered into for *bona fide* hedging purposes of the Issuer or any Restricted Subsidiary and not for the purpose of speculation;

(14) Liens existing on the Issue Date securing Indebtedness outstanding on the Issue Date;

(15) Liens in favor of the Issuer or a Guarantor;

(16) Liens securing Indebtedness under the Credit Facilities in an aggregate principal amount at any time outstanding not to exceed $650.0 million;

(17) Liens securing Purchase Money Indebtedness and Capitalized Lease Obligations; *provided* that such Liens shall not extend to any asset other than the specified asset being financed and additions and improvements thereon;

(18) Liens securing Acquired Indebtedness permitted to be incurred under the Indenture; provided that the Liens do not extend to assets not subject to such Lien at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than those securing such Acquired Indebtedness prior to the incurrence of such Acquired Indebtedness by the Issuer or a Restricted Subsidiary;

(19) Liens on assets of a Person existing at the time such Person is acquired or merged with or into or consolidated with the Issuer or any such Restricted Subsidiary (and not created in anticipation or contemplation thereof);

(20) Liens on assets of Foreign Subsidiaries securing Indebtedness of Foreign Subsidiaries;

(21) Liens to secure Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (12), (14), (16), (17), (18) and (19); *provided* that in the case of Liens securing Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (14), (17), (18) and (19), such Liens do not extend to any additional assets (other than improvements thereon and replacements thereof);

(22) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(23) Liens on assets of the Issuer, a Restricted Subsidiary or a Receivables Subsidiary incurred in connection with a Qualified Receivables Transaction; and

(24) Liens incurred in the ordinary course of business of the Issuer or any Restricted Subsidiary with respect to obligations (other than Indebtedness) that do not in the aggregate exceed $25.0 million at any one time outstanding.

Person means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

Plan of Liquidation with respect to any Person, means a plan that provides for, contemplates or the effectuation of which is preceded or accompanied by (whether or not substantially contemporaneously, in phases or otherwise): (1) the sale, lease, conveyance or other disposition of all or substantially all of the assets of such Person otherwise than as an entirety or substantially as an entirety; and (2) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition of all or substantially all of the remaining assets of such Person to holders of Equity Interests of such Person.

Preferred Stock means, with respect to any Person, any and all preferred or preference stock or other equity interests (however designated) of such Person whether now outstanding or issued after the Issue Date.

principal means, with respect to the Notes, the principal of, and premium, if any, on the Notes.

Publicly Traded Securities mean any equity securities listed on a national securities exchange of a Person with a publicly traded market capitalization of not less than $1.0 billion that are freely transferable without any restriction under the Securities Act; *provided* that the Issuer and its Subsidiaries own less than 5% of the Equity Interests in such Person after giving effect to such Asset Sale.

Purchase Money Indebtedness means Indebtedness, including Capitalized Lease Obligations, of the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price of property, plant or equipment used in the business of the Issuer or any Restricted Subsidiary or the cost of installation, construction or improvement thereof; *provided, however*, that (1) the amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred within 90 days after such acquisition of such asset by the Issuer or such Restricted Subsidiary or such installation, construction or improvement.

Qualified Equity Interests of any Person means Equity Interests of such Person other than Disqualified Equity Interests; *provided* that such Equity Interests shall not be deemed Qualified Equity Interests to the extent sold or owed to a Subsidiary of such Person or financed, directly or indirectly, using funds (1) borrowed from such Person or any Subsidiary of such Person until and to the extent such borrowing is repaid or (2) contributed, extended, guaranteed or advanced by such Person or any Subsidiary of such Person (including, without limitation, in respect of any employee stock ownership or benefit plan). Unless otherwise specified, Qualified Equity Interests refer to Qualified Equity Interests of the Issuer.

Qualified Equity Offering means the issuance and sale of Qualified Equity Interests of the Issuer to Persons other than any Permitted Holder.

Qualified Receivables Transaction means any transaction or series of transactions entered into by the Issuer or any of its Subsidiaries pursuant to which the Issuer or any of its Subsidiaries sells, conveys or otherwise transfers (directly or through the Issuer or a Restricted Subsidiary) to (i) a Receivables Subsidiary (in the case of a transfer by the Issuer or any of its Subsidiaries) and (ii) any other Person (in the case of a transfer by a Receivables Subsidiary), or grants a security interest in, any accounts receivable (whether now existing or arising in the future) of the Issuer or any of its Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving accounts receivable.

Rating Agencies means Moody s Investors Service, Inc. and Standard & Poor s Ratings Services, a division of the McGraw Hill Companies, Inc.

Receivables Subsidiary means a Subsidiary of the Issuer which engages in no activities other than in connection with the financing of accounts receivable and which is designated by the Board of Directors of the Issuer (as provided below) as a Receivables Subsidiary (a) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer or any Subsidiary of the Issuer (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in

Table of Contents

connection with a Qualified Receivables Transaction), (ii) is recourse to or obligates the Issuer or any Subsidiary of the Issuer in any way other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction or (iii) subjects any property or asset of the Issuer or any Subsidiary of the Issuer (other than accounts receivable and related assets as provided in the definition of Qualified Receivables Transaction), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction, (b) with which neither the Issuer nor any Subsidiary of the Issuer has any material contract, agreement, arrangement or understanding other than on terms no less favorable to the Issuer or such Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer, other than fees payable in the ordinary course of business in connection with servicing accounts receivable and (c) with which neither the Issuer nor any Subsidiary of the Issuer has any obligation to maintain or preserve such Subsidiary s financial condition or cause such Subsidiary to achieve certain levels of operating results. Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an officers certificate certifying that such designation complied with the foregoing conditions.

redeem means to redeem, repurchase, purchase, defease, retire, discharge or otherwise acquire or retire for value; and **redemption** shall have a correlative meaning; *provided* that this definition shall not apply for purposes of Optional Redemption.

Redesignation has the meaning given to such term in the covenant described under Certain Covenants Limitations on Designation of Unrestricted Subsidiaries.

refinance means to refinance, repay, prepay, replace, renew or refund.

Refinancing Indebtedness means Indebtedness of the Issuer or a Restricted Subsidiary incurred in exchange for, or the proceeds of which are used to redeem or refinance in whole or in part, any Indebtedness of the Issuer or any Restricted Subsidiary (the **Refinanced Indebtedness**); *provided* that:

(1) the principal amount (and accreted value, in the case of Indebtedness issued at a discount) of the Refinancing Indebtedness does not exceed the principal amount (and accreted value, as the case may be) of the Refinanced Indebtedness plus the amount of accrued and unpaid interest on the Refinanced Indebtedness, any reasonable premium paid to the holders of the Refinanced Indebtedness and reasonable expenses incurred in connection with the incurrence of the Refinancing Indebtedness;

(2) the obligor of Refinancing Indebtedness does not include any Person (other than the Issuer or any Guarantor) that is not an obligor of the Refinanced Indebtedness;

(3) if the Refinanced Indebtedness was subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, then such Refinancing Indebtedness, by its terms, is subordinate in right of payment to the Notes or the Note Guarantees, as the case may be, at least to the same extent as the Refinanced Indebtedness;

(4) the Refinancing Indebtedness has a final stated maturity either (a) no earlier than the Refinanced Indebtedness being repaid or amended or (b) after the maturity date of the Notes;

(5) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Refinanced Indebtedness being repaid that is scheduled to mature on or prior to the maturity date of the Notes; and

(6) the proceeds of the Refinancing Indebtedness shall be used substantially concurrently with the incurrence thereof to redeem or refinance the Refinanced Indebtedness, unless the Refinanced Indebtedness is not then

due and is not redeemable or prepayable at the option of the obligor thereof or is redeemable or prepayable only with notice, in which case such proceeds shall be held in a segregated account of the obligor of the Refinanced Indebtedness until the Refinanced Indebtedness becomes due or redeemable or prepayable or such notice period lapses and then shall be used to refinance the Refinanced Indebtedness; *provided* that in any event the Refinanced Indebtedness shall be redeemed or refinanced within one year of the incurrence of the Refinancing Indebtedness.

Related Party means (i) any controlling stockholder, 80% (or more) owned Subsidiary, or immediate family member (in the case of an individual) of any Permitted Holder, or (ii) any trust, corporation, partnership or other entity the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of any one or more Permitted Holders and/or such other Persons referred to in the immediately preceding clause (i).

Restricted Payment means any of the following:

(1) the declaration or payment of any dividend or any other distribution on Equity Interests of the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Equity Interests of the Issuer or any Restricted Subsidiary, including, without limitation, any payment in connection with any merger or consolidation involving the Issuer but excluding (a) dividends or distributions payable solely in Qualified Equity Interests or through accretion or accumulation of such dividends on such Equity Interests and (b) in the case of Restricted Subsidiaries, dividends or distributions payable to the Issuer or to a Restricted Subsidiary and *pro rata* dividends or distributions payable to minority stockholders of any Restricted Subsidiary;

(2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary, including, without limitation, any payment in connection with any merger or consolidation involving the Issuer but excluding any such Equity Interests held by the Issuer or any Restricted Subsidiary; or

(3) any Investment other than a Permitted Investment.

Restricted Payments Basket has the meaning given to such term in the first paragraph of the covenant described under Certain Covenants Limitations on Restricted Payments.

Restricted Subsidiary means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

S&P means Standard & Poor s Ratings Services, a division of the McGraw-Hill Companies, Inc., and its successors.

Sale and Leaseback Transactions means with respect to any Person an arrangement with any bank, insurance company or other lender or investor or to which such lender or investor is a party, providing for the leasing by such Person of any asset of such Person which has been or is being sold or transferred by such Person to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such asset, but excluding any such arrangements between or among (a) the Issuer and one or more Restricted Subsidiaries and (b) Restricted Subsidiaries.

SEC means the U.S. Securities and Exchange Commission.

Secretary s Certificate means a certificate signed by the Secretary of the Issuer.

Securities Act means the U.S. Securities Act of 1933, as amended.

Significant Subsidiary means (1) any Restricted Subsidiary that would be a significant subsidiary as defined in Regulation S-X promulgated pursuant to the Securities Act as such Regulation is in effect on the Issue Date and (2) any Restricted Subsidiary that, when aggregated with all other Restricted Subsidiaries that are not otherwise Significant Subsidiaries and as to which any event described in clause (7) or (8) under Events of Default has occurred and is continuing, or which are being released from their Guarantees (in the case of clause (9) of the provisions described under Amendment, Supplement and Waiver), would constitute a Significant Subsidiary under clause (1) of this definition.

Subsidiary means, with respect to any Person:

(1) any corporation, limited liability company, association or other business entity of which more than 50% of the total voting power of the Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Board of Directors thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

Unless otherwise specified, Subsidiary refers to a Subsidiary of the Issuer.

Transactions means (i) the Issuer s share repurchase program for repurchases of up to an additional $150.0 million of Equity Interests, (ii) the redemption, exchange, repayment and net share settlement of the Issuer s 7.0% Convertible Subordinated Notes due 2006 and its new 7.0% Convertible Subordinated Notes due 2006, (iii) the purchase by the Issuer of any notes issued by the Issuer pursuant to the Indenture dated July 27, 1998 and the amendment of such Indenture in connection therewith; (iv) the transactions related to the execution and delivery of the Credit Agreement on April 4, 2006 by the Issuer; (v) the reduction of the availability under the Issuer s accounts receivable securitization agreement from $200.0 million to $150.0 million and related modifications thereto; and (vi) the offering of the Notes hereby.

Trust Indenture Act means the Trust Indenture Act of 1939, as amended.

Unrestricted Subsidiary means (1) any Subsidiary that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Issuer in accordance with the covenant described under Certain Covenants Limitations on Designation of Unrestricted Subsidiaries and (2) any Subsidiary of an Unrestricted Subsidiary. As of the Issue Date, the Hatchery will be an Unrestricted Subsidiary.

U.S. Government Obligations means direct non-callable obligations of, or guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

Voting Stock with respect to any Person, means securities of any class of Equity Interests of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock or other relevant equity interest has voting power by reason of any contingency) to vote in the election of members of the Board of Directors of such Person.

Weighted Average Life to Maturity when applied to any Indebtedness at any date, means the number of years obtained by dividing (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (2) the then outstanding principal amount of such Indebtedness.

Wholly-Owned Restricted Subsidiary means a Restricted Subsidiary of which 100% of the Equity Interests (except for directors qualifying shares or certain minority interests owned by other Persons solely due to local law requirements that there be more than one stockholder, but which interest is not in excess of what is required for such purpose) are owned directly by the Issuer or through one or more Wholly-Owned Restricted Subsidiaries.

BOOK-ENTRY, DELIVERY AND FORM OF SECURITIES

The Notes will be represented by one or more global notes (the **Global Notes**) in definitive form. The Global Notes will be deposited on the Issue Date with, or on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC (such nominee being referred to herein as the **Global Note Holder**). The Global Notes will be subject to certain restrictions on transfer and will bear the legend regarding these restrictions set forth under the heading Notice to Investors. DTC will maintain the Notes in denominations of $1,000 and integral multiples thereof through its book-entry facilities.

DTC has advised the Issuer as follows:

DTC is a limited-purpose trust company that was created to hold securities for its participating organizations, including Euroclear and Clearstream (collectively, the **Participants** or the **Depositary s Participants**), and to facilitate the clearance and settlement of transactions in these securities between Participants through electronic book-entry changes in accounts of its Participants. The Depositary s Participants include securities brokers and dealers (including the initial purchaser), banks and trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the **Indirect Participants** or the **Depositary s Indirect Participants**) that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Depositary s Participants or the Depositary s Indirect Participants. Pursuant to procedures established by DTC, ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of the Depositary s Participants) and the records of the Depositary s Participants (with respect to the interests of the Depositary s Indirect Participants).

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer the Notes will be limited to such extent.

So long as the Global Note Holder is the registered owner of any Notes, the Global Note Holder will be considered the sole Holder of outstanding Notes represented by such Global Notes under the Indenture. Except as provided below, owners of Notes will not be entitled to have Notes registered in their names and will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any directions, instructions, or approvals to the Trustee thereunder. None of the Issuer, the Guarantors or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments in respect of the principal of, premium, if any, and interest on any Notes registered in the name of a Global Note Holder on the applicable record date will be payable by the Trustee to or at the direction of such Global Note Holder in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Issuer, any Guarantor and the Trustee may treat the persons in whose names any Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Issuer, any Guarantor nor the Trustee has or will have any responsibility or liability for the payment of such amounts to beneficial owners of Notes (including principal, premium, if any, and interest). The Issuer believes, however, that it is currently the policy of DTC to immediately credit the accounts of the relevant Participants with such payments, in amounts proportionate to their respective beneficial interests in the relevant security as shown on the records of DTC. Payments by the Depositary s Participants and the Depositary s Indirect Participants to the beneficial owners of Notes will be governed by

Table of Contents

standing instructions and customary practice and will be the responsibility of the Depositary s Participants or the Depositary s Indirect Participants.

Subject to certain conditions, any person having a beneficial interest in the Global Notes may, upon request to the Trustee and confirmation of such beneficial interest by the Depositary or its Participants or Indirect Participants, exchange such beneficial interest for Notes in definitive form. Upon any such issuance, the Trustee is required to register such Notes in the name of and cause the same to be delivered to, such person or persons (or the nominee of any thereof). Such Notes would be issued in fully registered form and would be subject to the legal requirements described in this prospectus supplement under the caption Notice to Investors. In addition, if (1) the Depositary notifies the Issuer in writing that DTC is no longer willing or able to act as a depositary and the Issuer is unable to locate a qualified successor within 90 days or (2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the Indenture, then, upon surrender by the relevant Global Note Holder of its Global Note, Notes in such form will be issued to each person that such Global Note Holder and DTC identifies as being the beneficial owner of the related Notes.

Neither the Issuer, any Guarantor nor the Trustee will be liable for any delay by the Global Note Holder or DTC in identifying the beneficial owners of Notes and the Issuer, any Guarantor and the Trustee may conclusively rely on, and will be protected in relying on, instructions from the Global Note Holder or DTC for all purposes.

Table of Contents

Underwriting

We are selling the notes to the underwriters named in the table below pursuant to an underwriting agreement dated the date of this prospectus supplement. We have agreed to sell to each of the underwriters and each of the underwriters has severally agreed to purchase, the principal amount of notes set forth opposite the underwriter s name in the table below. UBS Securities LLC and J.P. Morgan Securities Inc. are acting as joint book-running managers.

Underwriters	Principal Amount of Notes
UBS Securities LLC	$ 134,000,000
J.P. Morgan Securities Inc.	26,000,000
NatCity Investments, Inc.	16,000,000
KeyBanc Capital Markets, a Division of McDonald Investments Inc.	14,000,000
ABN AMRO Incorporated	4,000,000
Scotia Capital (USA) Inc.	4,000,000
PNC Capital Markets LLC	2,000,000
Total	$ 200,000,000

Under the terms and conditions of the underwriting agreement, the underwriters must buy all of the notes if the underwriters buy any of them. The underwriting agreement provides that the obligations of the underwriters pursuant thereto are subject to certain conditions. The underwriters will sell the notes to the public when and if the underwriters buy the notes from us.

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange. We have been advised by the underwriters that the underwriters intend to make a market in the notes but they are not obligated to do so and may stop their market-making at any time without providing any notice. Liquidity of the trading market for the notes cannot be assured.

The notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. If all of the notes are not sold at the initial offering price, the underwriters may change the offering price and other selling terms.

In order to facilitate the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the trading price of the notes. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the notes for their own accounts. In addition, to cover short positions or to stabilize the price of the notes, the underwriters may bid for, and purchase, the notes in the open market. Finally, the underwriters may reclaim selling concessions allowed to a particular dealer for distributing the notes in the offering if the underwriters repurchase previously distributed notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time. These transactions may be effected in the over-the-counter market or otherwise. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In connection with this offering, the underwriters may distribute prospectuses electronically.

We estimate that our expenses in connection with the sale of the notes, other than underwriting discounts, will be $565,000, and are payable by us.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

In the ordinary course of business, the underwriters and/or their affiliates have from time to time provided, and may in the future provide, investment banking, commercial banking, financial advisory and other services to us and our affiliates for which they have received, or expect to receive, customary fees and expenses. In particular, certain of the underwriters and their affiliates are agents and lenders under our credit facility. In addition, we have retained UBS Securities LLC to serve as the dealer manager for the tender offer related to our 6.10% senior notes and as our financial advisor in connection with the Exchange.

Legal matters

The validity of the notes will be passed upon for us by Baker & Hostetler LLP, Cleveland, Ohio. Certain legal matters in connection with this offering will be passed upon for the underwriters by Cahill Gordon & Reindel LLP, New York, New York.

Experts

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements (and schedule) included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, and management s assessment of the effectiveness of our internal control over financial reporting as of February 28, 2006, as set forth in their reports which are incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements (and schedule) and management s assessment are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

Table of Contents

PROSPECTUS

Debt Securities

We may offer debt securities from time to time in one or more offerings. This prospectus provides you with a general description of the debt securities we may offer. We will provide the specific terms of any offering of these debt securities in supplements to this prospectus. The prospectus supplements will also describe the specific manner in which we will offer these debt securities and may also supplement, update or amend information contained in this prospectus. You should read this prospectus, the applicable prospectus supplement, and any documents incorporated by reference into this prospectus carefully before you invest.

We may sell these debt securities on a continuous or delayed basis directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. If any agents, dealers or underwriters are involved in the sale of any debt securities, the applicable prospectus supplement will set forth any applicable commissions or discounts. Our net proceeds from the sale of debt securities also will be set forth in the applicable prospectus supplement.

These Securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 11, 2006.

Table of Contents

Table of Contents

About this Prospectus

This prospectus is part of a shelf registration statement that we have filed with the Securities and Exchange Commission (the Commission). By using a shelf registration statement, we may sell, at any time and from time to time, in one or more offerings, the debt securities described in this prospectus. This prospectus only provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that contains specific information about the terms of those securities. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described below under the headings Where You Can Find More Information and Information Incorporated by Reference.

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus or any applicable supplement to this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should assume that the information contained in this prospectus or any applicable prospectus supplement is only correct as of their respective dates or the date of the document in which incorporated information appears. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless otherwise indicated or the context otherwise requires, all references in this prospectus to we, us, our or American Greetings refer to American Greetings Corporation and its consolidated subsidiaries.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act). Such filings are available to the public from the Commission s website at http://www.sec.gov. You may also read and copy any document we file at the Commission 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 Securities Exchange Commission at that address. Please call the Commission at 1-800-SEC-0330 for further information on the public reference room. You may also inspect the information that we file a the offices of the New York Stock Exchange Inc., 20 Broad Street, New York, New York 10005. Information about us, including our filings, is also available on our website at http://www.corporate.americangreetings.com, however that information is not part of this prospectus or any accompanying prospectus supplement.

Table of Contents

Information Incorporated by Reference

The Commission allows us to incorporate by reference the information contained in documents we file with the Commission, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus. Any statement contained in a document which is incorporated by reference in this prospectus is automatically updated and superseded if information contained in this prospectus, or information that we later file with the Commission, modifies or replaces that information. Any statement made in this prospectus or any prospectus supplement concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We incorporate by reference the following documents we filed, excluding any information contained therein or attached as exhibits thereto which has been furnished but not filed, with the Commission:

- Our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, filed on May 10, 2006; and
- Our Current Report on Form 8-K filed on April 6, 2006.

Any documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering of the securities to which this prospectus relates will automatically be deemed to be incorporated by reference in this prospectus and a part of this prospectus from the date of filing such documents; provided however, that we are not incorporating in each case, any documents or information contained therein that has been furnished but not filed with the Commission.

To receive a free copy of any of the documents incorporated by reference in this prospectus (other than exhibits, unless they are specifically incorporated by reference in any such documents), call or write American Greetings Corporation, One American Road, Cleveland, Ohio 44144, Attention: Secretary (telephone (216) 252-7300).

The Company

Founded in 1906, we operate predominantly in a single industry: the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products. We manufacture and sell greeting cards, gift wrap, party goods, candles, stationery and giftware in North America, including the United States, Canada and Mexico, and throughout the world, primarily in the United Kingdom, Australia, New Zealand and South Africa. In addition, AG Interactive, Inc. (which is now wholly owned by us and was formerly known as AmericanGreetings.com, Inc.) markets e-mail greetings, personalized printable greeting cards and other social expression products through our Web sites www.americangreetings.com, www.bluemountain.com, and www.egreetings.com; co-branded Web sites and on-line services. In 2005, AG Interactive launched its AG Mobile unit, which specializes in the distribution of ringtones for cellular telephones, graphics, games, alerts and other social messaging products and applications to mobile devices. Our subsidiary, Learning Horizons, Inc. distributes supplemental educational products. Design licensing and character licensing are done primarily by our subsidiaries, A.G.C. Inc. and Those Characters From Cleveland, Inc., respectively. The Hatchery, LLC (50% of which is owned by us) also develops and produces original family and children s entertainment for all media. Our A.G. Industries, Inc. subsidiary manufactures custom display fixtures for our products and products of others. As of February 28, 2006, we also owned and operated 503 card and gift shops throughout North America.

Our principal executive office is located at One American Road, Cleveland, Ohio 44144. Our telephone number is (216) 252-7300. Our website address is http://www.corporate.americangreetings.com. Information on our website does not constitute part of this prospectus.

Table of Contents

Use of Proceeds

Unless otherwise specified in a prospectus supplement, the net proceeds from the sale of the debt securities will be added to our general corporate funds and may be used, including without limitation, to repay debt, fund share repurchases, fund dividends, finance acquisitions, finance capital expenditures and operating expenses and invest in subsidiaries. Prior to such application, all or a portion of the net proceeds may be invested in short-term investments.

Consolidated Ratio of Earnings to Fixed Charges

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods shown.

	Fiscal Year Ended February 28 or 29,				
	2002	**2003**	**2004**	**2005**	**2006**
Consolidated ratio of earnings to fixed charges (1)	(2)	2.8	2.5	2.1	3.6

(1) Ratio of earnings to fixed charges is computed by dividing fixed charges into earnings plus fixed charges. For purposes of determining this ratio, earnings have been calculated as pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries. Fixed charges consist of interest expense (including amortized premiums, discounts and capitalized expenses related to indebtedness) and the estimated interest component of rent expense. The information presented has been reclassified to reflect our South African business unit as a discontinued operation.

(2) Earnings for the fiscal year ended February 28, 2002 were inadequate to cover fixed charges. The coverage deficiency was $205,164.

Description of Debt Securities

We may from time to time offer to sell debt securities. We will set forth a description of the debt securities that may be offered under this prospectus in a prospectus supplement or other offering material.

The debt securities offered under this prospectus will be issued under one or more indentures, each dated as of a date on or before the issuance of the debt securities to which it relates. Each indenture will be entered into between us and a trustee chosen by us and qualified to act as a trustee under the Trust Indenture Act of 1939. The statements and descriptions in this prospectus, in any prospectus supplement or in any other offering material regarding provisions of any indenture and the debt securities are summaries thereof, do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the applicable indenture (and any amendments or supplements we may enter into from time to time which are permitted under such indenture) and the debt securities, including the definitions therein of certain terms.

Unless we specify otherwise in the applicable prospectus supplement, such indenture will be in the form filed as an exhibit to the registration statement (including amendments to such registration statement) of which this prospectus is a part, subject to any amendments or supplements to such indenture as we may adopt from time to time, and The Bank of Nova Scotia Trust Company of New York will act as trustee.

Plan of Distribution

We may sell debt securities offered pursuant to the applicable prospectus supplement to one or more underwriters for public offering and sale by them or we may sell debt securities to investors directly or through agents. We may also sell the debt securities through a combination of these methods.

Table of Contents

The distribution of the debt securities may occur from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Underwriters, dealers and agents that participate in the distribution of the debt securities may be underwriters as defined in the Securities Act of 1933 (the Securities Act) and any discounts or commissions received by them and any profit on the resale of the offered securities by them may be treated as underwriting discounts and commissions under the Securities Act. Any underwriters or agents will be identified and their compensation, including underwriting discounts, will be described in the applicable prospectus supplement. The prospectus supplement will also describe other terms of the offering, including any conditions to the obligations of the underwriters, dealers or agents to purchase the debt securities, discounts or concessions allowed or reallowed or paid to dealers and any securities exchanges on which the offered securities may be listed.

We may have, or enter into, agreements with the underwriters, dealers and agents to indemnify them against certain liabilities, including liabilities under the Securities Act.

If the applicable prospectus supplement indicates, we will authorize underwriters or our other agents to solicit offers by certain institutions to purchase offered securities from us pursuant to contracts that provide for payment and delivery on a future date. We must approve all institutions, but they may include, among others:

- commercial and savings banks;
- insurance companies;
- pension funds;
- investment companies; and
- educational and charitable institutions.

The institutional purchaser s obligations under the contract are subject to the condition that the purchase of the offered securities at the time of delivery is allowed by the laws that govern the purchaser. The underwriters and other agents will not be responsible for the validity or performance of the contracts.

Underwriters and agents and their affiliates may be customers of, engage in transactions with, or perform services for us or our subsidiaries in the ordinary course of our and/or their business.

Legal Matters

Unless otherwise specified in a prospectus supplement, the validity of the debt securities will be passed upon for us by Baker & Hostetler LLP, Cleveland, Ohio. Any underwriters will also be advised about the validity of the securities and other legal matters by their own counsel, which will be named in the prospectus supplement.

Experts

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements (and schedule) included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, and management s assessment of the effectiveness of our internal control over financial reporting as of February 28, 2006, as set forth in their reports which are incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements (and schedule) and management s assessment are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

Table of Contents

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, 2006

OR

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

For the transition period from to .

Commission File No. 1-13859

American Greetings Corporation

(Exact name of registrant as specified in its charter)

Ohio	**34-0065325**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One American Road, Cleveland, Ohio	**44144**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Name of each exchange on which registered**
Class A Common Shares, Par Value $1.00	New York Stock Exchange

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

Class B Common Shares, Par Value $1.00

(Title of Class)

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

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

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

Indicate by check mark 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 31, 2005 $1,612,230,683 (affiliates, for this purpose, have been deemed to be directors, executive officers and certain significant shareholders).

Number of shares outstanding as of May 1, 2006:

CLASS A COMMON 53,352,850

CLASS B COMMON 4,217,067

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the American Greetings Corporation Definitive Proxy Statement for the Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year (incorporated into Part III). The Report of the Compensation and Management Development Committee on Executive Compensation, the Report of the Audit Committee and the Performance Graph contained in the registrant s Definitive Proxy Statement shall not be deemed incorporated by reference herein.

Table of Contents

AMERICAN GREETINGS CORPORATION

INDEX

Table of Contents

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. Greeting cards, gift wrap, party goods, candles, balloons, stationery and giftware are manufactured or sold by us in North America, including the United States, Canada and Mexico, and throughout the world, primarily in the United Kingdom, Mexico, Australia, New Zealand and South Africa. In addition, our subsidiary, AG Interactive, Inc., markets e-mail greetings, personalized printable greeting cards and other social expression products through our Web sites www.americangreetings.com, www.bluemountain.com and www.egreetings.com; co-branded Web sites and on-line services. In 2005, AG Interactive launched its AG Mobile unit, which specializes in the distribution of ringtones for cellular telephones, graphics, games, alerts and other social messaging products and applications to mobile devices. Our subsidiary, Learning Horizons, Inc., distributes supplemental educational products. Design licensing and character licensing are done primarily by our subsidiaries, AGC, Inc. and Those Characters From Cleveland, Inc., respectively. The Hatchery, LLC (50% owned by us) also develops and produces original family and children s entertainment for all media. Our A.G. Industries, Inc. subsidiary manufactures custom display fixtures for our products and products of others. As of February 28, 2006, we also owned and operated 503 card and gift shops throughout North America.

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, 2006 refers to the year ended February 28, 2006. Our AG Interactive subsidiary was consolidated on a two-month lag corresponding with its fiscal year-end of December 31. In fiscal 2006, AG Interactive changed its year-end to coincide with our fiscal year-end. As a result, fiscal 2006 includes fourteen months of AG Interactive s operations.

PRODUCTS

American Greetings creates, manufactures and distributes social expression products including greeting cards, gift wrap, party goods, calendars, candles and stationery as well as educational products and custom display fixtures. Our major domestic greeting card brands are American Greetings, Carlton Cards, and Gibson, and other domestic products include DesignWare party goods, Guildhouse candles, Plus Mark gift wrap and boxed cards, DateWorks calendars, Learning Horizons educational products and AGI Schutz display fixtures. On-line greeting card offerings and other digital content are available through our subsidiary, AG Interactive, Inc. We also create and license our intellectual properties, such as the Care Bear and Strawberry Shortcake characters. Information concerning sales by major product classifications is included in Part II, Item 7.

BUSINESS SEGMENTS

At February 28, 2006, 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 16 to the Consolidated Financial Statements included in Part II, Item 8.

CONCENTRATION OF CREDIT RISKS

Net sales to our five largest customers, which include mass merchandisers and national drug store and supermarket chains, accounted for approximately 35% of net sales in fiscal year 2006 and approximately 32% of net sales in fiscal years 2005 and 2004. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 16%, 15% and 13% of net sales in 2006, 2005 and 2004, respectively. No other customer accounted for 10% or more of our net sales.

CONSUMERS

We believe that women purchase more than 80% of all greeting cards sold and that the median age of our consumers is approximately 54. We also believe that the average American household purchases about 17 greeting cards per year, the average number of greeting cards purchased per transaction is approximately two, and consumers make approximately seven card purchasing trips per year.

COMPETITION

The greeting card and gift wrap 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 an estimated 3,000 greeting card publishers in the United States, ranging from small family-run organizations to major corporations. 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 that, together, are estimated to encompass approximately 85% of the overall market. Our principal competitor is Hallmark Cards, Inc. Based upon our general familiarity with the greeting card and gift wrap industry and limited information as to our competitors, we believe that we are the second-largest company in the industry and the largest publicly owned greeting card company.

PRODUCTION AND DISTRIBUTION

In 2006, our three distinct channels of distribution continued to be primarily through mass retail, which is comprised of mass merchandisers, chain drug stores and supermarkets. Other major channels of distribution included 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 our card and gift retail stores. As of February 28, 2006, we owned and operated 503 card and gift retail stores in the United States and Canada through our Retail Operations segment, which are primarily located in malls and strip shopping centers. From time to time, we also sell our products to independent, third-party distributors. Our distribution centers are located near our manufacturing facilities. Our automated distribution system enables us to replenish retailers shelves promptly following the initiation of a re-order.

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, the United Kingdom and Australia. We also source products from domestic and foreign third party suppliers. Additionally, information by geographic area is included in Note 16 to the Consolidated Financial Statements included in Part II, Item 8.

Production of our products is generally on a level basis throughout the year. 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 have been converted to a scan-based trading model are received generally within 10 to 15

Table of Contents

days of the product being sold by those customers at their retail locations. As of February 28, 2006, three of our five largest customers in 2006 conduct business with us under a scan-based trading model. The core of this business model rests with American Greetings providing product to the customer on a consignment basis with American Greetings recording sales at the time a product is electronically scanned through the retailer s cash register. American Greetings and many of its competitors sell seasonal greeting cards with the right of return. Sales of non-seasonal products are generally sold without the right of return. Sales credits for non-seasonal product are issued at our sole 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.

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 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. From time to time, we 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 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, 2006, we employed approximately 9,700 full-time employees and approximately 19,800 part-time employees which, when jointly considered, equate to approximately 19,200 full-time equivalent employees. Approximately 2,700 of our hourly plant employees are unionized and covered by collective bargaining agreements. The following table sets forth by location the unions representing our domestic employees, together with the expiration date of the applicable governing collective bargaining agreement.

Union	Location	Contract Expiration Date
International Brotherhood of Teamsters	Bardstown, Kentucky;	March 20, 2011
	Kalamazoo, Michigan;	April 30, 2010
	Cleveland, Ohio	March 31, 2010
UNITE-HERE Union	Greeneville, Tennessee (Plus Mark)	October 19, 2008
Firemen and Oilers Conference of the Service Employees International Union	Berea, Kentucky	August 31, 2006

Other locations with unions are the United Kingdom, Mexico, Australia, New Zealand and South Africa. We believe that labor relations at each location where we operate have generally been satisfactory.

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 typically receives from American Greetings 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 effective time period of the agreement to

Table of Contents

meet a 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 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, 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. We maintain a general reserve 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 reserve to reduce the deferred cost asset to our estimate of its value based upon expected performance. These agreements are accounted for as deferred costs. Losses attributed to these specific events have historically not been material. The balances and movement of the valuation reserve accounts are disclosed on Schedule II of this Annual Report on Form 10-K. See Note 10 to the Consolidated Financial Statements in Part II, Item 8, and the discussion under the Deferred Costs heading in the Critical Accounting Policies section of Item 7 for further information and discussion of deferred costs.

ENVIRONMENTAL 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 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, 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.

AVAILABLE INFORMATION

We make available, free of charge, on or through the Investors section of our www.corporate.americangreetings.com Web site, 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 Securities and Exchange Commission (SEC). Copies of our filings with the SEC also can be obtained at the SEC s Internet site, www.sec.gov.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Board s Audit Committee, Compensation and Management Development Committee, and Nominating and Governance Committee are available on or through the Investors section of our www.corporate.americangreetings.com Web site, and will be made available in print upon request by any shareholder to the Secretary of American Greetings.

Table of Contents

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.

The growth of our greeting card business is critical to future profitability and cash flow.

One of our key business strategies is to gain profitable market share by spending at least $100 million to revamp our greeting card business over the next several years, with the majority of the expense occurring during fiscal 2007 in our core greeting card business. We expect approximately one-third of this amount to be related to converting additional customers to the scan-based trading business model, with the remainder associated with creative initiatives, process changes, and a reduction of certain retailers inventory in order to flow future new product changes more quickly. These expenditures will impact net sales, earnings and cash flows over future periods. The actual amount and timing of the expenditures will depend on the success of the strategy and the schedules of our retail partners. Moreover, our long-term success will depend in part on how well we implement our strategy to revamp the greeting card business and we cannot assure you that this strategy will either increase our revenue or profitability. Even if we are able to implement, to a significant degree, this strategy, we may experience systemic, cultural and operational challenges that may prevent any significant increase in profitability or that may otherwise negatively influence our cash flow. In addition, even if our strategy is successful, our profitability may be adversely affected if consumer demand for lower priced, value cards continues to expand, thereby eroding our average selling prices. Our strategy may also have flaws and may not be successful. For example, we may not be able to anticipate or respond in a timely manner to changing customer demands and preferences for greeting cards. If we misjudge the market, we may significantly overstock unpopular products and be forced to grant significant credits or accept significant returns, which would have a negative impact on our results of operations and cash flow. Conversely, shortages of key items could have a materially adverse impact on our results of operations and financial condition.

We rely on a few mass-market retail 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 and national drug store and supermarket chains, accounted for approximately 35% of net sales in fiscal year 2006 and approximately 32% of net sales for fiscal years 2005 and 2004. Net Sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 16%, 15% and 13% of net sales in fiscal years 2006, 2005 and 2004, respectively. No other customer accounted for 10% or more of our net sales. 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 and financial condition.

We operate in extremely competitive markets, 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 an estimated 3,000 greeting card publishers in the United States ranging from small family-run organizations to major corporations. 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 that, together, are estimated to encompass approximately 85% of the overall market. Our main competitor, Hallmark Cards, Inc., 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. That competitor may also have longstanding relationships with certain large customers to which it may offer products that we do not provide, putting us at a competitive disadvantage. As a result, this competitor or others may be able to:

- adapt to changes in customer requirements more quickly;

- take advantage of acquisitions and other opportunities more readily;

- devote greater resources to the marketing and sale of its products; 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, and our results of operations and financial condition could be adversely affected.

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

With the growing trend toward retail trade consolidation, 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 trade customers, such as inventory de-stocking, limitations on access to shelf 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. 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.

Our business, results of operations and financial condition may be adversely affected by volatility in the demand for our products.

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, the effects of war, terrorism or threats of war or terrorism, fuel prices and consumer confidence in future economic conditions. Our business, and that of most of our customers, may experience periodic downturns in direct relation to downturns in the general economy. A general slowdown in the economies in which we sell our products, or even an uncertain economic outlook, could adversely affect consumer spending on discretionary items, such as our products, and, in turn, could adversely affect our sales, results of operations and financial condition.

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. In recent years, there have been trends towards shorter life cycles for individual youth entertainment products. 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.

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

Table of Contents

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.

We depend on mall traffic and the availability of suitable lease space.

Many of our retail stores are located in shopping malls. Sales at these stores are derived, in part, from the high volume of traffic attributable to mall anchor tenants (generally large department stores) and other area attractions, as well as from the continued appeal of malls as shopping destinations. Sales volume related to mall traffic may be adversely affected by economic downturns in a particular area, competition from non-mall retailers or from other malls where we do not have stores, or from the closing of anchor department stores. In addition, a decline in the popularity of a particular mall, or a decline in the appeal of mall shopping generally among our target consumers, would adversely affect our business. Our ability to grow our Retail Operations is dependent on our ability to open new stores in desirable locations with capital investment and lease costs that allow us to earn a reasonable return. We cannot be sure as to when or whether such desirable locations will become available at reasonable costs. In addition, to the extent that shopping mall owners are not satisfied with the sales volume of our current retail stores, we may lose existing store locations.

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

We rely to a significant extent on foreign manufacturers 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 merchandise supply contracts and some of our imports are subject to existing or potential duties, tariffs or quotas. In addition, a portion or 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 and civil unrest;
- imposition of new legislation and Customs regulations relating to imports that may limit the quantity and/or increase the costs of goods which may be imported into the United States from countries in a particular region;
- currency and foreign exchange risks; and
- potential delays or disruptions in transportation.

Also, new regulatory initiatives may be implemented that have an impact on the trading status of certain countries and may include antidumping duties or other trade 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 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.

Table of Contents

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

Our trademarks, trade secrets, copyrights, patents and all of our other intellectual property rights are important assets. We rely on copyright and trademark laws in the United States and other jurisdictions and on confidentiality agreements with some employees and others to protect our proprietary rights. If any of these rights were infringed or invalidated, our business could be materially and adversely affected. In addition, our activities could infringe upon the proprietary rights of others, who could assert infringement claims against us. We could face costly litigation if we are forced to defend these claims. If we are unsuccessful in doing so, our business, results of operations and financial condition may be materially and adversely affected.

We seek to register our trademarks in the United States and elsewhere. These registrations could be challenged by others or invalidated through administrative process or litigation. In addition, our confidentiality agreements with some employees or others may not provide adequate protection in the event of unauthorized use or disclosure of our proprietary information, or if our proprietary information otherwise becomes known, or is independently developed by competitors.

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 revenues from the licensed products is not sufficient to earn out the minimum guaranteed royalties.

An important part of our business involves obtaining licenses to produce products based on various popular brands, character properties, design and other licensed material owned by third parties. Such license agreements usually require that we pay an advance and/or provide a minimum royalty guarantee that may be substantial, and in some cases 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. In the event that we are not able to acquire or maintain advantageous licenses, our business, results of operations and financial condition may be materially and adversely affected.

We cannot assure you that we will have adequate liquidity to fund our ongoing cash needs.

One of our key business strategies is to gain profitable market share by spending at least $100 million to revamp our greeting card business over the next several years, primarily in our core greeting card business, with the majority of the expense occurring during fiscal year 2007. The actual amount and timing of the expenditures will depend on the success of the strategy and the schedules of our retail partners. In addition, we may have additional funding needs during or after that period that are not currently known. There can be no assurance that additional financing will be available to us or, if available, that it can be obtained on terms acceptable to management or within limitations that are contained in our current or future financing arrangements. Failure to obtain any necessary additional financing could result in the delay or abandonment of some or all of our plans, negatively impact our ability to make capital expenditures and result in our failure to meet our obligations.

The terms of our indebtedness may restrict our ability to pursue our growth strategy.

The terms of our credit agreement impose restrictions on our ability to, among other things, borrow and make investments, acquire other businesses, and make capital expenditures and distributions on our capital stock. In addition, our credit agreement requires us to satisfy specified financial covenants. Our ability to comply with these provisions depends, in part, on factors over which we may not have control. These restrictions could adversely affect our ability to pursue our growth strategy. If we were to breach any of our financial covenants or fail to make scheduled payments, our creditors could declare all amounts owed to them to be immediately due and payable. We may not have available funds sufficient to repay the amounts declared due and payable, and

Table of Contents

may have to sell our assets to repay those amounts. 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.

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-market retailers. The mass-market retail channel in the U.S. has experienced significant shifts in market share among competitors in recent years, causing large retailers to experience liquidity problems and file for bankruptcy protection. There is a risk that these key customers will not pay 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. Additionally, our business, results of operations and financial condition could be materially and adversely affected if these mass-market retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate.

Difficulties in integrating potential acquisitions could adversely affect our business.

We 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 may require us to incur additional debt and contingent liabilities, which may materially and adversely affect our business, results of operations and financial condition. Furthermore, the process of integrating acquired businesses effectively involves the following risks:

- unexpected difficulty in assimilating operations and products;
- diverting management s attention from other business concerns;
- entering into markets in which we have limited or no direct experience; and
- losing key employees of an acquired business.

Increases in raw material and energy costs may materially raise our cost of goods sold 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 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 significant number of our employees. In particular, approximately 2,700 of our employees are unionized and are covered by collective bargaining agreements. Although we believe our relations with our employees are satisfactory, no

9

Table of Contents

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.

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 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. 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.

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

We are subject to regulations by the Consumer Product Safety Commission and other regulatory agencies. Concerns about product safety may lead to a recall of selected products. We have experienced, and in the future may experience, defects or errors in products after their production and sale to customers. Such defects or errors could result in the rejection of our products by 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. 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, absence or cost of insurance, and administrative costs associated with recalls could harm our reputation, increase costs or reduce sales.

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 operation.

Acts of nature could result in an increase in the cost of raw materials or a shortage of raw materials, which could influence the costs 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.

Members of the Weiss family and related entities own a substantial portion of our common shares, whose interests may differ from those of other shareholders.

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, institutional investors and certain other persons. As of March 31, 2006, Morry Weiss, the Chairman of the

Board of Directors, Zev Weiss, the Chief Executive Officer, Jeffrey Weiss, the President and Chief Operating Officer, and Erwin Weiss, the Senior Vice President, Specialty Business, together with other members of the Weiss family and certain trusts and foundations established by the Weiss family beneficially owned approximately 73% in the aggregate of our outstanding Class B common shares, which, together with Class A common shares beneficially owned by them, represents approximately 35% of the voting power of our outstanding capital stock. Accordingly, these members of the Weiss family, together with the trusts and foundations established by them, would be able 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. The existence of these levels of ownership concentrated in a few persons makes it less likely that any other shareholder will be able to affect our management or strategic direction. These factors may also have the effect of delaying or preventing a change in our management or voting control or its acquisition by a third party.

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 Articles of Incorporation could have the effect of making it more difficult or discouraging for a third party to acquire or attempt to acquire control of American Greetings. Our Articles of Incorporation provide for the Board of Directors to be divided into three classes of directors serving staggered three-year terms. Such classification of the Board of Directors expands the time required to change the composition of a majority of directors and may tend to discourage a proxy contest or other takeover bid for the Corporation. In addition, the Articles of Incorporation provide for Class B common shares, which have ten votes per share.

As an Ohio corporation, we are subject to the provisions of Section 1701.831 of the Ohio Revised Code, known as the Ohio Control Share Acquisition Statute. The Ohio Control Share Acquisition Statute provides that notice and information filings, and special shareholder meeting and voting procedures, must occur prior to any person s acquisition of an issuer s shares that would entitle the acquirer to exercise or direct the voting power of the issuer in the election of directors within specified ranges of share ownership. The Ohio Control Share Acquisition Statute does not apply to a corporation if its articles of incorporation or code of regulations so provide. We have not opted out of the application of the Ohio Control Share Acquisition Statute.

We are also subject to Chapter 1704 of the Ohio Revised Code, known as the Merger Moratorium Statute. If a person becomes the beneficial owner of 10% or more of an issuer s shares without the prior approval of its board of directors, the Merger Moratorium Statute prohibits a merger, consolidation, combination or majority share acquisition between us and such shareholder or an affiliate of such shareholder for a period of three years from the date on which the shareholder first became a beneficial owner of 10% or more of the issuer s shares. The prohibition imposed by Chapter 1704 continues indefinitely after the initial three-year period unless the transaction is approved by the holders of at least two-thirds of the voting power of the issuer or satisfies statutory conditions relating to the fairness of the consideration to be received by the shareholders. The Merger Moratorium Statute does not apply to a corporation if its articles of incorporation or code of regulations so provide. We have not opted out of the application of the Merger Moratorium Statute.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of February 28, 2006, we own or lease approximately 11 million square feet of plant, warehouse and office space, of which approximately 300,000 square feet are leased. 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.

Table of Contents

The following table summarizes our principal plants and materially important physical properties. Under the revolving credit facility that was terminated and replaced on April 4, 2006, all of our domestic real property secured indebtedness outstanding from time to time thereunder and under our 6.10% notes due August 1, 2028. On April 4, 2006, we entered into a new credit agreement under which we are not required to pledge our real property to secure indebtedness thereunder. As a result, as of the date of this report, our domestic real property no longer secures indebtedness under either our revolving credit facility or our 6.10% notes.

* Indicates calendar year

	Approximate Square Feet Occupied		Expiration Date of	
Location	**Owned**	**Leased**	**Material Leases***	**Principal Activity**
Cleveland Ohio	1,700,000			World Headquarters: General offices of North American Greeting Card Division; Plus Mark, Inc.; Carlton Cards Retail, Inc.; Learning Horizons, Inc.; AG Interactive, Inc.; and AGC, Inc.; creation and design of greeting cards, gift wrap, party goods, candles, stationery and giftware; marketing of electronic greetings
Bardstown, Kentucky	413,500			Cutting, folding, finishing and packaging of greeting cards
Berea, Kentucky	552,000			Production and distribution of candles
Danville, Kentucky	1,374,000			Distribution of everyday products including greeting cards
Lafayette, Tennessee	194,000			Manufacture of envelopes for greeting cards, cutting, folding, finishing and packaging of cellos and stationery cards
Burgaw, North Carolina		59,000	2006	Manufacture of plastic molded party ware
Osceola, Arkansas	2,552,000			Cutting, folding, finishing and packaging of greeting cards and warehousing; distribution of seasonal products
Philadelphia, Mississippi		98,000	2007	Hand finishing of greeting cards
Ripley, Tennessee	165,000			Greeting card printing (lithography)
Kalamazoo, Michigan	602,500			Manufacture and distribution of party goods

Forest City, North Carolina (Two Locations)	498,000			Manufacture of display fixtures and other custom display fixtures by A.G. Industries, Inc.
Greeneville, Tennessee (Two Locations)	1,410,000			Printing and packaging of seasonal greeting cards and wrapping items and order filling and shipping for Plus Mark, Inc.
Toronto, Ontario Canada		87,000	2008	General office of Carlton Cards Limited (Canada)

Table of Contents

	Approximate Square Feet Occupied		Expiration Date of	
Location	Owned	Leased	Material Leases*	Principal Activity
Clayton, Australia	208,000			General offices of John Sands companies and manufacture of greeting cards and related products
Dewsbury, England (Two Locations)	394,000			General offices of Carlton Cards Limited (U.K.) and manufacture of greeting cards and related products
Croydon, Hull, Leicester and Oxford, England (Three Locations)	116,500	31,000	2007/2014	Manufacture and distribution of greeting cards and related products
Stafford Park, England (Two Locations)	219,000	29,000	2010	General offices and warehouse for Gibson Hanson Graphics Ltd.
Mexico City, Mexico	89,000			General offices of Carlton Mexico, S.A. de C.V. and distribution of greeting cards and related products

Item 3. Legal Proceedings

We are involved in certain legal proceedings arising in the ordinary course of business. We, however, do not believe that any of the 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. Submission of Matters to Vote of Security Holders

None

Executive Officers of the Registrant

The following table sets forth our executive officers, their ages as of April 30, 2006, and their positions and offices:

Name	Age	Current Position and Office
Morry Weiss	65	Chairman
Zev Weiss	39	Chief Executive Officer
Jeffrey Weiss	42	President and Chief Operating Officer
John S. N. Charlton	60	Senior Vice President, International
Michael L. Goulder	46	Senior Vice President, Executive Supply Chain Officer

Thomas H. Johnston	58	Senior Vice President, Creative and Merchandising; President, Carlton Cards Retail, Inc.
Catherine M. Kilbane	43	Senior Vice President, General Counsel and Secretary
William R. Mason	61	Senior Vice President, Wal-Mart Team
Michael J. Merriman, Jr.	49	Senior Vice President and Chief Financial Officer
Erwin Weiss	57	Senior Vice President, Specialty Business
Steven S. Willensky	51	Senior Vice President, Executive Sales and Marketing Officer
Joseph B. Cipollone	47	Vice President, Corporate Controller
Josef Mandelbaum	39	CEO AG Intellectual Properties
Brian T. McGrath	55	Vice President, Human Resources
Douglas W. Rommel	50	Vice President, Information Services
Stephen J. Smith	42	Vice President, Treasurer and Investor Relations

Table of Contents

Morry Weiss and Erwin Weiss are brothers. Jeffrey Weiss and Zev Weiss are the sons of Morry Weiss. The Board of Directors annually elects all executive officers; however, executive officers are subject to removal, with or without cause, at any time; provided, however, that the removal of an executive officer would be subject to the terms of their respective employment agreements, if any.

Morry Weiss joined American Greetings in 1961 and had various responsibilities with the Corporation including Group Vice President of Sales, Marketing and Creative. In June 1978, Mr. Morry Weiss was appointed President and Chief Operating Officer. From October 1987 until June 1, 2003, he was Chief Executive Officer of the Corporation. In February 1992, Mr. Morry Weiss became Chairman.

Zev Weiss was Regional Sales Director for the Corporation s Carlton Cards Retail, Inc. unit from July 1994 to May 1995; Regional Sales Manager for the Corporation s U.S. Greeting Card Division from May 1995 to May 1997; Executive Director of National Accounts for the Corporation s U.S. Greeting Card Division from May 1997 until March 2000; Vice President, Strategic Business Units from March 2000 until March 2001; Senior Vice President from March 2001 until December 2001; and Executive Vice President from December 2001 until June 2003 when he was named Chief Executive Officer.

Jeffrey Weiss was Vice President, Materials Management of the Corporation s U.S. Greeting Card Division from October 1996 until May 1997; Vice President, Product Management of the Corporation s U.S. Greeting Card Division from May 1997 until January 1998; Senior Vice President from January 1998 until March 2000; and Executive Vice President, North American Greeting Card Division of the Corporation from March 2000 until June 2003 when he was named President and Chief Operating Officer.

John S. N. Charlton was Managing Director of the Consumer Products Division of Pentland Group plc in the United Kingdom from 1988 until 1998, and Managing Director of UK Greetings Ltd. (a wholly-owned subsidiary of American Greetings which owns certain of our operating subsidiaries in the United Kingdom) from 1998 until becoming Senior Vice President, International in October 2000.

Michael L. Goulder was a Vice President in the management consulting firm of Booz Allen Hamilton from October 1998 until September 2002. He became a Senior Vice President of the Corporation in November 2002 and is currently the Senior Vice President, Executive Supply Chain Officer.

Thomas H. Johnston was Chairman, President and Chief Executive Officer of Sutton Place Gourmet, a Gourmet food retailer, from July 1995 until July 2000, where he remained as Chairman until February 2001. He was Managing Director of Gruppo, Levey & Co., an investment banking firm focused on the direct marketing and specialty retail industries, from November 2001 until May 2004, when he became Senior Vice President and President of Carlton Cards Retail. Mr. Johnston became Senior Vice President, Creative and Merchandising in December 2004.

Catherine M. Kilbane was a partner with the law firm of Baker & Hostetler LLP until becoming Senior Vice President, General Counsel and Secretary in October 2003.

William R. Mason was Senior Vice President, General Sales Manager from June 1991 until becoming Senior Vice President, Wal-Mart Team in September 2002.

Michael J. Merriman, Jr., has served as the Senior Vice President and Chief Financial Officer of American Greetings since September 2005. Prior to joining American Greetings, Mr. Merriman was a private investor since April 2004, the President and Chief Executive Officer of Royal Appliance Mfg. Co., a publicly-held manufacturer and marketer of Dirt Devil vacuum cleaners, from 1995 until April 2004 and was its Chief Financial Officer from 1992 to 1995. Prior to working with Royal Appliance, Mr. Merriman was a partner in the audit practice of Arthur Andersen & Co.

Erwin Weiss has held various positions with the Corporation since joining in 1977, including most recently as Senior Vice President, Consumer Products, from June 1999 to June 2001 and Senior Vice President, Program Realization from June 2001 until becoming Senior Vice President, Specialty Business in June 2003.

Table of Contents

Steven S. Willensky was President of Medex, a medical products subsidiary of The Furon Company, from 1997 to 2000, and President and Chief Executive Officer of Westec Interactive, a provider of interactive security and remote monitoring systems, from 2000 to 2002. He became Senior Vice President, Executive Sales and Marketing Officer of the Corporation in September 2002.

Joseph B. Cipollone was Director, Corporate Financial Planning of the Corporation from July 1994 until December 1997; and Executive Director, International Finance of the Corporation from December 1997 until becoming Vice President and Corporate Controller in April 2001.

Josef Mandelbaum has held various positions with the Corporation since joining in 1995 as Manager, Business Development, including most recently as the President and Chief Executive Officer of the Corporation s subsidiary, AG Interactive, Inc. from May 2000 until becoming CEO AG Intellectual Properties in February 2006, which consists of the Corporation s AG Interactive, outbound licensing, and inbound licensing businesses.

Brian T. McGrath joined the Corporation in 1989 as Director, Industrial Relations, and has served as the Vice President, Human Resources, since November 1998.

Douglas W. Rommel was Manager of Customer Support Services within the Information Services division until January 1996; Director of Applications Development within the Information Services division from January 1996 until July 2000; Executive Director of e-business within the Information Services division from July 2000 until becoming the Corporation s Vice President of Information Services in November 2001.

Stephen J. Smith was Treasurer and Officer from 1998 to 1999 and Vice President, Treasurer and Assistant Secretary in 1999 of Insilco Holding Company, an industrial holding company. He was Vice President and Treasurer of General Cable Corporation, a wire and cable company, from 1999 to 2002. He became Vice President, Treasurer and Investor Relations of the Corporation in April 2003.

Table of Contents

PART II

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

(a) *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, 2006 and 2005, were as follows:

	2006		2005	
	High	Low	High	Low
1st Quarter	$ 26.60	$ 22.31	$ 23.45	$ 19.09
2nd Quarter	27.16	24.31	24.18	20.87
3rd Quarter	28.02	23.82	28.16	23.98
4th Quarter	26.45	20.32	27.92	23.19

There is no public market for our Class B common shares. Pursuant to our Amended 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 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 such shares, on a share for share basis, into Class A common shares prior to any transfer.

National City Bank, Cleveland, Ohio, is our registrar and transfer agent.

Shareholders. At February 28, 2006, there were approximately 32,600 holders of Class A common shares and 150 holders of Class B common shares of record and individual participants in security position listings.

Dividends. The following table sets forth the dividends paid by us in 2006 and 2005.

Dividends per share declared in	2006	2005
1st Quarter	$ 0.08	$
2nd Quarter	0.08	
3rd Quarter	0.08	0.06
4th Quarter	0.08	0.06
Total	$ 0.32	$ 0.12

We did not pay cash dividends on our common shares during the first and second quarters of 2005. Although we expect to continue paying dividends, payment of future dividends will be determined by the Board of Directors in light of appropriate business conditions. In addition, our senior secured credit facility restricts our ability to pay shareholder dividends. Our credit facility also contains certain other restrictive covenants that are customary for similar credit arrangements, including 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, and limitations on liens, dispositions, issuance of debt, investments, repurchases of capital stock, acquisitions and transactions with affiliates. There are also financial covenants that require us to maintain a maximum leverage ratio (consolidated indebtedness minus unrestricted cash over consolidated 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 senior secured credit facility, see the discussion in Part II, Item 7, under the heading Liquidity and Capital Resources, and Notes 11 and 19 to the Consolidated Financial Statements included in Part II, Item 8.

Table of Contents

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 on Form 10-K.

(b) Not Applicable.

(c) The following table provides information with respect to our purchases of our common shares made during the three months ended February 28, 2006.

Period		Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans
December 2005	Class A	1,305,000	$ 23.21(2)	1,305,000(3)	$ 20,650,186
	Class B	1,612(1)	25.03		
January 2006	Class A	947,448	$ 21.80(2)	947,448(3)	$
	Class B	(1)			
February 2006	Class A	2,050,000	$ 20.87(2)	2,050,000(3)	$ 157,221,080
	Class B	2,511(1)	20.54		
Total	Class A	4,302,448		4,302,448(3)	
	Class B	4,123(1)			

(1) There is no public market for our Class B common shares. Pursuant to our Amended Articles of Incorporation, all of the Class B common shares were repurchased by American Greetings for cash pursuant to its right of first refusal.

(2) Excludes commissions paid, if any, related to the share repurchase transactions.

(3) On April 5, 2005, American Greetings announced that its Board of Directors authorized a program to repurchase up to $200 million of its Class A common shares over a 12-month period, which was scheduled to expire in April 2006. On February 1, 2006, American Greetings announced that it completed this initial $200 million repurchase program, purchasing approximately 8.2 million Class A common shares for $200 million during the fiscal year. Also on February 1, 2006, American Greetings announced that its Board of Directors authorized a second program to repurchase up to an additional $200 million of its Class A common shares. There is no set expiration date for this second repurchase program, and repurchases are made through a 10b5-1 program in open market or privately negotiated transactions which are intended to be in compliance with the SEC s Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The amounts purchased in December 2005 and January 2006 were purchased under the initial repurchase program and the amounts purchased in February 2006 were purchased under the second repurchase program.

17

Table of Contents

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

	2006	2005	2004	2003	2002
Summary of Operations					
Net sales	$ 1,885,701	$ 1,883,367	$ 1,937,540	$ 1,923,483	$ 1,857,134
Gross profit	1,035,543	988,257	1,032,988	1,076,100	955,033
Goodwill impairment	43,153				
Restructure and other charges					55,819
Interest expense	35,124	79,397	85,690	78,972	78,433
Income (loss) from continuing operations	90,125	69,497	96,659	111,834	(126,156)
(Loss) income from discontinued operations, net of tax	(5,749)	25,782	8,011	9,272	3,846
Net income (loss)	84,376	95,279	104,670	121,106	(122,310)
Earnings (loss) per share:					
Income (loss) from continuing operations	1.37	1.01	1.45	1.71	(1.98)
(Loss) income from discontinued operations, net of tax	(0.09)	0.38	0.12	0.14	0.06
Earnings (loss) per share	1.28	1.39	1.57	1.85	(1.92)
Earnings (loss) per share assuming dilution	1.16	1.25	1.40	1.63	(1.92)
Cash dividends declared per share	0.32	0.12			0.20
Fiscal year end market price per share	20.98	24.63	22.67	13.12	13.77
Average number of shares outstanding	65,965,024	68,545,432	66,509,332	65,636,621	63,615,193
Financial Position					
Accounts receivable net	$ 142,087	$ 182,084	$ 225,987	$ 281,995	$ 266,408
Inventories	217,318	218,711	234,836	267,674	278,415
Working capital	578,102	804,234	782,181	564,030	379,233
Total assets	2,218,962	2,524,207	2,475,535	2,574,147	2,607,215
Property, plant and equipment additions	46,188	47,243	31,541	27,484	22,295
Long-term debt	300,516	486,087	665,835	726,451	853,010
Shareholders equity	1,220,025	1,386,780	1,267,540	1,077,464	902,419
Shareholders equity per share	20.22	20.09	18.79	16.35	14.15
Net return on average shareholders equity from continuing operations	6.9%	5.2%	8.2%	11.3%	(12.9)%

18

Table of Contents

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. 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.

OVERVIEW

Founded in 1906, we are the world s largest publicly owned creator, manufacturer and distributor of social expression products. Headquartered in Cleveland, Ohio, we employ approximately 19,200 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, Carlton Cards and Gibson and other domestic products include DesignWare party goods, GuildHouse candles, Plus Mark gift-wrap and boxed cards, DateWorks calendars, Learning Horizons educational products and AGI Schutz display fixtures. We also create and license our intellectual properties such as the Care Bear and Strawberry Shortcake characters. The Internet and wireless business unit, AG Interactive, is a leading provider of electronic greetings, ringtones for cellular telephones and other content for the digital marketplace. As of February 28, 2006, the Retail Operations segment owned and operated 503 card and gift shops throughout North America.

Our international operations include wholly owned subsidiaries in the United Kingdom (U.K.), Canada, Australia, New Zealand, Mexico and South Africa, as well as licensees in approximately 50 other countries.

Our business exhibits seasonality, which is typical for most companies in the retail industry. Sales are higher in the second half of the year due to the concentration of major holidays during that period. Net earnings are highest during the months of September through December when sales volumes provide significant operating leverage. Working capital requirements needed to finance operations fluctuate during the year and reach their highest levels during the second and third fiscal quarters as inventory is increased in preparation for the peak selling season.

We recognized net income of $84.4 million in 2006 compared to $95.3 million in 2005. Included in the results this year is the net loss from discontinued operations of $5.7 million resulting primarily from the planned divestiture of our South African business. The prior year results included income from discontinued operations of $25.8 million primarily from our divestiture of the Magnivision reading glasses subsidiary in October 2004.

Cash flow generation remained strong and we ended the year with a combined balance of cash, cash equivalents and short-term investments of $422.4 million.

During the year, and in our planning for next year, we continue to focus on two key operational and financial strategies. Our operational strategy of investing in growth is focused on strengthening our core greeting card business. This strategy targets improved card product and the merchandising of that product to enrich our consumers shopping experience. This represents the next step in the process we have been following the past few years as we worked to stabilize the infrastructure of the business, reduce costs, modify business processes relative to product development, sourcing and delivery systems and become a consumer driven organization.

In executing this next step, we have committed approximately $75 million to converting customers to scan-based trading, refreshing product at retail, implementing new delivery systems and improving the merchandising of our product, including new and enhanced display fixtures. These expenditures, which we expect to be weighted toward the second half of the year, will significantly reduce our operating earnings during fiscal 2007.

Table of Contents

Our financial strategy focuses on optimizing our capital structure, which includes investing in our own stock as we continue to believe that our shares are trading at a discount to their intrinsic value and refinancing our debt. During 2006, we completed the $200 million stock repurchase program announced in April 2005 and initiated another $200 million stock repurchase program in February. For the year, we repurchased approximately 10.3 million shares of our Class A common stock for approximately $243 million.

On April 6, 2006, we announced our plan to significantly change our debt structure. We expect that these changes, along with our continued strong cash generation, will permit us to simultaneously execute these strategies. Refer to Note 19 to the Consolidated Financial Statements for additional information related to the debt refinancing plan.

During 2006, we continued the implementation of the 2005 initiatives, including the implementation of a new merchandising strategy for seasonal space management, an overhead reduction program and the closure of the Franklin, Tennessee manufacturing facility. The operational benefits and cost savings from these initiatives favorably impacted 2006 results and we anticipate will provide an even greater impact in the future. Continuing our commitment to improve efficiency and cost reduction, in 2006, we announced the planned closure of the Lafayette, Tennessee facility and made additional reductions to overhead at a total cost of approximately $4 million.

In reporting our 2005 results, we noted that due to declining results and cash flows during the past two years, the fair value of the Retail Operations segment and our Australian business, determined for the purpose of testing goodwill for impairment, had declined and as a result we established performance metrics to monitor these businesses for potential indicators of impairment. During the third quarter of 2006, indicators emerged within these businesses that led us to conclude that an interim goodwill impairment test was required. As a result of this testing, we recorded an impairment charge to write-off the goodwill of these business units, totaling $43.2 million. Refer to Note 9 to the Consolidated Financial Statements for additional information related to the impairment charge.

Net sales for 2006 were flat compared to the prior year, however the 2005 amounts included the impact of converting a major customer to scan-based trading and the implementation of a new strategy for seasonal space management, which reduced net sales by approximately $32 million and $13 million, respectively. Net sales in the International Social Expression Products segment, primarily in the U.K., the Retail Operations segment and the fixtures business were down, while net sales in the AG Interactive segment improved.

For 2006, AG Interactive changed its fiscal year-end from December 31 to February 28. Due to this change, our results in 2006 included fourteen months of activity for AG Interactive, which added approximately $11 million to net sales for the year with no impact on net income. In addition, we purchased the remaining outstanding minority interests in AG Interactive during the year and now own 100% of this subsidiary.

Table of Contents

RESULTS OF OPERATIONS

Comparison of the years ended February 28, 2006 and 2005

In 2006, net income was $84.4 million, or $1.16 per diluted share, compared to net income of $95.3 million, or $1.25 per diluted share, in 2005.

Our results for 2006 and 2005 are summarized below:

(Dollars in thousands)	2006	% Net Sales	2005	% Net Sales
Net sales	$ 1,885,701	100.0%	$ 1,883,367	100.0%
Material, labor and other production costs	850,158	45.1%	895,110	47.5%
Selling, distribution and marketing	637,496	33.8%	648,120	34.4%
Administrative and general	245,608	13.0%	249,984	13.3%
Goodwill impairment	43,153	2.3%		0.0%
Interest expense	35,124	1.8%	79,397	4.2%
Other income net	(64,773)	(3.4%)	(96,069)	(5.1%)
Total costs and expenses	1,746,766	92.6%	1,776,542	94.3%
Income from continuing operations before income tax expense	138,935	7.4%	106,825	5.7%
Income tax expense	48,810	2.6%	37,328	2.0%
Income from continuing operations	90,125	4.8%	69,497	3.7%
(Loss) income from discontinued operations, net of tax	(5,749)	(0.3%)	25,782	1.4%
Net income	$ 84,376	4.5%	$ 95,279	5.1%

Net Sales Overview

Consolidated net sales in 2006 were $1.89 billion, an increase of $2.3 million from the prior year. However, the scan-based trading buyback as well as the returns costs for the revised merchandising strategy reduced prior year net sales by $45 million. Including the impact of these prior year items, consolidated net sales decreased approximately $43 million in 2006 from 2005. This decrease was primarily the result of lower sales in the Retail Operations segment, North American Social Expression Products segment, International Social Expression Products segment and the fixtures business.

The Retail Operations segment decreased approximately $31 million, which is attributable to a decrease in same-store sales and fewer stores. The North American Social Expression Products segment, considering the $45 million prior year net sales reduction, decreased approximately $22 million due to significantly lower sales of promotional gift-wrap and calendars, partially offset by strengthening in the greeting card business. The fixtures business decreased approximately $14 million as this business unit has focused on eliminating lower margin sales. The International Social Expression Products segment decreased approximately $14 million, primarily due to continued weak economic conditions in the U.K. These decreases are partially offset by increased net sales in the AG Interactive segment of approximately $32 million as well as approximately $5 million of favorable foreign currency translation. The increases in the AG Interactive segment are primarily attributable to sales from the additional two months of activity resulting from the fiscal year change, the 2005 mid-year acquisitions and a growing subscription revenue base.

Table of Contents

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

	2006	2005
Everyday greeting cards	38%	36%
Seasonal greeting cards	21%	20%
Gift-wrap and wrap accessories	16%	17%
All other products*	25%	27%

* The all other products classification includes giftware, party goods, candles, balloons, calendars, custom display fixtures, educational products, stickers, online greeting cards and other digital products.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2006 and 2005 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2006	2005	2006	2005	2006	2005
Unit volume	(0.2%)	(5.5%)	(4.8%)	4.7%	(1.6%)	(2.6%)
Selling prices	0.9%	(0.6%)	5.2%	(3.7%)	2.2%	(1.4%)
Overall increase / (decrease)	0.7%	(6.0%)	0.2%	0.7%	0.5%	(3.9%)

During 2006, combined everyday and seasonal greeting card sales less returns increased 0.5% compared to 2005. However, the prior year included reductions associated with the implementation of scan-based trading at a major customer and the execution of a revised merchandising strategy for seasonal space management. Exclusive of these prior year events, combined everyday and seasonal greeting card sales less returns decreased 2.2% in 2006 compared to 2005, including an overall decrease in unit volume of approximately 4.1%.

The reduction in seasonal card unit volume was the result of year over year decreases in all major seasonal programs with the exception of Father s Day. The 5.2% increase in average selling price of seasonal cards was due to improved product mix of Mother s Day, Christmas and Valentine s Day cards, driven primarily by a lower volume of value priced cards and a richer mix within the non-value line of cards.

Everyday cards unit volume was lower due to the soft economic conditions in the international greeting card businesses, particularly in the U.K., while everyday unit volume was relatively flat in the North American businesses. Consistent with the trend seen throughout the year, selling prices improved compared to the prior year. This price improvement was due primarily to our international business operations as the mix of cards sold shifted to higher priced cards. Partially offsetting the gains were lower selling prices in North America with a shift in mix to a higher volume of value priced cards.

Expense Overview

Material, labor and other production costs (MLOPC) for 2006 were $850.2 million, a decrease from $895.1 million in 2005. As a percentage of sales, these costs were 45.1% in 2006 compared to 47.5% in 2005. Almost the entire change, as a percentage of sales, is the result of the prior year impact of the scan-based trading buyback and the implementation of a new merchandising strategy for seasonal space management. The decrease in dollars of $44.9 million is due partially to the severance and closure costs recorded in 2005 for an overhead reduction program and the Franklin, Tennessee plant closure ($15 million). The remaining decrease is attributable to favorable volume variances due to the change in sales volume ($17 million) and favorable mix ($36 million). Improved margins due to less promotional pricing in the Retail Operations segment and production improvements in our fixtures business both favorably impacted MLOPC. These improvements were only partially offset by unfavorable spending ($23 million). These spending increases included higher creative content costs ($6 million) and increased costs for AG Interactive primarily related to the additional two months of activity and the 2005 mid-year acquisitions ($4 million). The current year period also included severance charges for the planned Lafayette plant closure ($2 million) and shutdown and relocation costs for the Franklin plant closure ($5 million).

Selling, distribution and marketing expenses were $637.5 million in 2006, decreasing from $648.1 million in the prior year. As a percentage of sales, these costs were 33.8% in 2006 compared to 34.4% for 2005. The decrease of $10.6 million is due primarily to reduced store expenses in the Retail Operations segment due to fewer stores and the prior year correction in the accounting treatment for certain operating leases ($18 million), 2005 severance costs ($6 million) and reduced licensing related expenses attributable to lower royalty revenue ($5 million) partially offset by increased costs in the AG Interactive segment primarily as a result of the additional two months of activity and the 2005 mid-year acquisitions ($14 million) and fixed asset impairment charges in the Retail Operations segment ($4 million).

Administrative and general expenses were $245.6 million in 2006, compared to $250.0 million in 2005. The $4.4 million decrease in expense in 2006 is due primarily to 2005 severance and plant closure costs ($9 million) partially offset by higher information technology related expenses ($2 million), domestic profit-sharing expense ($1 million) and employee development expenses ($1 million).

A goodwill impairment charge of $43.2 million was recorded in the current year as indicators emerged during the period that led us to conclude that an impairment test was required prior to the annual test. As a result, impairment was recorded in one reporting unit in the International Social Expression Products segment, located in Australia ($25 million), and in our Retail Operations segment ($18 million). These amounts represent all of the goodwill of these reporting units.

Interest expense was $35.1 million in 2006, compared to $79.4 million in 2005. The decrease of $44.3 million in interest expense is due primarily to the debt repurchase in 2005. The 2005 interest expense included the payment of the premium and other fees and the write-off of deferred financing costs associated with the notes repurchased ($39 million). Interest savings ($5 million) was realized due to our reduced level of debt.

Other income net was $64.8 million in 2006 compared to $96.1 million in 2005. The decrease of $31.3 million from 2005 was due in part to the one-time receipt related to our licensing activities ($10 million) and the gain on the sale of an investment ($3 million) both in 2005. In addition, our royalty revenue decreased in 2006 compared to 2005 ($11 million) and we had additional losses on fixed asset disposals ($3 million).

The effective tax rates for 2006 and 2005 were 35.1% and 34.9%, respectively. These rates reflect the United States statutory rate of 35% combined with the additional net impact of the various foreign, state and local income tax rates. See Note 17 to the Consolidated Financial Statements for causes of the differences between tax expense at the federal statutory rate and actual tax expense.

Income from discontinued operations for 2006 included losses from the South African business unit ($8 million) partially offset by a tax benefit from the Magnivision sale ($2 million). The losses from the South African business unit included a goodwill impairment charge ($2 million) and a long-lived asset impairment charge ($6 million). The charges and impairments were primarily recorded as a result of the intention to sell the business, and therefore, present the operation at its fair value.

Segment Results

During the fourth quarter of 2006, we adjusted our segment reporting to reflect changes in how our operations are managed, viewed and evaluated. The most significant change was the disaggregation of the former Social Expression Products segment into the North American Social Expression Products and the International Social Expression Products segments. Prior periods have been reclassified to conform to the new segment disclosures. We

Table of Contents

review segment results using consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. For additional segment information, see Note 16 to the Consolidated Financial Statements.

North American Social Expression Products Segment

(Dollars in thousands)	2006	2005	% Change
Net sales	$ 1,262,273	$ 1,239,857	1.8%
Segment earnings	253,666	190,966	32.8%

In 2006, net sales of the North American Social Expression Products segment, excluding the impact of foreign exchange and intersegment items, increased $22.4 million, or 1.8%, from 2005. However, the scan-based trading buyback, as well as the returns costs for the revised merchandising strategy reduced prior year net sales by $45 million. Including the impact of these prior year items, net sales decreased approximately $22 million in 2006 from 2005. This decrease was due to significantly lower sales of promotional gift-wrap and calendars, partially offset by improvement in the greeting card business due to improved pricing of cards.

Segment earnings, excluding the impact of foreign exchange and intersegment items, increased $62.7 million, or 32.8%, in 2006 compared to the prior year. This increase is due to the prior year charges for the scan-based trading buyback ($30 million), the implementation of the new merchandising strategy ($13 million), severance costs ($15 million) and plant closure costs ($11 million) partially offset by current year charges for severance ($3 million) and plant closure costs ($5 million).

International Social Expression Products Segment

(Dollars in thousands)	2006	2005	% Change
Net sales	$ 276,405	$ 289,957	(4.7%)
Segment earnings	(11,189)	44,923	(124.9%)

Net sales of the International Social Expression Products segment, excluding the impact of foreign exchange, decreased $13.6 million, or 4.7%, in 2006 compared to 2005. This decrease was due to weak economic conditions, particularly in the U.K., which drove down sales in most product categories. This decrease was partially offset by the impact of the acquisition of Collage Designs Limited (Collage) in the fourth quarter of 2005, which added approximately $12 million to net sales in 2006.

Segment earnings, excluding the impact of foreign exchange, decreased $56.1 million compared to 2005. This decrease is due to the goodwill impairment charge in the Australian reporting unit, higher inventory costs due to slower turn rates, higher creative content costs, increased product development costs and implementation costs for new customers partially offset by the earnings contributed by Collage.

Retail Operations Segment

(Dollars in thousands)	2006	2005	% Change
Net sales	$ 206,765	$ 238,159	(13.2%)
Segment loss	(33,220)	(20,685)	(60.6%)

The Retail Operations segment exhibits considerable seasonality, which is typical for most retail store operations. A significant amount of the net sales and segment earnings occur during the fourth quarter in conjunction with the major holiday season.

Net sales in our Retail Operations segment, excluding the impact of foreign exchange, decreased $31.4 million, or 13.2%, year over year. Net sales at stores open one year or more were down approximately 5.9% in 2006 from 2005 and the average number of stores decreased 9.2% compared to the prior year. The decline in same-store sales was driven primarily by a 7% decrease in the average number of transactions per store.

Table of Contents

Segment loss, excluding the impact of foreign exchange, was $33.2 million in 2006 compared to $20.7 million in 2005. The current year loss included the goodwill impairment ($18 million) and fixed asset impairments ($4 million). Also, 2006 was unfavorably impacted by certain noncapitalizable implementation costs associated with a systems infrastructure upgrade. The impact of lower sales on segment results was softened due to less promotional activity and favorable product mix that improved gross margins by approximately 5.2 percentage points. Segment results benefited from lower store rent and associate costs due to fewer stores. In 2005, segment results included a charge for the correction in the accounting treatment for certain operating leases ($5 million).

AG Interactive Segment

(Dollars in thousands)	2006	2005	% Change
Net sales	$ 89,616	$ 57,740	55.2%
Segment earnings (loss)	4,237	(1,022)	N/A

For 2006, AG Interactive changed its fiscal year-end from December 31 to February 28. As a result, 2006 included fourteen months of AG Interactive s operations.

Net sales, excluding the impact of foreign exchange, increased $31.9 million, or 55.2%, in 2006 over 2005. This substantial increase is the result of the additional two months of activity ($11 million), the 2005 mid-year business acquisitions of MIDIRingTones, LLC and K-Mobile S.A. ($11 million) and growth in our subscription revenue base ($7 million). At the end of 2006, AG Interactive had approximately 2.6 million paid subscribers versus 2.2 million in 2005.

Segment earnings, excluding the impact of foreign exchange, was $4.2 million in 2006 compared to a loss of $1.0 million in 2005. This increase is primarily the result of contribution by the online product group ($9 million) partially offset by acquisition costs, higher technology costs and the costs of new business initiatives ($4 million). The additional two months of activity had no significant impact on segment earnings.

Unallocated Items

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items included interest expense of $35.1 million and $79.4 million in 2006 and 2005, respectively, for centrally incurred debt and domestic profit-sharing expense of $12.4 million and $11.3 million in 2006 and 2005, respectively. In addition, unallocated items included costs associated with corporate operations including the senior management staff, corporate finance, legal and human resource functions, as well as insurance programs and other strategic costs. These costs totaled $53.4 million and $49.3 million in 2006 and 2005, respectively.

Table of Contents

Comparison of the years ended February 28, 2005 and February 29, 2004

Net income was $95.3 million, or $1.25 per diluted share, in 2005 compared to net income of $104.7 million, or $1.40 per diluted share, in 2004.

Our results for 2005 and 2004 are summarized below:

(Dollars in thousands)	**2005**	**% Net Sales**	**2004**	**% Net Sales**
Net sales	$ 1,883,367	100.0%	$ 1,937,540	100.0%
Material, labor and other production costs	895,110	47.5%	904,552	46.7%
Selling, distribution and marketing	648,120	34.4%	629,663	32.5%
Administrative and general	249,984	13.3%	217,381	11.2%
Interest expense	79,397	4.2%	85,690	4.4%
Other income net	(96,069)	(5.1%)	(58,267)	(3.0%)
Total costs and expenses	1,776,542	94.3%	1,779,019	91.8%
Income from continuing operations before income tax expense	106,825	5.7%	158,521	8.2%
Income tax expense	37,328	2.0%	61,862	3.2%
Income from continuing operations	69,497	3.7%	96,659	5.0%
Income from discontinued operations, net of tax	25,782	1.4%	8,011	0.4%
Net income	$ 95,279	5.1%	$ 104,670	5.4%

Net Sales Overview

Consolidated net sales in 2005 were $1.88 billion, a decrease of $54.2 million from the prior year. This decrease includes $45 million of sales reductions associated with the scan-based trading buyback ($32 million) which occurred in the fourth quarter, as well as returns costs for a revised merchandising strategy ($13 million) implemented in the third quarter. The remaining decrease is primarily the result of reduced sales in our Retail Operations segment ($35 million) approximately half of which is the result of reduced store count and half from declining same-store sales, combined with reduced third party sales ($22 million) in our display fixtures business, partially offset by favorable foreign currency translation ($35 million) and additional revenues from two acquisitions completed mid-year by AG Interactive ($16 million).

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

	2005	**2004**
Everyday greeting cards	36%	38%
Seasonal greeting cards	20%	19%
Gift-wrap and wrap accessories	17%	17%
All other products*	27%	26%

* The all other products classification includes giftware, party goods, candles, balloons, calendars, custom display fixtures, educational products, stickers, online greeting cards and other digital products.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2005 and 2004 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2005	2004	2005	2004	2005	2004
Unit volume	(5.5%)	2.2%	4.7%	(0.6%)	(2.6%)	1.4%
Selling prices	(0.6%)	(1.1%)	(3.7%)	(3.5%)	(1.4%)	(1.9%)
Overall increase / (decrease)	(6.0%)	1.1%	0.7%	(4.1%)	(3.9%)	(0.5%)

During 2005, combined everyday and seasonal greeting card sales less returns fell 3.9% compared to 2004. The shortfall was heavily skewed toward everyday cards where the impact of the scan-based trading buyback and revised merchandising strategy drove net unit volume down 3.9%. The remaining everyday card business was down 2.1% to prior year. The entire decrease in average selling prices for everyday is the result of a shift in product mix driven by accelerated growth of the value card market.

Seasonal card sales less returns improved 0.7% over 2004 levels reflecting some success in our seasonal marketing initiatives. A combination of specific caption refinements by holiday and a broader offering of value priced products resulted in a strong unit volume increase of 4.7%. In addition, average return rates fell 0.6% driving additional benefits throughout the supply chain. The reduction in average selling price of 3.7% is entirely the result of expansion of value cards in the overall mix.

Expense Overview

Material, labor and other production costs for 2005 were 47.5% of net sales, an increase from 46.7% in 2004. Virtually the entire change, as a percentage of sales, is the result of the impact of the scan-based trading buyback and the implementation of a new merchandising strategy for seasonal space management. The decrease in dollars from the prior year was primarily the result of reduced spending due to successful supply chain initiatives ($22 million) and overlapping prior year inventory costs ($13 million), partially offset by increased costs related primarily to a plant closure ($13 million), higher product content costs ($12 million) and incremental costs due to acquisitions ($5 million).

Selling, distribution and marketing expenses were 34.4% of net sales for 2005 compared to 32.5% in 2004, a 1.9 percentage point increase. Spending increases consisted of agency fees for licensing ($10 million), incremental costs due to acquisitions ($14 million), correction for operating lease accounting in our Retail Operations segment ($5 million) and severance charges ($6 million), partially offset by savings resulting from supply chain initiatives ($6 million) and reduced store operating expenses in our Retail Operations segment ($9 million) as a result of fewer store locations.

Administrative and general expenses were $250.0 million in 2005, compared to $217.4 million in 2004. The $32.6 million increase in expense in 2005 is due primarily to increased employee-related costs ($20 million), severance charges ($9 million) and increased spending on systems development ($5 million).

Interest expense was $79.4 million in 2005, compared to $85.7 million in 2004. Interest expense over the two year period was impacted by interest savings from the extinguishment of our $118.0 million term loan in the first quarter of 2004 and the repurchase of $63.6 million and $186.2 million of our 11.75% senior subordinated notes during the third quarter of 2004 and first quarter of 2005, respectively. The current year expense included the payment of the premium and other fees and the write-off of deferred financing fees ($39 million) associated with the notes repurchased. The prior year expense included the write-off of deferred financing fees and a premium payment ($18 million) associated with the term loan extinguishment and notes repurchased.

Other income net was $96.1 million in 2005 compared to $58.3 million in 2004. The 2005 results were due to increased revenue from licensing royalties of Care Bear and Strawberry Shortcake products ($19 million), a one-time receipt related to our licensing activities ($10 million), increased interest income ($2 million) and a gain on the sale of an investment ($3 million).

The effective tax rates for 2005 and 2004 were 34.9% and 39.0%, respectively. These rates reflect the United States statutory rate of 35% combined with the additional net impact of the various foreign, state and local income tax rates. In 2005, the reduction in the effective tax rate is primarily the result of the favorable benefits associated with recent tax law changes, which allowed us to reduce valuation allowances against certain deferred tax assets. See Note 17 to the Consolidated Financial Statements for causes of the differences between tax expense at the federal statutory rate and actual tax expense.

Table of Contents

Segment Results

We review segment results using consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. During the fourth quarter of 2006, we adjusted our segment reporting. Prior periods have been reclassified to conform to the new segment disclosures. For additional segment information, see Note 16 to the Consolidated Financial Statements.

North American Social Expression Products Segment

(Dollars in thousands)	2005	2004	% Change
Net sales	$ 1,239,857	$ 1,302,210	(4.8%)
Segment earnings	190,966	252,244	(24.3%)

In 2005, net sales of the North American Social Expression Products segment, excluding the impact of foreign exchange and intersegment items, decreased $62.4 million, or 4.8%, from 2004. This decrease includes $45 million of sales reductions associated with the scan-based trading buyback at a major customer account ($32 million) which occurred in the fourth quarter, as well as returns costs for a revised merchandising strategy ($13 million) implemented in the third quarter. The remaining decrease was primarily due to reduced sales of everyday cards.

Segment earnings, excluding the impact of foreign exchange and intersegment items, decreased $61.3 million, or 24.3%, in 2005 compared to the prior year. This decrease is due to the scan-based trading buyback ($30 million), implementation of the new merchandising strategy ($13 million), severance costs ($15 million) and plant closure costs ($11 million), partially offset by lower field service costs related to the prior year integration of a new major customer ($9 million).

International Social Expression Products Segment

(Dollars in thousands)	2005	2004	% Change
Net sales	$ 289,957	$ 287,458	0.9%
Segment earnings	44,923	50,814	(11.6%)

In 2005, net sales of the International Social Expression Products segment, excluding the impact of foreign exchange, increased $2.5 million, or 0.9%, from 2004. This increase was driven primarily by improved mix, with a higher volume of higher priced cards.

Segment earnings, excluding the impact of foreign exchange, decreased $5.9 million, or 11.6%, from 2004. This decrease is attributable to higher merchandiser and distribution costs in the U.K.

Retail Operations Segment

(Dollars in thousands)	2005	2004	% Change
Net sales	$ 238,159	$ 272,917	(12.7%)
Segment (loss) earnings	(20,685)	4,269	(584.5%)

The Retail Operations segment exhibits considerable seasonality, which is typical for most retail store operations. A significant amount of the net sales and segment earnings occur during the fourth quarter in conjunction with the major holiday season.

Net sales, excluding the impact of foreign exchange, in the Retail Operations segment decreased $34.8 million, or 12.7%, in 2005 from 2004, as sales of both everyday and seasonal cards were lower. Net sales at

Table of Contents

stores open one year or more were down approximately 7.3% in 2005 from 2004 and the average number of stores decreased 5.7% compared to the prior year. The average number of transactions per store was down from the prior year by approximately 6%, in part a reflection of continued reduced overall consumer traffic in retail shopping malls.

Segment earnings, excluding the impact of foreign exchange, decreased $25.0 million in 2005 from the prior year. This decrease was due to lower net sales and a $4.9 million charge for a correction in the accounting treatment for certain operating leases. For the year, markdowns to reduce inventory levels were, as a percentage of sales, 3.3 percentage points higher than in the prior year.

During 2005, we undertook a major initiative to address the disappointing performance in our retail operations. With new divisional management in place, we executed initiatives to revise merchandising strategies, close marginally performing stores and invest in point-of-sale infrastructure upgrades.

AG Interactive Segment

(Dollars in thousands)	2005	2004	% Change
Net sales	$ 57,740	$ 36,427	58.5%
Segment (loss) earnings	(1,022)	4,540	(122.5%)

Net sales, excluding the impact of foreign exchange, in the AG Interactive segment increased $21.3 million, or 58.5%, in 2005 over 2004. This substantial increase is the result of the mid-year business acquisitions of MIDIRingTones, LLC and K-Mobile S.A. ($16 million) and increased subscription revenue ($5 million). At the end of 2005, AG Interactive had approximately 2.2 million paid subscribers versus 2.1 million in 2004.

Segment earnings, excluding the impact of foreign exchange, of $4.5 million in 2004 decreased to a loss of $1.0 million in 2005. This decrease is primarily the result of acquisition costs, new business integration costs, higher technology costs and the cost of new business initiatives, which more than offset the benefits from increased sales.

Unallocated Items

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items included interest expense of $79.4 million and $85.7 million in 2005 and 2004, respectively, for centrally incurred debt and domestic profit-sharing expense of $11.3 million and $7.1 million in 2005 and 2004, respectively. In addition, unallocated items included costs associated with corporate operations including the senior management staff, corporate finance, legal and human resource functions, as well as insurance programs and other strategic costs. These costs totaled $49.3 million and $67.2 million in 2005 and 2004, respectively.

Liquidity and Capital Resources

Cash flow generation remained strong in 2006 and we ended the year with a combined balance of cash, cash equivalents and short-term investments of $422.4 million. In the past two years, we have reduced our debt by approximately $191 million, improving our debt to total capital ratio from 34.4% in 2004 to 28.0% in 2006.

Operating Activities

During the year, cash flow from operating activities provided cash of $277.4 million compared to $366.2 million in 2005, a decrease of $88.8 million. This decrease was primarily the result of a lower decrease in net deferred costs of approximately $46 million and the decrease in accounts payable and other liabilities of approximately $33 million, compared to an increase of approximately $29 million in 2005. Cash flow from operating activities for 2005 compared to 2004 resulted in an improvement of $82.0 million from $284.2 million in 2004. The overall increase reflects an approximately $73 million larger reduction of net deferred costs in 2005 compared to 2004.

Accounts receivable, net of the effect of acquisitions, provided a source of cash of $33.4 million in 2006, compared to $55.7 million in 2005 and $75.3 million in 2004. The decrease of $22.3 million in 2006 from the 2005 level is due to the impact of the conversion of a large customer to scan-based trading in 2005. The decrease of $19.6 million in 2005 over 2004 relates to the strong collections during 2004, partially offset by the impact of converting a large customer to scan-based trading in 2005.

Inventories, net of the effect of acquisitions, were a use of cash of $0.2 million in 2006 compared to sources of cash of $23.2 million in 2005 and $42.0 million in 2004. The increase in inventory in 2006 from 2005 was primarily due to higher inventory levels in the Retail Operations segment and decreased inventory turns in the International Social Expression Products segment. The decrease in inventory during 2005 was primarily related to lower inventory levels in the Retail Operations segment, due to fewer store locations and efforts to reduce average in-store inventory levels, and the display fixtures business primarily due to reduced levels of sales.

Other current assets, net of the effect of acquisitions, were a use of cash of $13.5 million in 2006 and $15.6 million in 2005, compared to a source of $11.0 million in 2004. The decrease of $2.1 million in 2006 relates primarily to the increase in refundable income taxes. The 2005 decrease in cash flow is the result of an increase in refundable taxes, related to estimated tax payments made in that year.

Deferred costs net represents payments under agreements with retailers net of the related amortization of those payments. During 2006, 2005 and 2004, amortization exceeded payments by $61.3 million, $107.3 million and $34.6 million, respectively. These results reflect the success of our modified contract management strategies. None of our major customer agreements are set to expire in fiscal 2007.

Accounts payable and other liabilities, net of the effect of acquisitions, were a use of cash of $33.2 million in 2006, a source of cash of $28.6 million in 2005 and a use of cash of $111.3 million in 2004. The decrease in accounts payable and other liabilities in 2006 was primarily due to a reduction in severance accruals and income taxes payable. The increase in the liability balances in 2005 was primarily due to higher trade payables, severance accruals and higher profit-sharing and executive compensation liabilities. The decrease in 2004 was due to reduced trade payables, continued reduction of acquisition liabilities and lower severance, profit-sharing and executive compensation liabilities.

Investing Activities

Cash used in investing activities was $61.2 million during 2006, compared to $196.4 million in 2005 and $32.1 million in 2004. The current year usage included $15.3 million related to the acquisition of Collage and the buyout of the remaining portion of the minority interest of AG Interactive. Inflows in the current year included $11.4 million proceeds from the sale of fixed assets.

Capital expenditures totaled $46.2 million, $47.2 million and $31.5 million in 2006, 2005 and 2004, respectively. We expect 2007 capital expenditures to increase approximately $15 million to $20 million over the 2006 level.

Cash inflows in 2005 included $77.0 million of proceeds from the sale of Magnivision, $19.1 million of proceeds from the sale of an equity investment and $5.8 million proceeds from the sale of fixed assets.

Cash inflows in 2004 included the wind-down of our corporate-owned life insurance program, which generated cash inflows of $6.8 million.

Financing Activities

Financing activities used $249.5 million of cash in 2006. This amount relates primarily to our two programs to repurchase Class A common shares. On April 5, 2005, we announced our intention to repurchase up to $200 million of our Class A common shares through a 10b5-1 program. This program was completed in January 2006. In February 2006, we announced our intention to repurchase an additional $200 million of our Class A common shares. In total under both programs, we paid $243.1 million to repurchase 10.3 million Class A common shares during the year. In addition, we paid $1.5 million to repurchase Class B common shares primarily related to options that were exercised, which shares were repurchased by us in accordance with our Amended Articles of Incorporation. We also received $27.1 million upon the exercise of stock options during the year. During 2006, we paid dividends totaling $21.2 million.

In 2005, we used $208.6 million for financing activities including $216.4 million related to the repurchase of a portion of our 11.75% senior subordinated notes in the first quarter. In addition, stock activity provided and used a significant amount of cash during the year. There was a high amount of employee option exercises due to a tranche of options nearing their expiration date. Our receipt of the exercise price on these options provided approximately $40 million during the year. In addition, we repurchased shares, primarily Class B common shares related to options that were exercised, at a cost of approximately $24 million. During 2005, we paid dividends totaling $8.3 million.

In 2004, cash used by financing activities was $192.0 million related primarily to the early retirement of our term loan in the first quarter and the repurchase of some of our 11.75% senior subordinated notes in the third quarter. Our receipt of the exercise price upon the exercise of stock options generated cash of approximately $18 million during 2004.

Credit Sources

Substantial credit sources are available to us. In total, we had available sources of approximately $400 million at February 28, 2006. This included our $200 million senior secured revolving credit facility and our $200 million accounts receivable securitization financing. There were no outstanding balances under either of these arrangements at February 28, 2006. Effective April 4, 2006, the available sources increased to $800 million.

On April 4, 2006, we entered into a new $650 million credit agreement, dated April 4, 2006. The new credit agreement includes a $350 million revolving credit facility and a secured $300 million delay draw term loan. In connection with the execution of this new agreement, our amended and restated credit agreement dated May 11, 2004 was terminated. The obligations under the new credit agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of the personal property of American Greetings Corporation 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 foreign subsidiaries. The revolving loans will mature on April 4, 2011, and the term loans will mature on April 4, 2013. Each term loan will amortize in equal quarterly installments equal to 0.25% of the amount of such term loan, beginning on April 4, 2007, with the balance payable on April 4, 2013.

Term loans under the new credit agreement will bear interest at a rate per annum based on either the London Inter-Bank Offer Rate (LIBOR) plus 150 basis points or based on the alternate base rate (ABR), as defined in the credit agreement, plus 25 basis points. Revolving loans denominated in U.S. dollars will bear interest at a rate per annum based on the then applicable LIBOR or ABR rate, in each case, plus margins adjusted according to our leverage ratio.

The credit agreement contains certain restrictive covenants that are customary for similar credit arrangements, including covenants relating to limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions and transactions with affiliates. 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.

Also, on April 4, 2006, we reduced the available financing under our accounts receivable securitization financing agreement from $200 million to $150 million.

On April 6, 2006, we commenced a cash tender offer, subject to several conditions, for all of our $300 million of outstanding 6.10% senior notes due on August 1, 2028 and a consent solicitation to amend the related note indenture. The consent solicitation seeks consents from holders of the notes to eliminate certain restrictive covenants and events of default from the note indenture. We are undertaking this initiative to increase our financial flexibility. The commencement date of this offer was April 6, 2006, and the expected expiration date is May 24, 2006. As of April 19, 2006, we had received sufficient consents to amend the indenture governing the notes.

Also, on April 6, 2006, we commenced an exchange offer for our existing 7.00% convertible subordinated notes for a new series of convertible notes with substantially the same terms except that the new convertible notes will permit us to settle the conversion of the new notes in cash and stock, whereas the old notes were convertible into stock only. Assuming all of the notes are exchanged, the net effect on the financial statements will be to use approximately $175 million of cash to settle, in July 2006, a portion of the total conversion value.

Within the next two months, we anticipate issuing $200 million of senior unsecured notes with a ten-year final maturity. If completed, proceeds from this issuance are expected to be used to finance the tender for the 6.10% notes as well as for general corporate purposes.

Our future operating cash flow and borrowing availability under existing credit facilities and our accounts receivable securitization financing program are expected to meet currently anticipated funding requirements. The seasonal nature of the business results in peak working capital requirements that may be financed through short-term borrowings.

In executing our card growth strategy, we expect to use approximately $75 million of cash during the next fiscal year. The actual timing of the expenditure will depend on the schedules of our retail partners. Additionally, one of our largest customers recently announced that it has entered into an agreement to sell its entire company. Our future earnings and cash flows may be impacted due to possible changes in sales volume, sales terms, contract terms and the potential for refunding of contract obligations.

In an effort to return value to our shareholders, we announced on February 1, 2006, a program to repurchase up to $200 million of our Class A common shares. These repurchases will be made through a 10b5-1 program in open market or privately negotiated transactions in compliance with the Securities and Exchange Commission s Rule 10b-18, subject to market conditions, applicable legal requirements and other factors.

Contractual Obligations

The following table presents our contractual obligations and commitments to make future payments as of February 28, 2006:

	Payment Due by Period as of February 28, 2006						
(In thousands)	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
Long-term debt and capital leases	$ 174,792	$ 671	$ 134	$ 118	$ 118	$ 299,475	$ 475,308
Operating leases	34,156	28,720	23,772	18,537	14,151	21,978	141,314
Commitments under customer agreements	61,391	27,279	21,415	20,001			130,086
Commitments under royalty agreements	15,661	11,688	8,943	5,818			42,110
Interest payments	25,578	19,148	18,447	18,349	18,331	318,738	418,591
Severance	7,464	1,684					9,148
	$ 319,042	$ 89,190	$ 72,711	$ 62,823	$ 32,600	$ 640,191	$ 1,216,557

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, 2006.

Under its terms at February 28, 2006, the 7.00% convertible subordinated notes due in July 2006 are only convertible into stock. On April 6, 2006, we commenced an exchange offer for the notes. The exchange will permit us to settle the conversion of the new notes in cash and stock. Assuming all of the notes are exchanged, the net effect will be to use approximately $175 million of cash to settle a portion of the total conversion value in 2007.

Our 6.10% senior notes due on August 1, 2028 may be put back to us on August 1, 2008, at the option of the holders, at 100% of the principal amount provided the holders exercise this option between July 1, 2008 and August 1, 2008.

Although we do not anticipate that contributions will be required in 2007 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.

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 require 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. 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 (evidenced by such events as bankruptcy or insolvency proceedings), a specific reserve 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 reserves for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs and current economic conditions. The establishment of reserves 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 reserve balances.

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 Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, 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 have no intangible assets with indefinite useful lives. We complete the annual goodwill impairment test 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 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

Table of Contents

estimates for future growth rates and our judgment regarding the applicable discount rates. We also engage an independent valuation firm to assist with the fair value determination. 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 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 typically receives a combination of cash payments, credits, discounts, allowances and other incentive considerations to be earned as product is purchased from us over the stated time period of the agreement to meet a 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.

Although risk is inherent in the granting of advances, we subject such customers to our normal credit review. We maintain a general reserve 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 reserve to reduce the deferred cost asset to an estimate of its future value based upon expected performance. Losses attributed to these specific events have historically not been material.

For contractual arrangements that are based upon a minimum purchase volume commitment, we periodically review the progress toward the volume commitment and estimate future sales expectations for each customer. Factors that can affect our estimate include store door openings and closings, retail industry consolidation, amendments to the agreements, consumer shopping trends, addition or deletion of participating products and product productivity. Based upon our review, we may modify the remaining amortization periods of individual agreements to reflect the changes in the estimates for the attainment of the minimum volume commitment in order to align amortization expense with the periods benefited. We do not make retroactive expense adjustments to prior fiscal years as amounts, if any, have historically not been material. The aggregate average remaining life of our contract base is 5.9 years.

The accuracy of our assessments of the performance-related value of a deferred cost asset related to a particular agreement and of the estimated time period of the completion of a volume commitment is based upon our ability to accurately predict certain key variables such as product demand at retail, product pricing, customer viability and other economic factors. Predicting these key variables involves uncertainty about future events; however, the assumptions used are consistent with our internal planning. If the deferred cost assets are assessed to be recoverable, they are amortized over the periods benefited. If the carrying value of these assets is considered to not be recoverable through performance, such assets are written down as appropriate.

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.

Table of Contents

Sales Returns

We provide for estimated returns of seasonal cards in the same period as the related revenues are recorded. These estimates are based upon historical sales returns, the amount of current year seasonal 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 rates and the adjustments attributable to any changes have historically not been material.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, (FASB) issued SFAS No. 151 (SFAS 151), Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. SFAS 151 also establishes the concept of normal capacity and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead would be treated as a current period expense in the period incurred. This statement is effective for fiscal years beginning after July 15, 2005. We do not believe that the adoption of SFAS 151 will have a significant impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS 123(R)), Share-Based Payment. SFAS 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. This statement was originally effective for the first interim or annual period beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission amended the compliance date of SFAS 123(R) through an amendment of Regulation S-X. The new effective date for us is March 1, 2006. We expect the adoption of FAS 123(R) to reduce consolidated net income by an amount approximating the pro forma expense disclosed in Note 1 to our Consolidated Financial Statements.

In October 2005, the FASB issued FASB Staff Position No. FAS 13-1 (FSP 13-1), Accounting for Rental Costs Incurred During a Construction Period, to clarify the proper accounting for rental costs incurred on building or ground operating leases during a construction period. FSP 13-1 requires that rental costs incurred during a construction period be expensed, not capitalized. The statement is effective for the first reporting period beginning after December 15, 2005. We do not believe the adoption of FSP 13-1 will have a material effect on our financial position, cash flows or results of operations.

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:

- the timing and impact of the changes that we plan to make to our capital structure, including the ability to successfully (1) exchange our existing convertible subordinated notes for new convertible

Table of Contents

subordinated notes, (2) repurchase our 6.10% senior notes, or (3) raise additional financing on terms favorable to us by issuing senior notes;

the timing and impact of investments in new retail or product strategies as well as new product introductions and achieving the desired benefits from those investments;

the ability to execute share repurchase programs or the ability to achieve the desired accretive effect from such repurchases;

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

a weak retail environment;

consumer acceptance of products as priced and marketed;

the impact of technology on core product sales;

competitive terms of sale offered to customers;

successful implementation of supply chain improvements and achievement of projected cost savings from those improvements;

increases in the cost of material, energy and other production costs;

our ability to comply with our debt covenants;

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

escalation in the cost of providing employee health care;

successful integration of acquisitions; and

the outcome of any legal claims known or unknown.

Risks pertaining specifically to AG Interactive include the viability of online advertising, subscriptions as revenue generators and the public s acceptance of online greetings and other social expression products and the ability of the mobile division to compete effectively in the wireless content aggregation market.

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 included in Part I, Item 1A of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Derivative Financial Instruments During the periods presented, we have not held or issued derivative financial instruments, other financial instruments or derivative commodity instruments for trading purposes.

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, 2006, a hypothetical 10% movement in interest rates would not have had a material impact on interest expense. Under the terms of our new 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.

Table of Contents

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 24%, 24% and 20% of our 2006, 2005 and 2004 net sales from continuing operations, respectively, were generated from operations outside the United States. Operations in Australasia, Canada, Mexico, South Africa, the European Union and the United Kingdom 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.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders

American Greetings Corporation

We have audited management s assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that American Greetings Corporation maintained effective internal control over financial reporting as of February 28, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). American Greetings Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that American Greetings Corporation maintained effective internal control over financial reporting as of February 28, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, American Greetings Corporation maintained, in all material respects, effective internal control over financial reporting as of February 28, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of American Greetings Corporation as of February 28, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended February 28, 2006 of American Greetings Corporation and our report dated April 19, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

April 19, 2006

Table of Contents

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, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended February 28, 2006. 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2006, 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), the effectiveness of American Greetings Corporation s internal control over financial reporting as of February 28, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 19, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

April 19, 2006

Table of Contents

CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 2006, February 28, 2005 and February 29, 2004

Thousands of dollars except share and per share amounts

	2006	2005	2004
Net sales	$ 1,885,701	$ 1,883,367	$ 1,937,540
Costs and expenses:			
Material, labor and other production costs	850,158	895,110	904,552
Selling, distribution and marketing	637,496	648,120	629,663
Administrative and general	245,608	249,984	217,381
Goodwill impairment	43,153		
Interest expense	35,124	79,397	85,690
Other income net	(64,773)	(96,069)	(58,267)
	1,746,766	1,776,542	1,779,019
Income from continuing operations before income tax expense	138,935	106,825	158,521
Income tax expense	48,810	37,328	61,862
Income from continuing operations	90,125	69,497	96,659
(Loss) income from discontinued operations, net of tax	(5,749)	25,782	8,011
Net income	$ 84,376	$ 95,279	$ 104,670
Earnings per share basic:			
Income from continuing operations	$ 1.37	$ 1.01	$ 1.45
(Loss) income from discontinued operations	(0.09)	0.38	0.12
Net income	$ 1.28	$ 1.39	$ 1.57
Earnings per share assuming dilution:			
Income from continuing operations	$ 1.23	$ 0.94	$ 1.30
(Loss) income from discontinued operations	(0.07)	0.31	0.10
Net income	$ 1.16	$ 1.25	$ 1.40
Average number of shares outstanding	65,965,024	68,545,432	66,509,332
Average number of shares outstanding assuming dilution	79,226,384	82,016,835	80,088,377
Dividends declared per share	$ 0.32	$ 0.12	$

See notes to consolidated financial statements.

40

Table of Contents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 2006 and 2005

Thousands of dollars except share and per share amounts

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 213,613	$ 247,799
Short-term investments	208,740	208,740
Trade accounts receivable, net	142,087	182,084
Inventories	217,318	218,711
Deferred and refundable income taxes	154,327	193,497
Assets of businesses held for sale	12,990	25,415
Prepaid expenses and other	213,067	204,245
Total current assets	1,162,142	1,280,491
GOODWILL	203,599	267,527
OTHER ASSETS	549,162	639,361
PROPERTY, PLANT AND EQUIPMENT NET	304,059	336,828
	$ 2,218,962	$ 2,524,207
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Debt due within one year	$ 174,792	$
Accounts payable	126,061	140,930
Accrued liabilities	82,354	116,819
Accrued compensation and benefits	94,073	95,144
Income taxes	16,887	38,777
Liabilities of businesses held for sale	3,016	5,038
Other current liabilities	86,857	79,549
Total current liabilities	584,040	476,257
LONG-TERM DEBT	300,516	486,087
OTHER LIABILITIES	91,497	137,868
DEFERRED INCOME TAXES	22,884	37,215
SHAREHOLDERS EQUITY		
Common shares par value $1 per share:		
Class A 78,942,962 shares issued less 22,812,601 treasury shares in 2006 and 77,428,103 shares issued less 12,561,371 treasury shares in 2005	56,130	64,867
Class B 6,066,092 shares issued less 1,848,344 treasury shares in 2006 and 6,066,092 shares issued less 1,906,172 treasury shares in 2005	4,218	4,160
Capital in excess of par value	398,505	368,777
Treasury stock	(676,436)	(445,618)
Accumulated other comprehensive income	9,823	29,039
Retained earnings	1,427,785	1,365,555
Total shareholders equity	1,220,025	1,386,780
	$ 2,218,962	$ 2,524,207

See notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 28, 2006, February 28, 2005 and February 29, 2004

Thousands of dollars

	2006	2005	2004
OPERATING ACTIVITIES:			
Net income	$ 84,376	$ 95,279	$ 104,670
Loss (income) from discontinued operations	5,749	(25,782)	(8,011)
Income from continuing operations	90,125	69,497	96,659
Adjustments to reconcile net income to net cash provided by operating activities:			
Goodwill impairment	43,153		
Gain on sale of investment		(3,095)	
Loss on fixed assets	4,355	1,499	4,480
Loss on extinguishment of debt	863	39,056	18,389
Depreciation and amortization	54,222	56,292	58,910
Deferred income taxes	23,604	(9,454)	56,853
Other non-cash charges	7,219	7,956	1,487
Changes in operating assets and liabilities, net of acquisitions:			
Decrease in trade accounts receivable	33,399	55,725	75,254
(Increase) decrease in inventories	(211)	23,201	41,984
(Increase) decrease in other current assets	(13,533)	(15,595)	10,968
Decrease in deferred costs net	61,305	107,337	34,607
(Decrease) increase in accounts payable and other liabilities	(33,171)	28,624	(111,331)
Other net	6,066	5,175	(4,109)
Cash Provided by Operating Activities	277,396	366,218	284,151
INVESTING ACTIVITIES:			
Property, plant and equipment additions	(46,188)	(47,243)	(31,541)
Proceeds from sale of fixed assets	11,416	5,756	162
Proceeds from sale of discontinued operations		77,000	
Cash payments for business acquisitions	(15,315)	(25,178)	
Proceeds from sale of short-term investments	1,733,470	297,660	
Purchases of short-term investments	(1,733,470)	(506,400)	
Investment in corporate-owned life insurance	956	(809)	6,841
Other net	(12,020)	2,827	(7,568)
Cash Used by Investing Activities	(61,151)	(196,387)	(32,106)
FINANCING ACTIVITIES:			
Reduction of long-term debt	(10,782)	(216,417)	(80,954)
Decrease in short-term debt			(128,693)
Sale of stock under benefit plans	27,068	40,114	18,466
Purchase of treasury shares	(244,642)	(24,080)	(828)
Dividends to shareholders	(21,184)	(8,264)	
Cash Used by Financing Activities	(249,540)	(208,647)	(192,009)
DISCONTINUED OPERATIONS: *			
Cash provided (used) by operating activities from discontinued operations	335	(484)	9,864
Cash provided (used) by investing activities from discontinued operations	698	(1,914)	(3,443)
Cash Provided (Used) by Discontinued Operations	1,033	(2,398)	6,421

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,924)	4,270	10,027
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(34,186)	(36,944)	76,484
Cash and Cash Equivalents at Beginning of Year	247,799	284,743	208,259
Cash and Cash Equivalents at End of Year	$ 213,613	$ 247,799	$ 284,743

* In 2006, the Corporation has separately disclosed the operating and investing cash flows attributable to its discontinued operations, which were reported as a single item in prior periods.

See notes to consolidated financial statements.

42

Table of Contents

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Years ended February 28, 2006, February 28, 2005 and February 29, 2004

Thousands of dollars except per share amounts

	Common Shares						Accumulated Other Comprehensive Income (Loss)		
	Class A	Class B	Capital in Excess of Par Value	Treasury Stock	Shares Held In Trust	Deferred Compensation Plans		Retained Earnings	Total
BALANCE FEBRUARY 28, 2003	$ 61,299	$ 4,600	$ 310,872	$ (438,704)	$ (20,480)	$ 20,480	$ (42,494)	$ 1,181,891	$ 1,077,464
Net income								104,670	104,670
Other comprehensive income (loss):									
Foreign currency translation adjustment							63,327		63,327
Unrealized loss on available-for-sale securities (net of tax benefit of $125)							(195)		(195)
Comprehensive income									167,802
Exchange of shares	14	(14)							
Sale of shares under benefit plans, including tax benefits	1,566	32	20,876	651				(245)	22,880
Purchase of treasury shares		(41)		(787)					(828)
Sale of treasury shares				7				(3)	4
Stock grants and other	1	11	17	221				(32)	218
BALANCE FEBRUARY 29, 2004	62,880	4,588	331,765	(438,612)	(20,480)	20,480	20,638	1,286,281	1,267,540
Net income								95,279	95,279
Other comprehensive income (loss):									
Foreign currency translation adjustment							9,750		9,750
Minimum pension liability (net of tax benefit of $417)							(655)		(655)
Unrealized loss on available-for-sale securities (net of tax benefit of $23)							(60)		(60)
Reclassification of realized loss on available-for-sale securities (net of tax benefit of $84)							(217)		(217)
Other							(417)		(417)
Comprehensive income									103,680
Cash dividends $0.12 per share								(8,264)	(8,264)
Exchange of shares	1	(1)							
Sale of shares under benefit plans, including tax benefits	2,041	489	33,555	15,861				(7,686)	44,260
Purchase of treasury shares	(56)	(925)		(23,099)					(24,080)
Distribution of shares held in trust					20,480	(20,480)			
Stock grants and other	1	9	3,457	232				(55)	3,644
BALANCE FEBRUARY 28, 2005	64,867	4,160	368,777	(445,618)			29,039	1,365,555	1,386,780
Net income								84,376	84,376
Other comprehensive income (loss):									
Foreign currency translation adjustment							(19,657)		(19,657)
Minimum pension liability (net of tax of $123)							193		193
Unrealized gain on available-for-sale securities (net of tax of $49)							125		125

Other							123		123
Comprehensive income									65,160
Cash dividends $0.32 per share								(21,184)	(21,184)
Sale of shares under benefit plans, including tax benefits	1,491	58	27,839	1,688				(490)	30,586
Purchase of treasury shares	(10,252)	(59)		(234,331)					(244,642)
Stock compensation expense			1,256						1,256
Stock grants and other	24	59	633	1,825				(472)	2,069
BALANCE FEBRUARY 28, 2006	$ 56,130	$ 4,218	$ 398,505	$ (676,436)	$	$	$ 9,823	$ 1,427,785	$ 1,220,025

See notes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2006, February 28, 2005 and February 29, 2004

Thousands of dollars except per share amounts

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation: The consolidated financial statements include the accounts of American Greetings Corporation and its subsidiaries (the Corporation). All significant intercompany accounts and transactions are eliminated. The Corporation s fiscal year ends on February 28 or 29. References to a particular year refer to the fiscal year ending in February of that year. For example, 2006 refers to the year ended February 28, 2006. For 2005 and prior, the Corporation s subsidiary, AG Interactive, was consolidated on a two-month lag corresponding with its fiscal year-end of December 31. For 2006, AG Interactive changed its fiscal year-end to coincide with the Corporation s fiscal year-end. As a result, the year ended February 28, 2006 included fourteen months of AG Interactive s operations. The additional two months of activity generated revenues of approximately $11,000 for the year ended February 28, 2006, but had no significant impact on earnings.

The Corporation s investments in less than majority-owned companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method except when they qualify as variable interest entities in which case the investments are consolidated in accordance with Interpretation No. 46 (revised December 2003) (FIN 46(R)), Consolidation of Variable Interest Entities.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the 2006 presentation. These reclassifications had no material impact on earnings or cash flows.

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

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

Short-term Investments: The Corporation invests in auction rate securities, which are highly liquid, variable-rate debt securities associated with bond offerings. While the underlying security has a long-term nominal maturity, the interest rate is reset through Dutch auctions that are typically held every 7, 28 or 35 days, creating short-term liquidity for the Corporation. The securities trade at par and are callable at par on any interest payment date at the option of the issuer. Interest is paid at the end of each auction period. The investments are classified as available-for-sale and are recorded at cost, which approximates market value.

Allowance for Doubtful Accounts: The Corporation evaluates the collectibility of its accounts receivable based on a combination of factors. In circumstances where the Corporation is aware of a customer s inability to meet its financial obligations (evidenced by such events as bankruptcy or insolvency proceedings), a specific reserve for bad debts against amounts due is recorded to reduce the receivable to the amount the Corporation reasonably expects will be collected. In addition, the Corporation recognizes reserves for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs and current economic conditions.

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

Financial Instruments: The carrying value of the Corporation s financial instruments approximate their fair market values, other than the fair value of the Corporation s publicly-traded debt. See Note 11 for further discussion.

Concentration of Credit Risks: The Corporation sells primarily to customers in the retail trade, including those in the mass merchandise, drug store, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand, Mexico and South Africa. Net sales from continuing operations to the Corporation s five largest customers accounted for approximately 35% of net sales in 2006 and 32% in 2005 and 2004. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 16%, 15% and 13% of net sales from continuing operations in 2006, 2005 and 2004, respectively.

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

Deferred Costs: In the normal course of its business, the Corporation enters into agreements with certain customers for the supply of greeting cards and related products. The Corporation classifies the total contractual amount of the incentive consideration committed to the customer but not yet earned as a deferred cost asset at the inception of an agreement, or any future amendments. Deferred costs estimated to be earned by the customer and charged to operations during the next twelve months are classified as Prepaid expenses and other in the Consolidated Statement of Financial Position, and the remaining amounts to be charged beyond the next twelve months are classified as Other assets. The periods of amortization are continually evaluated to determine if later circumstances warrant revisions of the estimated amortization periods. Such costs are capitalized as assets reflecting the probable future economic benefits obtained as a result of the transactions. Future economic benefit is further defined as cash inflow to the Corporation. The Corporation, by incurring these costs, is ensuring the probability of future cash flows through sales to customers. The amortization of such deferred costs properly matches the cost of obtaining business over the periods to be benefited. The Corporation believes that it maintains adequate reserves for deferred contract costs related to supply agreements. See Note 10 for further discussion.

Inventories: Finished products, work in process and raw materials inventories are carried at the lower of cost or market. The last-in, first-out (LIFO) cost method is used for certain domestic inventories which approximate 55% of the total pre-LIFO consolidated inventories in 2006 and 2005. Foreign inventories and the remaining domestic inventories principally use the first-in, first-out (FIFO) method except for display material and factory supplies which are carried at average cost. See Note 7 for further information.

In November 2004, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151 (SFAS 151), Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. SFAS 151 also establishes the concept of normal capacity and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead would be treated as a current period expense in the period incurred. This statement is effective for fiscal years beginning after July 15, 2005. The Corporation does not believe that the adoption of SFAS 151 will have a significant impact on the Corporation s consolidated financial statements.

Table of Contents

Investment in Life Insurance: The Corporation s investment in corporate-owned life insurance policies is recorded in Other assets net of policy loans. The net life insurance expense, including interest expense, is included in Administrative and general expenses in the Consolidated Statement of Income. The related interest expense, which approximates amounts paid, was $10,728, $10,341 and $12,798 in 2006, 2005 and 2004, respectively.

Goodwill: Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations and is not amortized in accordance with SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets. This statement addresses the amortization of intangible assets with defined lives and addresses the impairment testing and recognition for goodwill and indefinite-lived intangible assets. The Corporation is required to evaluate the carrying value of its goodwill for potential impairment on an annual basis or more frequently if indicators arise. While the Corporation uses a variety of methods to estimate fair value for impairment testing, its primary methods are discounted cash flows and a market based analysis. The Corporation also engages an independent valuation firm to assist with the fair value determination. The required annual goodwill impairment test is completed during the fourth quarter. See Note 9 for further discussion.

Translation of Foreign Currencies: Asset and liability accounts are translated into United States dollars using exchange rates in effect at the date of the Consolidated Statement of Financial Position; revenue and expense accounts are translated at average exchange rates during the related period. Translation adjustments are reflected as a component of shareholders equity. Gains and losses resulting from foreign currency transactions, including intercompany transactions that are not considered permanent investments, are included in net income as incurred.

Property and Depreciation: Property, plant and equipment are carried at cost. Depreciation and amortization of buildings, equipment and fixtures are computed principally by the straight-line method over the useful lives of the various assets. The cost of buildings is depreciated over 25 to 40 years; computer hardware and software over 3 to 7 years; machinery and equipment over 10 to 15 years; and furniture and fixtures over 20 years. Leasehold improvements are amortized over the lesser of the lease term or the estimated life of the leasehold improvement. Property, plant and equipment are reviewed for impairment in accordance with SFAS No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 also provides a single accounting model for the disposal of long-lived assets. In accordance with SFAS 144, assets held for sale are stated at the lower of their fair values or carrying amounts and depreciation is no longer recognized. See Note 8 for further information.

Operating Leases: Rent expense for operating leases, which may have escalating rentals over the term of the lease, is recorded on a straight-line basis over the initial lease term. The initial lease term includes the build-out period of leases, where no rent payments are typically due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent. Construction allowances received from landlords are recorded as a deferred rent credit and amortized to rent expense over the initial term of the lease. See Notes 14 and 16 for further information.

Revenue Recognition: Sales of seasonal product to unrelated, third party retailers are recognized at the approximate date the product is received by the customer, commonly referred to in the industry as the ship-to-arrive date (STA). The Corporation maintains STA data due to the large volumes of seasonal product shipment activity and the lead time required to achieve customer-requested delivery dates. Seasonal cards are sold with the right of return on unsold merchandise. In addition, the Corporation provides for estimated returns of seasonal cards when those sales to unrelated, third party retailers are recognized. Accrual rates utilized for establishing estimated returns reserves have approximated actual returns experience. At Corporation-owned retail locations, sales of seasonal product are recognized upon the sales of products to the consumer.

Except for seasonal products and retailers with a scan-based trading (SBT) arrangement, sales are generally recognized by the Corporation upon shipment of products to unrelated, third party retailers and upon the sales of products to the consumer at Corporation-owned retail locations. Sales of these products are generally sold without the right of return. Sales credits for non-seasonal product are issued at the Corporation s sole discretion for damaged, obsolete and outdated products.

For retailers with an SBT arrangement, the Corporation provides product on a consignment basis and recognizes revenue, for both everyday and seasonal products, when those retailers sell the products to the ultimate customers. When a retailer commits to convert to an SBT arrangement, the Corporation reverses previous sales transactions. Legal ownership of the inventory at the retailer s stores reverts back to the Corporation at the time of conversion. The timing and amount of the sales reversal is dependent upon retailer inventory turn rates and the estimated timing of the store conversions.

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

The Corporation has agreements for licensing the Care Bear and Strawberry Shortcake characters and other intellectual property. These license agreements provide for royalty revenue to the Corporation based on a percentage of net sales and are subject to certain guaranteed minimum royalties. Certain of these agreements are managed by outside agents. All payments flow through the agents prior to being remitted to the Corporation. Typically, the Corporation receives quarterly payments from the agents. Royalty revenue is recognized upon receipt and recorded in Other income net and expenses associated with the servicing of these agreements are primarily recorded as Selling, distribution and marketing.

Shipping and Handling Fees: The Corporation classifies shipping and handling fees as part of Selling, distribution and marketing expenses. Shipping and handling costs were $135,273, $137,425 and $135,455 in 2006, 2005 and 2004, respectively.

Advertising Expense: Advertising costs are expensed as incurred. Advertising expense was $39,606, $50,526 and $48,776 in 2006, 2005 and 2004, respectively.

Income Taxes: Income tax expense includes both current and deferred taxes. Current tax expense represents the amount of income taxes paid or payable (or refundable) for the year, including interest. Deferred income taxes, net of appropriate valuation allowances, are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. See Note 17 for further discussion.

Stock-Based Compensation: The Corporation follows Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related Interpretations in accounting for its stock options granted to employees and directors. Because the exercise price of the Corporation s stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Corporation has adopted the disclosure-only provisions of SFAS No. 123 (SFAS 123), Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure.

The following illustrates the pro forma effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of SFAS 123 for the periods indicated:

	2006	2005	2004
Net income as reported	$ 84,376	$ 95,279	$ 104,670
Add: Stock-based compensation expense included in net income, net of tax	767		
Deduct: Stock-based compensation expense determined under fair value based method, net of tax	6,273	5,784	5,881
Pro forma net income	$ 78,870	$ 89,495	$ 98,789
Earnings per share:			
As reported	$ 1.28	$ 1.39	$ 1.57
Pro forma	1.20	1.31	1.49
Earnings per share assuming dilution:			
As reported	$ 1.16	$ 1.25	$ 1.40
Pro forma	1.09	1.18	1.33

The fair value of the options granted used to compute pro forma net income and pro forma earnings per share is the estimated present value at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	2006	2005	2004
Risk-free interest rate	3.7%	3.4%	2.7%
Dividend yield	0.31%	0.01%	0.00%
Expected stock volatility	0.28	0.36	0.50
Expected life in years:			
Grant date to exercise date	3.8	3.8	4.0
Vest date to exercise date	1.3	1.3	1.2

The weighted average fair value per share of options granted during 2006, 2005 and 2004 was $7.69, $7.41 and $6.09, respectively.

In addition to options, the Corporation has awarded, in 2006, performance shares to certain executive officers. See Note 15 for further information. The fair value per share of the performance shares in 2006 was $24.88, using the following assumptions: risk-free interest rate of 3.2%; dividend yield of 0.24%; volatility of 0.24; and an expected life of one year.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS 123(R)), Share-Based Payment. SFAS 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting in accordance with APB 25. This statement was originally effective for the first interim or annual period beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission amended the compliance date of SFAS 123(R) through an amendment of Regulation S-X. The new effective date for the Corporation is March 1, 2006. The Corporation expects the adoption of SFAS 123(R) to reduce consolidated net income by an amount approximating the pro forma expense disclosed above.

NOTE 2 ACQUISITIONS

During the second quarter of 2005, the Corporation acquired 100% of the equity interests of MIDIRingTones, LLC (MIDI) and K-Mobile S.A. (K-Mobile). During the fourth quarter of 2005, the Corporation acquired 100% of the equity interests of Collage Designs Limited (Collage) and 50% of the equity interests of The Hatchery, LLC (the Hatchery). The financial results of these acquisitions are included in the

Table of Contents

Corporation s consolidated results from their respective dates of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not material.

MIDI is an entertainment company that creates, licenses and sells content for cellular phones including polyphonic ringtones and color graphics. The Corporation acquired the net assets of MIDI valued at approximately $1,000 and recorded goodwill of approximately $3,000. The purchase agreement also provided for a contingent payment based on MIDI s operating results for calendar year 2005. In February 2005, the Corporation negotiated an early settlement of the contingent payment due under the purchase agreement. At that time, the Corporation paid approximately $9,000 to the sellers, which was recorded as additional goodwill.

K-Mobile is an established European mobile content provider. Shares of AG Interactive were issued to acquire the net assets of K-Mobile valued at approximately $2,000 and goodwill of approximately $17,000 was recorded. As the K-Mobile acquisition was a non-cash transaction, it is not reflected in the Consolidated Statement of Cash Flows. As a result of the acquisition of K-Mobile, the Corporation s ownership interest in AG Interactive decreased from approximately 92% to 83%.

During February 2005, the Corporation paid approximately $7,000 to acquire approximately 7% of the outstanding shares of AG Interactive held by certain minority shareholders. As a result of this transaction, the Corporation recorded additional goodwill of approximately $3,000 and its ownership interest in AG Interactive increased from approximately 83% to 90%. During 2006, the Corporation paid approximately $14,000 to acquire the remaining outstanding shares held by minority shareholders. As a result, the Corporation recorded additional goodwill of approximately $700. As of February 28, 2006, the Corporation owns 100% of AG Interactive.

The Hatchery develops and produces original family and children s entertainment for all media. In accordance with FIN 46(R), the results of the Hatchery are consolidated. The Corporation acquired 50% of the net assets of the Hatchery, which were valued at approximately $200, and recorded goodwill of approximately $2,200.

Collage is a European manufacturer of gift-wrap products. The Corporation acquired the net assets of Collage valued at approximately $300 and recorded goodwill of approximately $6,000. Approximately $2,700 was paid at the closing and $1,300 was paid in 2006. The remainder, totaling approximately $1,800, is expected to be settled in fiscal 2007.

As part of the acquisition of Gibson Greetings, Inc. (Gibson) in March 2000, the Corporation incurred acquisition integration expenses for the incremental costs to exit and consolidate activities at Gibson locations, to involuntarily terminate Gibson employees, and for other costs to integrate operating locations and other activities of Gibson with the Corporation. As of March 1, 2002, all activities and cash payments were substantially completed with the exception of ongoing rent payments related to a closed distribution facility. The balance of the facility obligation was $25,081 and $26,561 at February 28, 2005 and February 29, 2004, respectively. During 2006, the Corporation paid approximately $12,000 to settle the facility obligation and to purchase a related building. The remaining facility obligation was reversed to goodwill in accordance with Emerging Issues Task Force Issue 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. As a result, goodwill was reduced approximately $9,500, net of tax.

NOTE 3 OTHER INCOME NET

	2006	2005	2004
Royalty revenue	$ (52,674)	$ (63,761)	$ (44,880)
Foreign exchange gain	(3,353)	(3,629)	(4,934)
Interest income	(10,910)	(5,042)	(2,650)
Gain on sale of investment		(3,095)	
Other	2,164	(20,542)	(5,803)
	$ (64,773)	$ (96,069)	$ (58,267)

Table of Contents

In 2005, other included a $10,000 one-time receipt related to licensing activities. Other includes, among other things, gains and losses on asset disposals and rental income. The proceeds received from the sale of investment of $19,050 in 2005 are included in Other net investing activities in the Consolidated Statement of Cash Flows.

NOTE 4 EARNINGS PER SHARE

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

	2006	2005	2004
Numerator:			
Income from continuing operations	$ 90,125	$ 69,497	$ 96,659
Add-back interest on convertible subordinated notes, net of tax	7,498	7,501	7,525
Income from continuing operations assuming dilution	$ 97,623	$ 76,998	$ 104,184
Denominator (thousands):			
Weighted average shares outstanding	65,965	68,545	66,509
Effect of dilutive securities:			
Convertible debt	12,576	12,591	12,591
Stock options and other	685	881	988
Weighted average shares outstanding assuming dilution	79,226	82,017	80,088
Income from continuing operations per share	$ 1.37	$ 1.01	$ 1.45
Income from continuing operations per share assuming dilution	$ 1.23	$ 0.94	$ 1.30

Approximately 1.2 million, 2.5 million and 3.7 million stock options, in 2006, 2005 and 2004, respectively, were excluded from the computation of earnings per share assuming dilution because the options exercise prices were greater than the average market price of the common shares during the respective years.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME

At February 28, 2006 and 2005, the balance of accumulated other comprehensive income consisted of the following components:

	2006	2005
Foreign currency translation adjustment	$ 10,926	$ 30,583
Minimum pension liability adjustment	(462)	(655)
Unrealized investment loss	(347)	(472)
Other	(294)	(417)
	$ 9,823	$ 29,039

NOTE 6 TRADE ACCOUNTS RECEIVABLE, NET

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

	2006	2005

Allowance for seasonal sales returns	$ 73,275	$ 93,173
Allowance for doubtful accounts	8,138	16,326
Allowance for cooperative advertising and marketing funds	21,658	30,288
Allowance for rebates	65,152	50,638
	$ 168,223	$ 190,425

Table of Contents

NOTE 7 INVENTORIES

	2006	2005
Raw materials	$ 19,806	$ 22,381
Work in process	15,399	19,154
Finished products	239,866	225,351
	275,071	266,886
Less LIFO reserve	79,403	75,890
	195,668	190,996
Display material and factory supplies	21,650	27,715
	$ 217,318	$ 218,711

The Corporation experienced LIFO liquidations in 2006 and 2004, which increased Income from continuing operations before income tax expense by approximately $100 and $4,600, respectively. There were no LIFO liquidations in 2005.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	2006	2005
Land	$ 11,639	$ 13,681
Buildings	276,504	287,082
Equipment and fixtures	665,838	683,443
	953,981	984,206
Less accumulated depreciation	649,922	647,378
	$ 304,059	$ 336,828

During 2006, the Corporation disposed of approximately $70,000 of property, plant and equipment that included accumulated depreciation of approximately $51,000 compared to disposals in 2005 of approximately $63,000 with accumulated depreciation of approximately $50,000. Also in 2006, continued operating losses and negative cash flows led to testing for impairment of long-lived assets in the Retail Operations segment in accordance with SFAS 144. As a result, a fixed asset impairment charge of approximately $4,000 was recorded in Selling, distribution and marketing on the Consolidated Statement of Income.

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

At February 28, 2006 and 2005, intangible assets subject to the amortization provisions of SFAS 142, net of accumulated amortization, were $3,556 and $2,767, respectively. The Corporation does not have any indefinite-lived intangible assets.

During the third quarter of 2006, indicators emerged within the Retail Operations segment and one international reporting unit in the International Social Expression Products segment (formerly part of the Social Expression Products segment) that led the Corporation s management to conclude that a SFAS 142 goodwill impairment test was required to be performed during the third quarter. A discounted cash flow method was used for testing purposes.

Within the international reporting unit, located in Australia, there were two primary indicators. First, continued failure to meet operating and cash flow performance indicators and secondly, a revised long-term cash flow forecast that was significantly lower than prior estimates. As a result of the testing, the Corporation concluded the goodwill value had declined to zero and recorded an impairment charge of $25,318.

51

Table of Contents

There were three primary indicators that emerged within the Retail Operations segment during the third quarter: (1) Continued operating losses and negative cash flows led to the testing and impairment of long-lived assets in some retail stores in accordance with SFAS 144. As a result, a fixed asset impairment charge was recorded in the third quarter. Fixed asset recovery testing under SFAS 144 is an indicator of potential goodwill impairment under SFAS 142; (2) recent negotiations indicated the potential loss of approximately 40 to 60 retail locations due to the inability to renew or extend lease terms; and (3) a revised long-term cash flow forecast that was significantly lower than prior estimates. As a result of the testing, the Corporation recorded an impairment charge of $17,835, representing all of the goodwill for the Retail Operations segment.

The Corporation completed the required annual impairment test of goodwill in the fourth quarter and based on the results of the testing, no additional impairment charges were recorded for continuing operations.

A summary of the changes in the carrying amount of the Corporation s goodwill during the years ended February 28, 2006 and 2005 by segment, is as follows:

	North American Social Expression Products	International Social Expression Products	AG Interactive	Retail Operations	Non-Reportable Segments	Total
Balance at February 29, 2004	$ 57,544	$ 103,087	$ 42,669	$ 17,699	$ 721	$ 221,720
Acquisition related		6,040	32,485		2,196	40,721
Currency translation and other	(59)	3,302	1,793	50		5,086
Balance at February 28, 2005	57,485	112,429	76,947	17,749	2,917	267,527
Acquisition related	(9,246)		705			(8,541)
Impairment		(25,318)		(17,835)		(43,153)
Currency translation and other	(66)	(10,327)	(1,927)	86		(12,234)
Balance at February 28, 2006	$ 48,173	$ 76,784	$ 75,725	$	$ 2,917	$ 203,599

Substantially all of the balance in Currency translation and other relates to foreign currency.

NOTE 10 DEFERRED COSTS

In the normal course of its business, the Corporation enters into agreements with certain customers for the supply of greeting cards and related products. Under these agreements, the customer typically receives from the Corporation a combination of cash payments, credits, discounts, allowances and other incentive considerations to be earned by the customer as product is purchased from the Corporation over the effective time period of the agreement to meet a minimum purchase volume commitment. In the event a contract is not completed, the Corporation has a claim for unearned advances under the agreement. The Corporation periodically reviews the progress toward the commitment and adjusts the estimated amortization period accordingly to match the costs with the revenue associated with the agreement. The agreements may or may not specify the Corporation as the sole supplier of social expression products to the customer.

A portion of the total consideration may be payable by the Corporation at the time the agreement is consummated. All future payment commitments are classified as liabilities at inception until paid. The payments that are expected to be made in the next twelve months are classified as Other current liabilities in the Consolidated Statement of Financial Position, and the remaining payment commitments beyond the next twelve months are classified as Other liabilities. The Corporation maintains reserves for deferred costs related to supply agreements of $30,600 and $37,500 at February 28, 2006 and 2005, respectively.

Table of Contents

At February 28, 2006 and 2005, deferred costs and future payment commitments were as follows:

	2006	2005
Prepaid expenses and other	$ 156,442	$ 156,665
Other assets	489,286	579,060
Deferred cost assets	645,728	735,725
Other current liabilities	(61,391)	(65,944)
Other liabilities	(68,695)	(95,452)
Deferred cost liabilities	(130,086)	(161,396)
Net deferred costs	$ 515,642	$ 574,329

NOTE 11 LONG AND SHORT-TERM DEBT

On June 29, 2001, the Corporation issued $260,000 of 11.75% senior subordinated notes, due on July 15, 2008. During 2004, the Corporation repurchased $63,630 of these notes and recorded a charge of $13,750 for the write-off of related deferred financing costs and the premium associated with the notes repurchased. During 2005, the Corporation commenced a cash tender offer for all of its remaining outstanding 11.75% senior subordinated notes. As a result of this tender offer, a total of $186,186 of these notes were repurchased and the Corporation recorded a charge of $39,056 for the payment of the premium and other fees associated with the notes repurchased as well as for the write-off of related deferred financing costs. During 2006, the Corporation called the remaining 11.75% senior subordinated notes. As a result, a charge of $863 was recorded for the premium associated with the notes as well as for the write-off of the remaining related deferred financing costs.

Also, on June 29, 2001, the Corporation issued $175,000 of 7.00% convertible subordinated notes, due on July 15, 2006. The notes are convertible at the option of the holders into Class A common shares of the Corporation at any time before the close of business on July 15, 2006, at a conversion rate of 71.9466 common shares per $1 principal amount of notes. During 2006, $208 of these notes were converted into approximately 15,000 Class A common shares. If the remaining notes outstanding at February 28, 2006 were converted, this would result in the issuance of approximately 12,576,000 Class A common shares of the Corporation.

At February 28, 2006, the outstanding convertible notes of $174,792 were classified as Debt due within one year on the Consolidated Statement of Financial Position as it is the Corporation s intention to exchange these notes for new notes that will allow for settlement with a combination of cash and common shares.

The Corporation s 6.10% senior notes due on August 1, 2028 may be put back to the Corporation on August 1, 2008, at the option of the holders, at 100% of the principal amount provided the holders exercise this option between July 1, 2008 and August 1, 2008. These notes are secured by the domestic assets of the Corporation.

The total fair value of the Corporation s publicly traded debt, based on quoted market prices, was $582,502 (at a carrying value of $473,702) and $645,509 (at a carrying value of $483,519) at February 28, 2006 and 2005, respectively.

On May 11, 2004, the Corporation amended and restated its senior secured credit facility. This facility was originally entered into on August 9, 2001, as a $350,000 facility and was amended on July 22, 2002 to a $320,000 facility. The Corporation paid the remaining outstanding balance of $117,988 of the term loan on April 7, 2003. At that date, the Corporation recorded a charge of $4,639 for the write-off of related deferred financing costs and a premium associated with the early retirement of the loan. The amended and restated senior secured credit facility currently consists of a $200,000 revolving facility maturing on May 10, 2008. There were no outstanding balances under this facility at February 28, 2006 or 2005.

Table of Contents

The amended and restated credit facility is secured by the domestic assets of the Corporation and a 65% interest in the common stock of certain of its foreign subsidiaries. The Corporation pays an annual commitment fee of 25 basis points on the undrawn portion of the facility. The facility contains various restrictive covenants. Some of these restrictions require that the Corporation meet specified periodic financial ratios, minimum net worth, maximum leverage and interest coverage. The credit facility places certain restrictions on the Corporation s ability to incur additional indebtedness, to engage in acquisitions of other businesses, to repurchase its own capital stock and to pay shareholder dividends. These covenants are less restrictive than the covenants previously in place.

The Corporation is also party to a three-year accounts receivable securitization financing agreement that provides for up to $200,000 of financing and is secured by certain trade accounts receivable. Under the terms of the agreement, the Corporation transfers trade receivables to a wholly-owned consolidated subsidiary that in turn utilizes the receivables to secure borrowings through a credit facility with a financial institution. On August 2, 2004, the agreement was amended to extend the maturity date to August 1, 2007. The related interest rate is commercial paper-based. The Corporation pays an annual commitment fee of 25 basis points on the undrawn portion of the accounts receivable facility. There were no outstanding balances under this agreement at February 28, 2006 or 2005.

Refer to Note 19 for information regarding changes to the Corporation s debt and credit facilities subsequent to February 28, 2006.

At February 28, 2006, the Corporation was in compliance with its financial covenants under the borrowing agreements described above.

At February 28, 2006, debt due within one year was $174,792. There was no debt due within one year as of February 28, 2005.

At February 28, 2006 and 2005, long-term debt and their related calendar year due dates were as follows:

	2006	2005
6.10% Senior Notes, due 2028	$ 298,910	$ 298,503
11.75% Senior Subordinated Notes, due 2008		10,016
7.00% Convertible Subordinated Notes, due 2006		175,000
Other (due 2008 2011)	1,606	2,568
	$ 300,516	$ 486,087

Aggregate maturities of long-term debt are as follows:

2008	$ 671
2009	134
2010	118
2011	118
Thereafter	299,475
	$ 300,516

As part of its normal operations, the Corporation provides financing for certain transactions with some of its vendors, which includes a combination of various guarantees and letters of credit. At February 28, 2006, the Corporation had credit arrangements to support the letters of credit in the amount of $75,351 with $36,769 of credit outstanding.

Table of Contents

Interest paid in cash on short-term and long-term debt was $32,797 in 2006, $70,362 in 2005, and $74,624 in 2004. In 2006, interest expense included $863 for the payment of the premium associated with the remaining 11.75% notes repurchased as well as the write-off of related deferred financing costs. In 2005, interest expense included $39,056 for the payment of the premium and other fees associated with the 11.75% notes repurchased as well as for the write-off of related deferred financing costs. In 2004, interest expense included $18,389 for the write-off of deferred financing costs and the payment of the premium associated with the 11.75% notes repurchased and the term loan retirement.

NOTE 12 RETIREMENT PLANS

The Corporation has a non-contributory profit-sharing plan with a contributory 401(k) provision covering most of its United States employees. Corporate contributions to the profit-sharing plan were $12,384, $11,280 and $7,122 for 2006, 2005 and 2004, respectively. In addition, the Corporation matches a portion of 401(k) employee contributions contingent upon meeting specified annual operating results goals. The Corporation s matching contributions were $4,296, $4,682 and $4,778 for 2006, 2005 and 2004, respectively.

The Corporation also has several defined benefit and defined contribution pension plans covering certain employees in foreign countries. The cost of these plans was not material in any of the years presented. For the defined benefit plans, in the aggregate, the actuarially computed plan benefit obligation approximates the fair value of plan assets.

The Corporation also participates in a multi-employer pension plan covering certain domestic employees who are part of a collective bargaining agreement. Total pension expense for the multi-employer plan, representing contributions to the plan, was $988, $653 and $845 in 2006, 2005 and 2004, respectively.

In 2001, the Corporation assumed the obligations and assets of Gibson s defined benefit pension plan (the Retirement Plan) that covered substantially all Gibson employees who met certain eligibility requirements. Benefits earned under the Retirement Plan have been frozen and participants no longer accrue benefits after December 31, 2000. The Retirement Plan has a measurement date of February 28 or 29. The Corporation made discretionary contributions of $4,000 and $6,500 to the plan assets in 2006 and 2005, respectively, amounts sufficient to fully fund the Retirement Plan at both February 28, 2006 and 2005.

The Corporation also has a defined benefit pension plan (the Executive Plan) covering certain management employees. The Executive Plan has a measurement date of February 28 or 29. The Executive Plan was amended in 2005 to change the twenty-year cliff-vesting period with no minimum Executive Plan service requirements to a ten-year cliff-vesting period with a requirement that at least five years of that service must be as an Executive Plan participant.

Table of Contents

The following table sets forth summarized information on the Retirement Plan and Executive Plan:

	Retirement Plan		Executive Plan	
	2006	**2005**	**2006**	**2005**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 101,516	$ 96,012	$ 27,667	$ 26,140
Service cost			486	546
Interest cost	5,665	5,832	1,580	1,577
Plan amendments			1,195	872
Actuarial loss (gain)	3,339	6,125	337	(147)
Benefit payments	(6,519)	(6,453)	(1,489)	(1,321)
Benefit obligation at end of year	104,001	101,516	29,776	27,667
Change in plan assets:				
Fair value of plan assets at beginning of year	102,401	98,174		
Actual return on plan assets	5,087	4,180		
Employer contributions	4,000	6,500	1,489	1,321
Benefit payments	(6,519)	(6,453)	(1,489)	(1,321)
Fair value of plan assets at end of year	104,969	102,401		
Funded (underfunded) status at end of year	968	885	(29,776)	(27,667)
Unrecognized prior service cost			1,720	779
Unrecognized loss	20,839	16,950	3,868	3,552
Prepaid (accrued) benefit cost	$ 21,807	$ 17,835	$ (24,188)	$ (23,336)

The prepaid (accrued) benefit cost is included in the Consolidated Statement of Financial Position in the following captions:

	Retirement Plan		Executive Plan	
	2006	**2005**	**2006**	**2005**
Other liabilities	$	$	$ (26,664)	$ (25,187)
Other assets	21,807	17,835	1,720	779
Accumulated other comprehensive income			756	1,072
Prepaid (accrued) benefit cost	$ 21,807	$ 17,835	$ (24,188)	$ (23,336)

	Retirement Plan		Executive Plan	
	2006	**2005**	**2006**	**2005**
Assumptions:				
Weighted average discount rate used to determine:				
Benefit obligations at measurement date	5.50%	5.75%	5.50%	5.75%
Net periodic benefit cost	5.75%	6.25%	5.75%	6.25%
Expected long-term return on plan assets	7.00%	6.00%	N/A	N/A
Rate of compensation increase	N/A	N/A	6.50%	6.50%

For 2006, the net periodic pension cost for the Retirement Plan was based on a long-term asset rate of return of 7%. In developing the 7% expected long-term rate of return assumption, consideration was given to expected returns based on the current investment policy and historical return for the asset classes.

Table of Contents

A summary of the components of net periodic benefit cost for the Retirement Plan for the years ended February 28, 2006, February 28, 2005 and February 29, 2004, is as follows:

	2006	2005	2004
Interest cost	$ 5,665	$ 5,832	$ 5,944
Expected return on plan assets	(6,922)	(5,686)	(5,283)
Recognized net actuarial loss	1,285	44	
Net periodic benefit cost	$ 28	$ 190	$ 661

A summary of the components of net periodic benefit cost for the Executive Plan for the years ended February 28, 2006, February 28, 2005 and February 29, 2004, is as follows:

	2006	2005	2004
Service cost	$ 486	$ 546	$ 462
Interest cost	1,580	1,577	1,551
Amortization of prior service cost	254	93	
Recognized net actuarial loss	20	21	
Net periodic benefit cost	$ 2,340	$ 2,237	$ 2,013

At February 28, 2006 and 2005, the assets of the Retirement Plan are held in trust and allocated as follows:

	2006	2005
Equity securities	49%	47%
Debt securities	43%	43%
Cash and cash equivalents	8%	10%
	100%	100%

As of February 28, 2006, the investment policy for the Retirement Plan targets an approximately even distribution between equity securities and debt securities with a minimal level of cash maintained in order to meet obligations as they come due.

Although the Corporation does not anticipate that contributions to the Retirement Plan will be required in 2007, it may make contributions in excess of the legally required minimum contribution level. Any voluntary contributions by the Corporation are not expected to exceed deductible limits in accordance with Internal Revenue Service (IRS) regulations.

Based on historic patterns and currently scheduled benefit payments, the Corporation expects to contribute $1,607 to the Executive Plan in 2007.

The Executive Plan is a non-qualified and unfunded plan, and annual contributions, which are equal to benefit payments, are made from the Corporation s general funds.

The benefits expected to be paid out under the plans are as follows:

	Retirement Plan	Executive Plan

2007	$ 6,433	$ 1,607
2008	6,450	1,680
2009	6,504	1,685
2010	6,589	1,724
2011	6,663	1,935
2012 2016	35,441	10,212

57

Table of Contents

In addition, during 2005, the Corporation distributed shares held in a Rabbi Trust (see Consolidated Statement of Shareholders Equity) to its beneficiary.

NOTE 13 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time United States employees who meet certain age, service and other requirements. The plan is contributory; with retiree contributions adjusted periodically, and contains other cost-sharing features such as deductibles and coinsurance. The plan has a measurement date of February 28 or 29. The Corporation made significant changes to its retiree health care plan in 2002 by imposing dollar maximums on the per capita cost paid by the Corporation for future years. The Plan was amended in 2004 and 2005 to further limit the Corporation s contributions at certain locations. The Corporation maintains a trust for the payment of retiree health care benefits. This trust is funded at the discretion of management.

Summarized information on the postretirement medical benefit plan follows:

	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 125,780	$ 121,696
Service cost	3,224	2,597
Interest cost	7,060	7,692
Participant contributions	4,326	4,290
Plan amendments		(9,264)
Actuarial losses	2,641	8,481
Benefit payments	(9,912)	(9,712)
Benefit obligation at end of year	133,119	125,780
Change in plan assets:		
Fair value of plan assets at beginning of year	72,346	70,037
Actual return on plan assets	4,808	2,309
Employer contributions	5,587	5,422
Participant contributions	4,326	4,290
Benefit payments	(9,912)	(9,712)
Fair value of plan assets at end of year	77,155	72,346
Underfunded status at end of year	(55,964)	(53,434)
Unrecognized prior service credit	(41,227)	(48,621)
Unrecognized actuarial loss	86,746	90,671
Accrued benefit cost	$ (10,445)	$ (11,384)

	2006	2005	2004
Components of net periodic benefit cost:			
Service cost	$ 3,224	$ 2,597	$ 2,113
Interest cost	7,060	7,692	7,346
Expected return on plan assets	(4,804)	(5,327)	(4,491)
Amortization of prior service credit	(7,395)	(6,623)	(6,236)
Amortization of actuarial loss	6,562	6,767	7,186
Net periodic benefit cost	$ 4,647	$ 5,106	$ 5,918

58

Table of Contents

	2006	2005
Assumptions:		
Weighted average discount rate used to determine:		
Benefit obligations at measurement date	5.50%	5.75%
Net periodic benefit cost	5.75%	6.25%
Expected return on assets	7.00%	8.00%
Health care cost trend rates:		
For year ending February 28 or 29	10.5%	11.0%
For year following February 28 or 29	10.0%	10.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6.0%	6.0%
Year the rate reaches the ultimate trend rate	2014	2014

For 2006, the Corporation assumed a long-term asset rate of return of 7% to calculate the expected return for the plan. In developing the 7% expected long-term rate of return assumption, consideration was given to various factors, including a review of asset class return expectations based on historical 15-year compounded returns for such asset classes. This rate is also consistent with actual compounded returns earned by the plan over several years.

	2006	2005
Effect of a 1% increase in health care cost trend rate on:		
Service cost plus interest cost	$ 876	$ 823
Accumulated postretirement benefit obligation	9,942	8,155
Effect of a 1% decrease in health care cost trend rate on:		
Service cost plus interest cost	(739)	(450)
Accumulated postretirement benefit obligation	(8,446)	(7,075)

	2006	2005
Accumulated postretirement benefit obligation:		
Retired	$ 66,588	$ 73,695
Active entitled to full benefits	12,235	10,435
Other active	54,296	41,650
	$ 133,119	$ 125,780

At February 28, 2006 and 2005, the assets of the plan are held in trust and allocated as follows:

	2006	2005	Target Allocation	
Equity securities	32%	30%	15%	35%
Debt securities	64%	66%	55%	75%
Cash and cash equivalents	4%	4%	0%	20%
Total	100%	100%		

The investment policy for the plan targets a distribution among equity securities, debt securities and cash and cash equivalents as noted above. All investments are actively managed, with debt securities averaging 2.5 years to maturity with a credit rating of A or better. This policy is subject to review and change.

The Corporation does not anticipate contributing to the plan in 2007.

59

Table of Contents

The benefits expected to be paid by the postretirement medical plan are as follows:

	Excluding Effect of Medicare Part D Subsidy	Including Effect of Medicare Part D Subsidy
2007	$ 7,990	$ 6,971
2008	8,459	7,275
2009	9,013	7,635
2010	9,517	7,914
2011	10,173	8,320
2012 2016	56,863	44,706

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act provides plan sponsors a federal subsidy for certain qualifying prescription drug benefits covered under the sponsor s postretirement health care plans. FASB Staff Position No. FAS 106-2 (FSP 106-2), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, was issued on May 19, 2004. FSP 106-2 provides guidance on accounting for the effects of the new Medicare prescription drug legislation by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. FSP 106-2 also contains basic guidance on related income tax accounting and complex rules for transition that permit various alternative prospective and retroactive transition approaches. The effect of the adoption of FSP 106-2 was a reduction of the net periodic postretirement benefit cost in 2005 of approximately $390. The adoption of FSP 106-2 also reduced the accumulated postretirement benefit obligation by approximately $6,143 during 2005.

NOTE 14 LONG-TERM LEASES AND COMMITMENTS

The Corporation is committed under noncancelable operating leases for commercial properties (certain of which have been subleased) and equipment, terms of which are generally less than 25 years. Rental expense under operating leases for the years ended February 28, 2006, February 28, 2005 and February 29, 2004, are as follows:

	2006	2005	2004
Gross rentals	$ 56,258	$ 64,084	$ 71,262
Sublease rentals	(436)	(404)	(266)
Net rental expense	$ 55,822	$ 63,680	$ 70,996

At February 28, 2006, future minimum rental payments for noncancelable operating leases, net of aggregate future minimum noncancelable sublease rentals, are as follows:

Gross rentals:	
2007	$ 34,156
2008	28,720
2009	23,772
2010	18,537
2011	14,151
Later years	21,978
	141,314
Sublease rentals	(2,731)
Net rentals	$ 138,583

Table of Contents

NOTE 15 COMMON SHARES AND STOCK OPTIONS

At February 28, 2006 and 2005, common shares authorized consisted of 187,600,000 Class A and 15,832,968 Class B common shares.

Class A common shares have one vote per share and Class B common shares have ten votes per share. There is no public market for the Class B common shares of the Corporation. Pursuant to the Corporation s Amended 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.

Under the Corporation s Stock Option Plans, options to purchase Class A and/or Class B common shares are granted to directors, officers and other key employees at the then-current market price. In general, subject to continuing service, options become exercisable commencing twelve months after date of grant in annual installments and expire over a period of not more than ten years from the date of grant. The Corporation, from time to time, makes certain grants whereby the vesting or exercise periods have the potential to be accelerated if the market value of the Corporation s Class A common shares reaches certain specified prices. These grants are subject to the terms of the applicable option plans and agreements. These types of grants are not material to the total number of options outstanding at February 28, 2006.

During 2006, approximately 180,000 performance shares were awarded to certain executive officers under the American Greetings 1997 Equity and Performance Incentive Plan. The performance shares represent the right to receive Class B common shares, at no cost to the officer, upon achievement of management objectives over a five-year performance period. The performance shares are in lieu of a portion of the officer s annual cash bonus. The number of performance shares actually earned will be based on the percentage of the officer s target incentive award, if any, that the officer achieves during the performance period under the Annual Incentive Plan. The Corporation recognizes compensation expense related to performance shares ratably over the estimated vesting period. Compensation costs recognized for approximately 60,000 performance shares vesting in 2006 were approximately $1,300. In 2005, approximately 60,000 deferred and restricted shares were earned by these same officers in lieu of a portion of their annual cash bonus for that year. These awards were valued at approximately $1,400.

Table of Contents

Stock option transactions and prices are summarized as follows:

	Number of Options		Weighted-Average Exercise Price Per Share	
	Class A	Class B	Class A	Class B
Options outstanding				
February 28, 2003	7,962,801	1,017,973	$ 18.76	$ 20.89
Granted	1,551,718		14.31	
Exercised	(1,566,499)	(31,600)	11.45	9.95
Cancelled	(518,810)	(420)	23.30	48.06
Options outstanding				
February 29, 2004	7,429,210	985,953	$ 19.06	$ 21.23
Granted	1,400,738	361,342	20.88	21.33
Exercised	(2,049,106)	(489,080)	14.93	12.31
Cancelled	(498,512)	(38,000)	22.09	26.33
Options outstanding				
February 28, 2005	6,282,330	820,215	$ 20.57	$ 26.36
Granted	1,125,005	228,790	24.93	25.06
Exercised	(1,490,895)	(58,009)	16.11	20.85
Cancelled	(520,960)	(97,114)	26.70	27.37
Options outstanding				
February 28, 2006	5,395,480	893,882	$ 22.12	$ 26.28
Options exercisable at February 28/29:				
2006	3,635,083	539,426	$ 21.77	$ 28.13
2005	4,362,271	627,215	21.55	28.16
2004	5,299,372	985,953	20.94	21.23

The weighted-average remaining contractual life of the options outstanding as of February 28, 2006 is 5.7 years.

The range of exercise prices for options outstanding is as follows:

	Outstanding		Exercisable		
Exercise Price Ranges	Optioned Shares	Weighted-Average Exercise Price	Optioned Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)
$ 8.50 $19.81	1,281,083	$ 14.19	1,136,749	$ 14.14	6.44
20.02 20.51	1,056,417	20.51	447,243	20.51	8.18
20.70 22.26	174,405	21.76	152,905	21.86	6.48
22.30 23.56	1,235,250	23.52	1,213,750	23.53	3.25
23.68 24.73	1,143,700	24.68	78,400	24.03	8.88
24.75 29.44	362,445	26.61	109,400	27.47	7.53
29.50	862,400	29.50	862,400	29.50	0.93
30.50 50.00	172,462	39.33	172,462	39.33	1.88
50.25	1,200	50.25	1,200	50.25	2.33
$ 8.50 $50.25	6,289,362		4,174,509		

The number of shares available for future grant at February 28, 2006 is 3,965,392 Class A common shares and 1,018,743 Class B common shares.

Table of Contents

NOTE 16 BUSINESS SEGMENT INFORMATION

The Corporation is organized and managed according to a number of factors, including product categories, geographic locations and channels of distribution. During the fourth quarter of 2006, the Corporation modified its segment reporting to reflect changes in how the Corporation s operations are managed, viewed and evaluated. Prior periods have been reclassified to conform to the new segment disclosures.

The North American Social Expression Products and International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution with mass retailers as the primary channel. As permitted under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, certain operating divisions have been aggregated into both the North American Social Expression Products and International Social Expression Products segments. The aggregated operating divisions have similar economic characteristics, products, production processes, types of customers and distribution methods.

At February 28, 2006, the Corporation owned and operated 503 card and gift retail stores in the United States and Canada through its Retail Operations segment. The stores are primarily located in malls and strip shopping centers. The stores sell products purchased from the North American Social Expression Products Segment as well as products purchased from other vendors.

AG Interactive is an electronic provider of social expression content through the Internet and wireless platforms.

The Corporation s non-reportable operating segments primarily include licensing activities, distribution of supplemental educational products and the design, manufacture and sale of display fixtures.

The Corporation s senior management evaluates segment performance based on earnings before foreign currency exchange gains or losses, interest income, interest expense, centrally-managed costs and income taxes. The accounting policies of the reportable segments are the same as those described in Note 1 Significant Accounting Policies, except those that are related to LIFO or applicable to only corporate items.

Intersegment sales from the North American Social Expression Products segment to the Retail Operations segment are recorded at estimated arm s-length prices. Intersegment sales and profits are eliminated in consolidation. All inventories resulting from intersegment sales are carried at cost. Accordingly, the Retail Operations segment records full profit upon its sales to consumers.

The reporting and evaluation of segment assets include net accounts receivable, inventory on a FIFO basis, display materials and factory supplies, prepaid expenses, other assets (including net deferred costs), and net property, plant and equipment.

Segment results are internally reported and evaluated at consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. An exchange rate adjustment is included in the reconciliation of the segment results to the consolidated results; this adjustment represents the impact on the segment results of the difference between the exchange rates used for segment reporting and evaluation and the actual exchange rates for the periods presented.

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items include interest expense on centrally-incurred debt and domestic profit-sharing expense. In addition, the costs associated with corporate operations including the senior management, corporate finance, legal and human resource functions, among other costs, are included in the unallocated items.

Table of Contents

Geographical Information

	Net Sales			Fixed Assets Net	
	2006	2005	2004	2006	2005
United States	$ 1,437,788	$ 1,432,578	$ 1,543,203	$ 251,305	$ 273,770
Foreign	447,913	450,789	394,337	52,754	63,058
Consolidated	$ 1,885,701	$ 1,883,367	$ 1,937,540	$ 304,059	$ 336,828

The United Kingdom accounts for approximately 12% of consolidated net sales in 2006 and 2005 and 9% in 2004. It also accounts for approximately 11% and 12% of consolidated fixed assets-net in 2006 and 2005, respectively.

Product Information

	Net Sales		
	2006	2005	2004
Everyday greeting cards	$ 717,622	$ 684,102	$ 743,743
Seasonal greeting cards	404,227	365,894	365,519
Gift-wrap and wrap accessories	293,549	326,436	320,055
All other	470,303	506,935	508,223
Consolidated	$ 1,885,701	$ 1,883,367	$ 1,937,540

Operating Segment Information

	Net Sales			Segment Earnings (Loss)		
	2006	2005	2004	2006	2005	2004
North American Social Expression Products	$ 1,318,892	$ 1,303,480	$ 1,379,670	$ 294,395	$ 237,596	$ 307,334
Intersegment items	(56,619)	(63,623)	(77,460)	(40,729)	(46,630)	(55,090)
Exchange rate adjustment	9,388	4,200	571	3,705	1,649	91
Net	1,271,661	1,244,057	1,302,781	257,371	192,615	252,335
International Social Expression Products	276,405	289,957	287,458	(11,189)	44,923	50,814
Exchange rate adjustment	(573)	4,676	(22,036)	(2,250)	831	(4,179)
Net	275,832	294,633	265,422	(13,439)	45,754	46,635
Retail Operations	206,765	238,159	272,917	(33,220)	(20,685)	4,269
Exchange rate adjustment	9,551	4,759	126	698	317	16
Net	216,316	242,918	273,043	(32,522)	(20,368)	4,285
AG Interactive	89,616	57,740	36,427	4,237	(1,022)	4,540
Exchange rate adjustment	(47)	179		27	(54)	
Net	89,569	57,919	36,427	4,264	(1,076)	4,540
Non-reportable segments	28,877	44,746	65,365	24,146	30,045	10,600
Unallocated	3,446	(906)	(5,498)	(100,903)	(140,030)	(159,956)

Exchange rate adjustment				18	(115)	82
Net	3,446	(906)	(5,498)	(100,885)	(140,145)	(159,874)
Consolidated	$ 1,885,701	$ 1,883,367	$ 1,937,540	$ 138,935	$ 106,825	$ 158,521

64

Table of Contents

	Depreciation and Amortization			Capital Expenditures		
	2006	2005	2004	2006	2005	2004
North American Social Expression Products	$ 34,170	$ 37,125	$ 37,879	$ 36,421	$ 32,072	$ 17,707
Exchange rate adjustment	25	13	3	9	6	2
Net	34,195	37,138	37,882	36,430	32,078	17,709
International Social Expression Products	5,552	6,329	7,023	1,729	4,298	2,493
Exchange rate adjustment	(22)	84	(550)	(9)	54	(190)
Net	5,530	6,413	6,473	1,720	4,352	2,303
Retail Operations	7,211	6,511	7,678	5,878	8,638	8,959
Exchange rate adjustment	265	100	3	147	174	2
Net	7,476	6,611	7,681	6,025	8,812	8,961
AG Interactive	4,891	3,982	4,402	1,704	1,427	1,224
Exchange rate adjustment	(6)	5		(1)		
Net	4,885	3,987	4,402	1,703	1,427	1,224
Non-reportable segments	1,145	1,137	1,159	252	406	1,344
Unallocated	991	1,006	1,313	58	168	
	$ 54,222	$ 56,292	$ 58,910	$ 46,188	$ 47,243	$ 31,541

	Assets	
	2006	2005
North American Social Expression Products	$ 1,028,223	$ 1,162,761
Exchange rate adjustment	2,810	2,459
Net	1,031,033	1,165,220
International Social Expression Products	268,785	289,522
Exchange rate adjustment	(10,454)	22,649
Net	258,331	312,171
Retail Operations	62,086	77,402
Exchange rate adjustment	3,671	1,936
Net	65,757	79,338
AG Interactive	96,610	96,946
Exchange rate adjustment	(726)	1,944
Net	95,884	98,890
Non-reportable segments	41,832	38,285
Unallocated and intersegment items	719,452	823,282
Exchange rate adjustment	6,673	7,021
Net	726,125	830,303
Consolidated	$ 2,218,962	$ 2,524,207

Termination Benefits and Plant Closings

Termination benefits are primarily considered part of an ongoing benefit arrangement, accounted for in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits, and are recorded when payment of the benefits is probable and can be reasonably estimated.

Table of Contents

During 2006, the Corporation recorded a severance charge of $4,443 related to the planned Lafayette, Tennessee plant closure and other headcount reductions. The plant closure is targeted for late spring in calendar year 2006.

During 2005, the Corporation recorded a severance charge of $18,333 related to an overhead reduction program that eliminated approximately 300 associates and the Franklin, Tennessee plant closure.

The following table summarizes these charges by segment:

	2006	2005
North American Social Expression Products	$ 2,952	$ 14,797
Retail Operations	466	496
AG Interactive	880	
Non-reportable		442
Unallocated	145	2,598
Total	$ 4,443	$ 18,333

The remaining balance of the severance accrual was $9,148 and $13,590 at February 28, 2006 and 2005, respectively.

In connection with the Franklin plant closing, the North American Social Expression Products segment incurred additional costs of $10,842 in 2005 and $5,345 in 2006 for the write-down of the building, the write-off of equipment disposed, moving costs and various other related expenses.

Retail Leases

During 2005, the Retail Operations segment reviewed its accounting for leases and recorded a charge of $4,883 during the fourth quarter to correct certain errors that were identified. This correction related solely to accounting treatment and did not impact historic or future cash flows and did not have a material impact on current or prior year consolidated financial statements.

NOTE 17 INCOME TAXES

Income from continuing operations before income taxes:

	2006	2005	2004
United States	$ 150,345	$ 53,672	$ 103,054
Foreign	(11,410)	53,153	55,467
	$ 138,935	$ 106,825	$ 158,521

Income taxes (benefit) from the Corporation s continuing operations have been provided as follows:

	2006	2005	2004
Current:			
Federal	$ 13,790	$ 10,784	$ (2,910)
Foreign	4,707	31,206	9,994
State and local	416	4,928	574
	18,913	46,918	7,658

Deferred	29,897	(9,590)	54,204
	$ 48,810	$ 37,328	$ 61,862

Table of Contents

Significant components of the Corporation s deferred tax assets and liabilities as reflected in the Consolidated Statement of Financial Position at February 28, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Employee benefit and incentive plans	$ 16,821	$ 17,974
Net operating loss carryforwards	53,993	61,491
Deferred capital loss	5,608	5,608
Reserves not currently deductible	39,871	76,786
Charitable contributions carryforward	5,159	9,040
Foreign tax credit carryforward	7,048	17,702
Other	19,859	12,522
	148,359	201,123
Valuation allowance	(41,336)	(47,147)
Total deferred tax assets	107,023	153,976
Deferred tax liabilities:		
Inventory costing		3,033
Depreciation	28,638	31,666
Other	13,003	18,405
Total deferred tax liabilities	41,641	53,104
Net deferred tax assets	$ 65,382	$ 100,872

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases as well as from net operating loss and tax credit carryforwards, and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income tax payments in future years. The Corporation s deferred tax assets at February 28, 2006 and 2005 include foreign tax credits that will be realized as a result of the American Jobs Creation Act of 2004 which increased the foreign tax credit (FTC) carryover period from five years to ten years. In 2005, the Corporation removed its valuation allowance against the FTC carryforwards. The Corporation believes it is more likely than not that it will utilize these credits.

The Corporation periodically reviews the need for a valuation allowance against deferred tax assets and recognizes these deferred tax assets to the extent that realization is more likely than not. Based upon a review of earnings history and trends, forecasted earnings and the relevant expiration of carryforwards, the Corporation believes that the valuation allowances provided are appropriate. At February 28, 2006, the valuation allowance of $41,336 related principally to certain foreign and domestic net operating loss carryforwards and the deferred capital loss.

Reconciliation of the Corporation s income tax expense from continuing operations at the U.S. statutory rate to the actual effective income tax rate is as follows:

	2006	2005	2004
Income tax expense at statutory rate	$ 48,627	$ 37,389	$ 55,482
State and local income taxes, net of federal tax benefit	5,718	3,314	4,657
Canada income tax audit assessment		12,961	945
Tax-exempt interest	(2,788)	(781)	(153)
Nondeductible goodwill	4,170		
Research and experimental tax credits	(4,069)		
Foreign differences	2,028	(212)	(2,474)
Foreign tax credit related matters	(2,447)	(12,358)	3,401
Other	(2,429)	(2,985)	4

Income tax at effective tax rate	$ 48,810	$ 37,328	$ 61,862

Table of Contents

Income taxes paid from continuing operations were $43,267 in 2006, $50,760 in 2005, and $34,702 in 2004. As of February 28, 2006, the Corporation has projected income tax refunds of $66,061 related to federal amended returns filed and IRS exam adjustments for 2000 through 2003 and current year tax overpayments.

At February 28, 2006, the Corporation had deferred tax assets of approximately $29,607 related to foreign net operating loss carryforwards, of which $15,625 have no expiration dates and $13,982 have expiration dates ranging from 2007 through 2013. In addition, the Corporation had deferred tax assets related to domestic net operating loss, state net operating loss, charitable contribution and FTC carryforwards of approximately $7,373, $17,012, $5,158 and $7,048, respectively. The federal net operating loss carryforward expires in 2021. The state net operating loss carryforwards have expiration dates ranging from 2004 to 2026. The charitable contribution carryforwards have expiration dates ranging from 2007 to 2009. The FTC carryforwards have expiration dates ranging from 2011 to 2014.

During the fourth quarter of 2005, the Canada Customs and Revenue Agency issued a tax assessment to the Corporation for certain income tax issues relating to the years 2000 through 2002. The Corporation recorded a tax expense, including interest and penalties, of $12,961 in 2005 related to the assessment. During 2006, the Corporation made payments to satisfy the liability related to this assessment.

Deferred taxes have not been provided on approximately $112,539 of undistributed earnings of foreign subsidiaries since substantially all of these earnings are necessary to meet their business requirements. It is not practicable to calculate the deferred taxes associated with these earnings; however, foreign tax credits would be available to reduce federal income taxes in the event of distribution.

NOTE 18 DISCONTINUED OPERATIONS

In February 2006, the Corporation committed to a plan to sell its South African business unit. It had been determined that the business unit was no longer a strategic fit for the Corporation. The Corporation has identified the assets and liabilities of the business as held for sale. The sale is expected to be finalized in fiscal 2007.

On July 30, 2004, the Corporation announced it had signed a letter of agreement to sell its Magnivision nonprescription reading glasses business to AAiFosterGrant, a unit of sunglasses maker Foster Grant. The sale reflects the Corporation s strategy to focus its resources on business units closely related to its core social expression business. The sale of Magnivision closed in the third quarter of 2005 during which the Corporation received cash proceeds of $77,000 and recorded a pre-tax gain of $35,525. See Note 19 for further discussion.

In the third quarter of 2006, a modification of the differential of the inside and outside tax basis of the gain on the sale of Magnivision resulted in a $2,620 tax benefit which was recorded as Income from discontinued operations, net of tax on the Consolidated Statement of Income.

The Magnivision and South African business units meet the definition of a component of an entity and have been accounted for as discontinued operations under SFAS 144. Accordingly, the Corporation s consolidated financial statements and related notes have been presented to reflect both as discontinued operations for all periods presented. Magnivision was previously included within the Corporation s non-reportable segments and the South African business unit was included within the former Social Expression Products segment.

68

Table of Contents

The following summarizes the results of discontinued operations for the periods presented:

	2006	2005	2004
Net sales	$ 18,434	$ 50,325	$ 72,726
Pre-tax (loss) income from operations	(8,380)	6,238	12,229
Gain on sale		35,525	
	(8,380)	41,763	12,229
Income tax (benefit) expense	(2,631)	15,981	4,218
(Loss) income from discontinued operations	$ (5,749)	$ 25,782	$ 8,011

The pre-tax loss of $8,380 in 2006 includes $3,494 of fixed asset impairment charges in accordance with SFAS 144 and $2,453 of goodwill impairment charges in accordance with SFAS 142, representing all the goodwill of the reporting unit. Additional charges of $5,921 were recorded for the write-off of deferred costs and other inventory and receivable reductions. The charges and impairments were primarily recorded as a result of the intention to sell the business, and therefore, present the operation at its fair value.

At February 28, 2006 and 2005, Assets of businesses held for sale and Liabilities of businesses held for sale in the Consolidated Statement of Financial Position include the following:

	2006	2005
Assets of businesses held for sale:		
Current assets	$ 11,277	$ 13,543
Other assets	1,713	7,308
Fixed assets		4,564
	$ 12,990	$ 25,415
Liabilities of businesses held for sale:		
Current liabilities	$ 3,016	$ 5,026
Noncurrent liabilities		12
	$ 3,016	$ 5,038

NOTE 19 SUBSEQUENT EVENTS

Refinancing Activities

On April 4, 2006, the Corporation entered into a new $650,000 credit agreement, dated April 4, 2006. The new credit agreement includes a $350,000 revolving credit facility and a secured $300,000 delay draw term loan. In connection with the execution of this new agreement, the Corporation s amended and restated credit agreement dated May 11, 2004 was terminated. The obligations under the new credit agreement are guaranteed by the Corporation s material domestic subsidiaries and are secured by substantially all of the personal property of the Corporation and each of the material domestic subsidiaries, including a pledge of all of the capital stock in substantially all of the Corporation s domestic subsidiaries and 65% of the capital stock of the Corporation s first tier foreign subsidiaries. The revolving loans will mature on April 4, 2011, and the term loans will mature on April 4, 2013. Each term loan will amortize in equal quarterly installments equal to 0.25% of the amount of such term loan, beginning on April 4, 2007, with the balance payable on April 4, 2013.

Term loans under the new credit agreement will bear interest at a rate per annum based on either the London Inter-Bank Offer Rate (LIBOR) plus 150 basis points or based on the alternate base rate (ABR), as defined in the credit agreement, plus 25 basis points. Revolving loans denominated in US dollars will bear interest at a rate per annum based on the then applicable LIBOR or ABR rate, in each case, plus margins adjusted according to the Corporation s leverage ratio.

Table of Contents

The credit agreement contains certain restrictive covenants that are customary for similar credit arrangements, including covenants relating to limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions and transactions with affiliates. There are also financial performance covenants that require the Corporation to maintain a maximum leverage ratio and a minimum interest coverage ratio. The credit agreement also requires the Corporation to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions, events of loss and additional indebtedness that the Corporation may incur from time to time.

Also, on April 4, 2006, the Corporation reduced the available financing under its accounts receivable securitization financing agreement from $200,000 to $150,000.

On April 6, 2006, the Corporation commenced a cash tender offer, subject to several conditions, for all of its $300,000 of outstanding 6.10% senior notes due on August 1, 2028 and a consent solicitation to amend the related note indenture. The consent solicitation seeks consents from holders of the notes to eliminate certain restrictive covenants and events of default from the note indenture. The Corporation is undertaking this initiative to increase its financial flexibility. The commencement date of this offer was April 6, 2006, and the expected expiration date is May 24, 2006. As of April 19, 2006, the Corporation had received sufficient consents to amend the indenture governing the notes.

Also, on April 6, 2006, the Corporation commenced an exchange offer for its existing 7.00% convertible subordinated notes for a new series of convertible notes with substantially the same terms except that the new convertible notes will permit the Corporation to settle the conversion of the new notes in cash and stock, whereas the old notes were convertible into stock only. Assuming all of the notes are exchanged, the net effect on the financial statements will be to use approximately $175,000 of cash to settle, in July 2006, a portion of the total conversion value.

Discontinued Operations

On March 21, 2006, the arbitrator issued its draft award concerning the closing balance sheet working capital adjustments related to the Magnivision sale, ruling in the Corporation s favor on approximately 95% of the claims. The draft award is subject to revision by the arbitrator and both parties have filed responses to the draft award. The ultimate adjustment to the sales price of Magnivision is not expected to exceed 10% of the cash proceeds. In accordance with SFAS No. 5, Accounting for Contingencies, the Corporation will not record any favorable adjustment until the final settlement is received.

Table of Contents

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Thousands of dollars except per share amounts

The business exhibits seasonality, which is typical for most companies in the retail industry. Sales are higher in the second half of the year due to the concentration of major holidays during that period. Net earnings are highest during the months of September through December when sales volumes provide significant operating leverage. Working capital requirements needed to finance operations fluctuate during the year and reach their highest levels during the second and third fiscal quarters as inventory is increased in preparation for the peak selling season.

The following is a summary of the unaudited quarterly results of operations for the years ended February 28, 2006 and 2005:

	Quarter Ended			
	May 31	**Aug 31**	**Nov 30**	**Feb 28**
Fiscal 2006				
Net sales	$ 439,469	$ 384,965	$ 551,991	$ 509,276
Gross profit	261,039	210,394	277,756	286,354
Income from continuing operations	26,908	3,804	8,783	50,630
(Loss) income from discontinued operations, net of tax	(494)	(563)	4,144	(8,836)
Net income	26,414	3,241	12,927	41,794
Earnings per share:				
Continuing operations	$ 0.40	$ 0.06	$ 0.14	$ 0.81
Net income	0.39	0.05	0.20	0.67
Earnings per share assuming dilution:				
Continuing operations	0.36	0.06	0.14	0.70
Net income	0.35	0.05	0.19	0.58
Dividends declared per share	0.08	0.08	0.08	0.08

During the fourth quarter, the Corporation committed to a plan to sell its South African business unit. Accordingly, the business was reclassified as discontinued operations and prior periods were restated.

For 2006, the Corporation s subsidiary, AG Interactive, changed its fiscal year-end to coincide with the Corporation s fiscal year-end. As a result, the quarter ended May 31, 2006 included five months of AG Interactive s operations. The additional two months of activity generated revenues of approximately $11,000, but had no impact on earnings.

The first quarter included a pre-tax charge of $862 related to the repurchase of the Corporation s remaining 11.75% senior subordinated notes and a pre-tax charge of $3,238 associated with a plant closure. The second quarter included a pre-tax charge of $2,107 associated with a plant closure. The third quarter included a pre-tax goodwill impairment charge of $43,153, a pre-tax charge of $2,074 for a planned plant closure, and a pre-tax fixed asset impairment charge of $2,376. The fourth quarter included a pre-tax fixed asset impairment charge of $1,580, a pre-tax charge of $2,369 for an overhead reduction program and a pre-tax charge, recorded in discontinued operations, of $11,868 associated with impairments at the South African business unit.

Table of Contents

	Quarter Ended			
	May 31	Aug 31	Nov 30	Feb 28
Fiscal 2005				
Net sales	$ 430,276	$ 388,881	$ 578,705	$ 485,505
Gross profit	250,435	204,175	289,611	244,036
Income from continuing operations	3,313	6,458	38,599	21,127
Income from discontinued operations, net of tax	925	452	24,162	243
Net income	4,238	6,910	62,761	21,370
Earnings per share:				
Continuing operations	$ 0.05	$ 0.09	$ 0.56	$ 0.31
Net income	0.06	0.10	0.91	0.31
Earnings per share assuming dilution:				
Continuing operations	0.05	0.09	0.49	0.28
Net income	0.06	0.10	0.78	0.28
Dividends declared per share			0.06	0.06

During the fourth quarter of 2006, the Corporation committed to a plan to sell its South African business unit. Accordingly, the business was reclassified as discontinued operations and prior periods were restated.

The first quarter included a pre-tax charge of $39,024 related to the repurchase of a portion of the Corporation s 11.75% senior subordinated notes. The second quarter included a pre-tax gain of $10,000 resulting from the modification of certain agreements related to licensing activities. The third quarter included a pre-tax charge of $16,570 associated with an overhead reduction program, a pre-tax charge of $13,000 related to the implementation of a new merchandising strategy for seasonal space management, a pre-tax charge of $8,233 associated with a plant closure and a pre-tax gain of $35,525 on the sale of a discontinued operation. The fourth quarter included a pre-tax charge of $29,769 associated with scan-based trading conversions, a pre-tax charge of $6,376 associated with a plant closure, a pre-tax charge of $4,883 for a correction in the accounting for certain operating leases and an after-tax benefit of $4,194 resulting primarily from changes in tax laws.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no disagreements with our independent registered public accounting firm on accounting or financial disclosure matters within the three year period ended February 28, 2006, or in any period subsequent to such date.

Item 9A. Controls and Procedures

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

American Greetings carries out a variety of on-going procedures, under the supervision and with the participation of the Corporation s management, including its Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of American Greetings concluded that the Corporation s disclosure controls and procedures were effective as of February 28, 2006.

Report of Management on Internal Control Over Financial Reporting. The management of American Greetings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. American Greetings internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

American Greetings management assessed the effectiveness of the Corporation s internal control over financial reporting as of February 28, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management s assessment under COSO s Internal Control-Integrated Framework, management believes that as of February 28, 2006, American Greetings internal control over financial reporting is effective.

Ernst & Young LLP, independent registered public accounting firm, has issued an audit report on management s assessment of American Greetings internal control over financial reporting and on the effectiveness of internal control over financial reporting. This attestation report is included in Part II, Item 8, at page 38 of this Annual Report on Form 10-K.

/s/ ZEV WEISS	/s/ MICHAEL J. MERRIMAN, JR.
Zev Weiss	**Michael J. Merriman, Jr.**
Chief Executive Officer	**Chief Financial Officer**
(Principal Executive Officer)	**(Principal Financial Officer)**

Changes in Internal Controls. There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable

Table of Contents

PART III

Item 10. Directors and Executive Officers of the Registrant

We hereby incorporate by reference the information called for by this Item 10 from the information contained in (i) our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 23, 2006 under the headings and with subheadings Election of Directors, Security Ownership Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance and (ii) for information regarding executive officers, Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

We hereby incorporate by reference the information called for by this Item 11 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 23, 2006 under the heading Information Concerning Executive Officers and Proposal No. 1 Election of Directors Directors Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We hereby incorporate by reference the information called for by this Item 12 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 23, 2006 under the headings Security Ownership Security Ownership of Management and Security Ownership Security Ownership of Certain Beneficial Owners.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common shares that may be issued under our equity compensation plans as of February 28, 2006.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	6,289,362	$ 22.71	4,984,135
Equity compensation plans not approved by security holders		N/A	
Total	6,289,362	$ 22.71	4,984,135

(1) Column (a) represents the number of common shares that may be issued in connection with the exercise of outstanding stock options. The amount includes 5,395,480 Class A common shares and 893,882 Class B common shares. The amount excludes 239,456 Class B common shares that may be issued upon the vesting of outstanding restricted stock and deferred share unit awards and the settlement of outstanding performance shares that have been awarded under the Corporation s equity compensation plans, assuming the maximum performance or other criteria have been achieved. If the performance or other criteria are not achieved, these Class B common shares would become available for future grants and awards.

Column (b) is the weighted-average exercise price of outstanding stock options; excludes restricted stock, deferred shares, performance shares and deferred compensation share units.

Table of Contents

Column (c) includes 3,965,392 Class A common shares and 1,018,743 Class B common shares, which shares may generally be issued under the Corporation s equity compensation plans upon the exercise of stock options or stock appreciation rights and/or awards of deferred shares, performance shares or restricted stock.

Pursuant to the 1995 Director Stock Plan, non-employee directors may make an election prior to the beginning of each fiscal year to receive the Corporation s Class A and/or Class B common shares in lieu of all or a portion of the fees due to such Director as compensation for serving on the Corporation s Board of Directors. For purposes of determining the number of shares to be issued in lieu of such fees, the shares are valued based on the closing price of the Class A common shares on the last trading day of the calendar quarter prior to the payment of such fees. The amounts reflected in column (c) do not reflect the number of shares that may be issued from time to time under the 1995 Director Stock Plan as payment for Director fees because there is no maximum number of shares that may be so issued.

Item 13. Certain Relationships and Related Transactions

We hereby incorporate by reference the information called for by this Item 13 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 23, 2006 under the heading Information Concerning Executive Officers Certain Relationships and Related Transactions.

Item 14. Principal Accounting Fees and Services

We hereby incorporate by reference the information called for by this Item 14 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 23, 2006 under the heading Independent Registered Public Accounting Firm Fees Paid to Ernst & Young LLP.

(Next item is Part IV)

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K

1. Financial Statements

2. Financial Statement Schedules

3. Exhibits required by Item 601 of Regulation S-K

Item	Description
3	Articles of Incorporation and By-laws.

(i) Amended Articles of Incorporation of the Corporation.

This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.

(ii) Amendment to Amended Articles of Incorporation of the Corporation.

This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.

(iii) Amended Regulations of the Corporation.

This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.

4 Instruments Defining the Rights of Security Holders, including indentures

(i) Trust Indenture, dated as of July 27, 1998.

This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.

Table of Contents

Item		Description
	(ii)	Indenture, dated as of June 29, 2001, between the Corporation, as issuer, and The Huntington National Bank, as Trustee, with respect to the Corporation s 11.75% Senior Subordinated Notes due 2008. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-4 (Registration No. 333-68536), dated August 28, 2001, and is incorporated herein by reference.
	(iii)	First Supplemental Indenture, dated May 12, 2004, to the Indenture dated June 29, 2001, with respect in the Corporation s 11.75% Senior Subordinated Notes due 2008, between the Corporation, as issuer, and The Huntington National Bank, as Trustee. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended May 31, 2004, and is incorporated herein by reference.
	(iv)	Indenture, dated as of June 29, 2001, between the Corporation, as issuer, and National City Bank, as Trustee, with respect to the Corporation s 7.00% Convertible Subordinated Notes due July 15, 2006. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-3 (Registration No. 333-68526), dated August 28, 2001, and is incorporated herein by reference.
10	Material Contracts	
	(i)	Credit Agreement, dated May 11, 2004, among the following: (i) the Corporation, (ii) National City Bank, as an LC issuer, swing line lender and as the lead arranger and global agent, (iii) KeyBank National Association, as lender and syndication agent, (iv) LaSalle Bank National Association, as lender, LC issuer and documentation agent, and (v) certain named financial institutions as lenders (the Credit Agreement). Certain exhibits and schedules to the Credit Agreement have been excluded and will be furnished to the SEC upon request. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended May 31, 2004, and is incorporated herein by reference.
	(ii)	Amendment No. 1 to the Credit Agreement and Waiver and Consent, dated as of January 28, 2005, among the Corporation, National City Bank as the Global Agent and as Collateral Agent, and certain named financial institutions as lenders. Certain exhibits and schedules to the Credit Agreement have been excluded and will be furnished to the SEC upon request. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
	(iii)	Amendment No. 2 to the Credit Agreement, dated as of April 1, 2005, among the Corporation, National City Bank as the Global Agent and as Collateral Agent, and certain named financial institutions as lenders. Certain exhibits and schedules to the Credit Agreement have been excluded and will be furnished to the SEC upon request. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
	(iv)	Amendment No. 3 to the Credit Agreement, dated as of January 31, 2006, among the Corporation, National City Bank as the Global Agent and as Collateral Agent, and certain named financial institutions as lenders. Certain exhibits and schedules to the Credit Agreement have been excluded and will be furnished to the SEC upon request.

Table of Contents

Item	Description
	This Exhibit is filed herewith.
(v)	Credit Agreement, dated April 4, 2006, among the Corporation, various lending institutions party thereto, National City Bank, as the global agent, joint lead arranger, joint bookrunner, Swing Line Lender, LC Issuer and collateral agent, UBS Securities LLC, as joint lead arranger, joint bookrunner and syndication agent, and KeyBank National Association, JPMorgan Chase Bank, N.A., and LaSalle Bank National Association, as documentation agents.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated April 4, 2006, and is incorporated herein by reference.
(vi)	Pledge and Security Agreement, dated as of April 4, 2006, by and among, the Corporation, each of the domestic subsidiaries of American Greetings Corporation identified therein and National City Bank, as collateral agent.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated April 4, 2006, and is incorporated herein by reference.
(vii)	Receivables Purchase Agreement, dated as of August 7, 2001, among AGC Funding Corporation, the Corporation, Market Street Funding Corporation and PNC Bank, National Association.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2002, and is incorporated herein by reference.
(viii)	Fifth Amendment to Receivables Purchase Agreement, dated as of August 2, 2004, among AGC Funding Corporation, the Corporation, Market Street Funding Corporation, PNC Bank, National Association, Fifth Third Bank, Liberty Street Funding Corp. and The Bank of Nova Scotia.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
(ix)	Seventh Amendment to Receivables Purchase Agreement, dated as of April 4, 2006, among AGC Funding Corporation, the Corporation in its individual capacity and as Servicer, PNC Bank, National Association, in its individual capacity, as purchaser agent for Market Street Funding LLC, and as Administrator for each Purchaser Group, Market Street Funding LLC (as successor to Market Street Funding Corporation) in its individual capacity, as a Conduit Purchaser and as a Related Committed Purchaser, Liberty Street Funding Corp. (LSFC), as a Conduit Purchaser and The Bank of Nova Scotia, as a Related Committed Purchaser and as purchaser agent for itself and LSFC.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated April 4, 2006, and is incorporated herein by reference.
*(x)	Form of Employment Contract with Specified Officers.
	This Exhibit is filed herewith.
*(xi)	Executive Deferred Compensation Plan.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.

Table of Contents

Item		Description
	*(xii)	American Greetings Corporation Executive Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xiii)	Amendment One to American Greetings Corporation Executive Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xiv)	Amendment Two to American Greetings Corporation Executive Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xv)	Amendment Number Three to the American Greetings Corporation Executive Deferred Compensation Plan American Greetings Corporation Executive Third Party Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xvi)	Amendment Number Four to the American Greetings Corporation Executive Deferred Compensation Plan and Amendment Number One to the American Greetings Corporation Executive Third Party Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
	*(xvii)	Form of Agreement for Deferred Compensation Benefits. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xviii)	Form of Agreement under American Greetings Corporation Executive Deferred Compensation Plan Executive Third Party Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xix)	American Greetings Corporation Outside Directors Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
	*(xx)	Form of Deferral Agreement under the American Greetings Corporation Outside Directors Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
	*(xxi)	Stock Option Agreement with Morry Weiss dated January 25, 1988. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2002, and is incorporated herein by reference.
	*(xxii)	1992 Stock Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 33-58582), dated February 22, 1993, and is incorporated herein by reference.

Table of Contents

Item	Description
*(xxiii)	1995 Director Stock Plan.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 33-61037), dated July 14, 1995, and is incorporated herein by reference.
*(xxiv)	1996 Employee Stock Option Plan.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 33-08123), dated July 15, 1996, and is incorporated herein by reference.
*(xxv)	1997 Equity and Performance Incentive Plan (as amended on June 25, 2004).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 333-121982), dated January 12, 2005, and is incorporated herein by reference.
*(xxvi)	CEO and Named Executive Officers Compensation Plan.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2001, and is incorporated herein by reference.
*(xxvii)	Description of Compensation Payable to Non-Employee Directors.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated June 24, 2005, and is incorporated herein by reference.
*(xxviii)	Supplemental Executive Retirement Plan (as amended and restated effective March 1, 2004).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended November 30, 2004, and is incorporated herein by reference.
*(xxix)	Amendment Number One to the American Greetings Corporation Supplemental Executive Retirement Plan.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
*(xxx)	Employment Agreement, dated as of March 1, 2001, between William R. Mason and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
*(xxxi)	Employment Agreement, dated as of October 17, 2002, between Michael Goulder and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xxxii)	Employment Agreement, dated as of May 6, 2002, between Erwin Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xxxiii)	Employment Agreement, dated as of September 9, 2002, between Steven Willensky and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.

Table of Contents

Item	Description
*(xxxiv)	Employment Agreement, dated as of August 22, 2003, between Catherine M. Kilbane and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
*(xxxv)	Employment Agreement, dated as of March 4, 2004, between Thomas H. Johnston and the Corporation, as amended on March 11, 2004.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xxxvi)	Employment Agreement, dated as of June 1, 1991, between Jeffrey M. Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
*(xxxvii)	Employment Agreement, dated as of May 1, 1997, between Zev Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
*(xxxviii)	Employment Agreement, dated August 16, 2005, between the Corporation and Michael J. Merriman, Jr.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated August 16, 2005, and is incorporated herein by reference.
*(xxxix)	Executive Service Contract, dated May 8, 1998, between the Corporation and John S.N. Charlton.
	This Exhibit is filed herewith.
*(xl)	Retirement Agreement, effective as of February 21, 2005, between David R. Beittel and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xli)	Severance Agreement, effective as of February 28, 2005, between Pamela L. Linton and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.

*(xlii)	Consulting Agreement, effective as of March 1, 2005, between Pamela L. Linton and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xliii)	Severance Agreement and Mutual Release, effective as of February 28, 2005, between Mary Ann Corrigan-Davis and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.

Table of Contents

Item	Description
*(xliv)	Key Management Annual Incentive Plan (fiscal year 2006 Description). This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xlv)	Amendment to Key Management Annual Incentive Plan for Fiscal Years 2005 and 2006. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.
*(xlvi)	Agreement to defer stock option gains with Morry Weiss dated December 15, 1997. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xlvii)	Form of Employee Stock Option Agreement. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xlviii)	Form of Director Stock Option Agreement. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xlix)	Form of Restricted Shares Grant Agreement. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(l)	Form of Deferred Shares Grant Agreement. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(li)	Performance Share Grant Agreement dated August 2, 2005, between the Corporation and Zev Weiss. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
*(lii)	Performance Share Grant Agreement dated August 2, 2005, between the Corporation and Jeffrey Weiss.

This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.

*(liii) Bonus Letter, dated October 4, 2000, to Erwin Weiss.

This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.

*(liv) Independent Contractor Agreement, dated December 14, 2005, between American Greetings and Joseph S. Hardin, Jr.

This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K dated December 14, 2005, and is incorporated herein by reference.

Table of Contents

Item	Description
21	Subsidiaries of the Corporation. This Exhibit is filed herewith.
23	Consent of Independent Registered Public Accounting Firm. This Exhibit is filed herewith.
(31)a	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. This Exhibit is filed herewith.
(31)b	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. This Exhibit is filed herewith.
32(a)	Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Exhibit is filed herewith.

* Management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 601 of Regulation S-K.

(b) Exhibits listed in Item 15 (a) 3. are included herein or incorporated herein by reference.

(c) Financial Statement Schedules
The response to this portion of Item 15 is submitted below.

3. Financial Statement Schedules Included in Part IV of the report:
Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable, and therefore have been omitted.

Table of Contents

SIGNATURES

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

	AMERICAN GREETINGS CORPORATION (Registrant)
Date: May 9, 2006	By: /s/ CATHERINE M. KILBANE **Catherine M. Kilbane,** **Senior Vice President,** **General Counsel and Secretary**

Table of Contents

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

SIGNATURE	TITLE	DATE
/s/ MORRY WEISS **Morry Weiss**	Chairman of the Board; Director	
/s/ ZEV WEISS **Zev Weiss**	Chief Executive Officer; (principal executive officer) Director	
/s/ JEFFREY WEISS **Jeffrey Weiss**	President and Chief Operating Officer; Director	
/s/ SCOTT S. COWEN **Scott S. Cowen**	Director	
/s/ JOSEPH S. HARDIN JR. **Joseph S. Hardin, Jr.**	Director	
/s/ STEPHEN R. HARDIS **Stephen R. Hardis**	Director	May 9, 2006
/s/ HARRIET MOUCHLY-WEISS **Harriet Mouchly-Weiss**	Director	
/s/ CHARLES A. RATNER **Charles A. Ratner**	Director	

		)
		)
/s/ JERRY SUE THORNTON	Director	)
Jerry Sue Thornton		)
		)
		)
/s/ MICHAEL J. MERRIMAN JR.	Senior Vice President and Chief	)
Michael J. Merriman, Jr.	Financial Officer (principal financial	)
	officer)	)
		)
/s/ JOSEPH B. CIPOLLONE	Vice President and Corporate	)
Joseph B. Cipollone	Controller; Chief Accounting Officer	)
	(principal accounting officer)	)

Table of Contents

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

AMERICAN GREETINGS CORPORATION AND SUBSIDIARIES

(In thousands of dollars)

COLUMN A	COLUMN B	COLUMN C ADDITIONS		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged (Credited) to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
Year ended February 28, 2006:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 16,326	$ 2,637	$ (112)(A)	$ 10,713(B)	$ 8,138
Allowance for sales returns	$ 93,173	$ 291,601	$ (1,140)(A)	$ 310,359(C)	$ 73,275
Allowance for other assets	$ 37,500	$	$	$ 6,900(D)	$ 30,600
Year ended February 28, 2005:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 17,359	$ 2,402	$ 105(A)	$ 3,540(B)	$ 16,326
Allowance for sales returns	$ 84,343	$ 263,354	$ 1,131(A)	$ 255,655(C)	$ 93,173
Allowance for other assets	$ 40,100	$ 11,800	$	$ 14,400(D)	$ 37,500
Year ended February 29, 2004:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 34,198	$ 5,408	$ 428(A)	$ 22,675(B)	$ 17,359
Allowance for sales returns	$ 85,363	$ 287,008	$ 3,091(A)	$ 291,119(C)	$ 84,343
Allowance for other assets	$ 36,100	$ 7,500	$	$ 3,500(D)	$ 40,100

Note A: Translation adjustment on foreign subsidiary balances.

Note B: Accounts charged off, less recoveries.

Note C: Sales returns charged to the allowance account for actual returns.

Note D: Deferred contract costs charged to the allowance account and reduction to the account.

Table of Contents

$200,000,000

$7\,^{3}/_{8}\%$ Senior Notes due 2016

PROSPECTUS SUPPLEMENT

Joint Book-Running Managers:

UBS Investment Bank

JPMorgan

Joint Lead Manager:

KeyBanc Capital Markets

May 19, 2006