

AMERICAN GREETINGS CORP
Form 10-Q
January 06, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 27, 2009

OR

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

For the transition period from _____ to _____

Commission file number 1-13859

AMERICAN GREETINGS CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

Ohio
(State or other jurisdiction of
incorporation or organization)

34-0065325
(I.R.S. Employer
Identification No.)

One American Road, Cleveland, Ohio
(Address of principal executive offices)

44144
(Zip Code)

(216) 252-7300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of January 4, 2010, the number of shares outstanding of each of the issuer's classes of common stock was:

Class A Common 36,256,457

Class B Common 3,232,238

Table of Contents

AMERICAN GREETINGS CORPORATION

INDEX

| | Page Number |
|--|------------------------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements</u> | 3 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 32 |
| Item 4. <u>Controls and Procedures</u> | 32 |
| <u>PART II - OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 32 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 33 |
| Item 6. <u>Exhibits</u> | 34 |
| <u>SIGNATURES</u> | 35 |
| <u>EXHIBITS</u> | |

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****AMERICAN GREETINGS CORPORATION****CONSOLIDATED STATEMENT OF OPERATIONS**

(Thousands of dollars except share and per share amounts)

| | (Unaudited) | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Three Months Ended | | Nine Months Ended | |
| | November 27, 2009 | November 28, 2008 | November 27, 2009 | November 28, 2008 |
| Net sales | \$ 431,512 | \$ 444,527 | \$ 1,189,428 | \$ 1,242,932 |
| Other revenue | 8,654 | 9,557 | 20,010 | 25,287 |
| Total revenue | 440,166 | 454,084 | 1,209,438 | 1,268,219 |
| Material, labor and other production costs | 204,997 | 223,214 | 525,414 | 586,668 |
| Selling, distribution and marketing expenses | 124,167 | 159,819 | 373,915 | 465,081 |
| Administrative and general expenses | 69,233 | 50,841 | 180,867 | 170,564 |
| Goodwill and other intangible assets impairment | | 242,889 | | 242,889 |
| Other operating (income) expense net | (575) | (491) | 25,801 | (1,329) |
| Operating income (loss) | 42,344 | (222,188) | 103,441 | (195,654) |
| Interest expense | 6,331 | 6,634 | 19,989 | 16,973 |
| Interest income | (299) | (947) | (1,564) | (2,835) |
| Other non-operating (income) expense net | (1,827) | 792 | (4,160) | (2,726) |
| Income (loss) before income tax expense (benefit) | 38,139 | (228,667) | 89,176 | (207,066) |
| Income tax expense (benefit) | 8,444 | (35,356) | 26,398 | (29,385) |
| Net income (loss) | \$ 29,695 | \$ (193,311) | \$ 62,778 | \$ (177,681) |
| Earnings (loss) per share basic | \$ 0.75 | \$ (4.25) | \$ 1.59 | \$ (3.75) |
| Earnings (loss) per share assuming dilution | \$ 0.75 | \$ (4.25) | \$ 1.59 | \$ (3.75) |
| Average number of shares outstanding | 39,391,399 | 45,460,385 | 39,469,293 | 47,343,640 |
| Average number of shares outstanding assuming dilution | 39,755,233 | 45,460,385 | 39,495,247 | 47,343,640 |
| Dividends declared per share | \$ 0.12 | \$ 0.12 | \$ 0.24 | \$ 0.36 |

See notes to consolidated financial statements (unaudited).

Table of Contents**AMERICAN GREETINGS CORPORATION****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Thousands of dollars)

| | (Unaudited) November 27, 2009 | (Note 1) February 28, 2009 | (Unaudited) November 28, 2008 |
|---|----------------------------------|-------------------------------|----------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 50,563 | \$ 60,216 | \$ 55,604 |
| Trade accounts receivable, net | 193,317 | 63,140 | 163,049 |
| Inventories | 176,161 | 202,601 | 244,918 |
| Deferred and refundable income taxes | 64,374 | 71,850 | 62,490 |
| Assets held for sale | 7,800 | 8,918 | 9,810 |
| Prepaid expenses and other | 147,631 | 158,610 | 179,898 |
| Total current assets | 639,846 | 565,335 | 715,769 |
| Goodwill | 38,177 | 26,871 | 56,965 |
| Other assets | 345,438 | 372,524 | 411,582 |
| Deferred and refundable income taxes | 169,566 | 178,785 | 166,269 |
| Property, plant and equipment at cost | 882,546 | 944,489 | 951,905 |
| Less accumulated depreciation | 610,609 | 654,216 | 664,715 |
| Property, plant and equipment net | 271,937 | 290,273 | 287,190 |
| | \$ 1,464,964 | \$ 1,433,788 | \$ 1,637,775 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Debt due within one year | \$ 1,000 | \$ 750 | \$ 23,445 |
| Accounts payable | 86,835 | 117,504 | 135,002 |
| Accrued liabilities | 75,822 | 75,673 | 78,607 |
| Accrued compensation and benefits | 74,770 | 32,198 | 35,184 |
| Income taxes payable | 10,479 | 11,743 | 36,686 |
| Other current liabilities | 87,221 | 105,537 | 106,436 |
| Total current liabilities | 336,127 | 343,405 | 415,360 |
| Long-term debt | 355,974 | 389,473 | 425,184 |
| Other liabilities | 129,517 | 149,820 | 148,320 |
| Deferred income taxes and noncurrent income taxes payable | 31,935 | 21,901 | 17,229 |
| Shareholders' equity | | | |
| Common shares - Class A | 36,111 | 37,043 | 41,917 |
| Common shares - Class B | 3,232 | 3,499 | 3,495 |
| Capital in excess of par value | 456,478 | 449,085 | 447,958 |
| Treasury stock | (946,569) | (938,086) | (918,826) |
| Accumulated other comprehensive loss | (35,824) | (67,278) | (48,334) |
| Retained earnings | 1,097,983 | 1,044,926 | 1,105,472 |

Edgar Filing: AMERICAN GREETINGS CORP - Form 10-Q

| | | | |
|---------------------------|--------------|--------------|--------------|
| Total shareholders equity | 611,411 | 529,189 | 631,682 |
| | \$ 1,464,964 | \$ 1,433,788 | \$ 1,637,775 |

See notes to consolidated financial statements (unaudited).

Table of Contents

AMERICAN GREETINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of dollars)

| | (Unaudited) | |
|---|-------------------|-------------------|
| | Nine Months Ended | |
| | November 27, 2009 | November 28, 2008 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 62,778 | \$ (177,681) |
| Adjustments to reconcile net income (loss) to cash flows from operating activities: | | |
| Goodwill and other intangible assets impairment | | 242,889 |
| Net loss on dispositions | 27,671 | |
| Net loss on disposal of fixed assets | 163 | 642 |
| Depreciation and intangible assets amortization | 34,121 | 37,732 |
| Deferred income taxes | 20,133 | (32,726) |
| Other non-cash charges | 7,096 | 8,053 |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: | | |
| Trade accounts receivable | (124,205) | (115,086) |
| Inventories | 17,703 | (44,591) |
| Other current assets | 16,948 | 9,538 |
| Deferred costs net | 1,904 | 6,023 |
| Accounts payable and other liabilities | 7,309 | (17,452) |
| Other net | 2,579 | (1,505) |
| Total Cash Flows From Operating Activities | 74,200 | (84,164) |
| INVESTING ACTIVITIES: | | |