AMERICAN GREETINGS CORP
Form 10-K
June 02, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2014

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:

None.

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

None.

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

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

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 x

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

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

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

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

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter: All of the outstanding capital stock of the registrant is held by Century Intermediate Holding Company and, as such, there is no market for the capital stock of the registrant. As of June 2, 2014 and August 30, 2013, 100 shares of the registrant s common stock, par value $0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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AMERICAN GREETINGS CORPORATION

PART I

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

Item 1. Business

Overview

Founded in 1906, American Greetings operates predominantly in a single industry: the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products. We manufacture or sell greeting cards, gift packaging, party goods, stationery and giftware in North America, primarily in the United States and Canada, and throughout the world, primarily in the United Kingdom, Australia and New Zealand. In addition, our subsidiary, AG Interactive, Inc., distributes social expression products, including electronic greetings and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals and electronic mobile devices. We also engage in design and character licensing and manufacture custom display fixtures for our products and products of others and operate approximately 400 card and gift retail stores throughout the United Kingdom. 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, 2014 refers to the year ended February 28, 2014. The Corporation s Retail Operations segment is consolidated on a one-month lag corresponding with its fiscal year end of February 2, 2014.

2013 Going Private Transaction

On September 26, 2012, American Greetings announced that its Board of Directors received a non-binding proposal from Zev Weiss, the Corporation s then Chief Executive Officer, and Jeffrey Weiss, the Corporation s then President and Chief Operating Officer, on behalf of themselves and certain other members of the Weiss family and related parties to acquire all of the outstanding Class A common shares and Class B common shares of American Greetings not currently owned by them (the Going Private Proposal). In connection with the Going Private Proposal, on March 29, 2013, American Greetings signed an agreement and plan of merger (as amended on July 3, 2013, the Merger Agreement), among the Corporation, Century Intermediate Holding Company, a Delaware corporation (CIHC), and Century Merger Company, an Ohio corporation (Merger Sub). At a special meeting of shareholders held on August 7, 2013, the shareholders of American Greetings voted to adopt the Merger Agreement, and the merger contemplated thereby (the Merger). On August 9, 2013, the Corporation completed the Merger. As a result of the Merger, American Greetings became wholly owned by CIHC, which in turn is indirectly wholly-owned by Morry Weiss, the Chairman of the Board, Zev Weiss, a director and Co-Chief Executive Officer, Jeffrey Weiss, a director and Co-Chief Executive Officer, Elie Weiss, a director and President of Real Estate, and Gary Weiss, a director and a Vice President of the Corporation, and certain other members of the Weiss family and related entities (the Family Shareholders). At the effective time of the Merger, each issued and outstanding share of the Corporation (other than shares owned by American Greetings, CIHC (which at the effective time of the Merger included all shares previously held by the Family Shareholders) or Merger Sub) was converted into the right to receive $19.00 per share in cash. All other shares of American Greetings were cancelled without consideration. Further details of the Merger are provided in Note 2 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

In connection with the financing of the Merger, CIHC issued $245 million in aggregate stated value of non-voting preferred stock to AG Investment, LLC (Koch Investment), which was redeemed on February 10, 2014 with part of the net proceeds of the $285 million aggregate principal amount of 9.750%/10.500% Senior PIK Toggle Notes issued by an indirect parent of CIHC, as well as borrowings under American Greetings revolving credit facility described below. Furthermore, American Greetings entered into a $600 million secured credit agreement, which provides for a $350 million term loan facility and a $250 million revolving credit facility. The term loan facility was fully drawn on August 9, 2013, the closing date of the Merger. Further details of the Merger are provided in Note 2 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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New World Headquarters

During May 2011, American Greetings announced that it plans to relocate its world headquarters to the Crocker Park mixed use development in Westlake, Ohio, which offers a vibrant urban setting, with retail stores and restaurants, offices and apartments. After putting the project on hold pending the outcome of the Going Private Proposal, the Corporation announced plans in October 2013 to resume the project and on March 26, 2014, we purchased the land on which the new world headquarters will be built. The Corporation intends to lease the real property to H L & L Property Company, a Delaware corporation and indirect affiliate of American Greetings (H L & L), that will build the new world headquarters on the site. We expect to enter into an operating lease with H L & L for the use of the new world headquarters building, which we expect to be ready for occupancy in approximately two years. Further details of the relocation undertaking are provided in Part III, Item 13 of this Annual Report, under Related Persons Transactions World headquarters relocation.

Products

American Greetings creates, manufactures and/or distributes social expression products including greeting cards, gift packaging, party goods, giftware and stationery as well as custom display fixtures. Our major domestic greeting card brands are American Greetings, Recycled Paper Greetings, Papyrus, Carlton Cards, Gibson, Tender Thoughts and Just For You. Our other domestic products include AGI In-Store display fixtures, as well as other paper product offerings such as DesignWare party goods and Plus Mark gift wrap and boxed cards. Electronic greetings and other digital content, services and products are available through our subsidiary, AG Interactive, Inc. Our major Internet brands are AmericanGreetings.com, BlueMountain.com and Cardstore.com. We also create and license our intellectual properties, such as the Care Bears and Strawberry Shortcake characters. Information concerning sales by major product classifications is included in Part II, Item 7 of this Annual Report.

Business Segments

At February 28, 2014, 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 19 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Concentration of Credit Risks

Net sales to our five largest customers, which include mass merchandisers, accounted for approximately 39% of total revenue in each of 2014 and 2013, and approximately 42% of total revenue in 2012. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 14% of total revenue in each of 2014, 2013 and 2012. Net sales to Target Corporation accounted for approximately 13% of total revenue in each of 2014 and 2013, and 14% of total revenue in 2012. No other customer accounted for 10% or more of our consolidated total revenue in 2014, 2013 or 2012. Approximately 58% of the North American Social Expression Products segment s revenue in 2014, and approximately 55% of the North American Social Expression Products segment s revenue in each of 2013 and 2012 was attributable to its top five customers. Approximately 50% of the International Social Expression Products segment s revenue in 2014, and 48% of the International Social Expression Products segment s revenue in 2013 and 2012, excluding sales to the Retail Operations segment, was attributable to its top 3 customers.

Consumers

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

Competition

The greeting card and gift packaging industries are intensely competitive. Competitive factors include quality, design, customer service and terms, which may include payments and other concessions to retail customers under long-term agreements. These agreements are discussed in greater detail below. There are a large number of greeting card publishers in the United States, ranging from small family-run organizations to major corporations.

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With the expansion of the Internet as a distribution channel for greeting cards, together with the growing use of technology by consumers to create personalized greeting cards with digital photographs and other personalized content, we are also seeing increased competition from greeting card publishers as well as a wide range of personal publishing, mobile and electronic media businesses distributing greeting cards and other social expression products directly to the individual consumer through the Internet. In general, however, the greeting card business is extremely concentrated. We believe that we are one of only two main suppliers offering a full line of social expression products. Our principal competitor is Hallmark Cards, Inc. Based upon our general familiarity with the greeting card and gift packaging industries and limited information as to our competitors, we believe that we are one of the two largest greeting card companies in the industry.

Production and Distribution

In 2014, our channels of distribution continued 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). We also sell our products through the approximately 400 card and gift retail stores that we operate in the United Kingdom through our Retail Operations segment. In addition, we sell greeting cards through our Cardstore.com Web site, which provides consumers the ability to purchase physical greeting cards, including custom cards that incorporate their own photos and sentiments, as well as to have us send the unique greeting card that they select directly to the recipient. From time to time, we also sell our products to independent, third-party distributors. Our AG Interactive segment provides social expression content, including electronic greeting cards, through the Internet and mobile platforms.

Many of our products are manufactured at common production facilities and marketed by a common sales force. Our manufacturing operations involve complex processes including printing, die cutting, hot stamping and embossing. We employ modern printing techniques which allow us to perform short runs and multi-color printing, have a quick changeover and utilize direct-to-plate technology, which minimizes time to market. Our products are manufactured globally, primarily at facilities located in North America and the United Kingdom. We also source products from domestic and foreign third-party suppliers. Additional information by geographic area is included in Note 19 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Production of our products is generally on a level basis throughout the year, with the exception of gift packaging for which production generally peaks in advance of the Christmas season. Everyday inventories (such as birthday and anniversary related products) remain relatively constant throughout the year, while seasonal inventories peak in advance of each major holiday season, including Christmas, Valentine s Day, Easter, Mother s Day, Father s Day and Graduation. Payments for seasonal shipments are generally received during the month in which the major holiday occurs, or shortly thereafter. Extended payment terms may also be offered in response to competitive situations with individual customers. Payments for both everyday and seasonal sales from customers that are on a scan-based trading (SBT) model are received generally within 10 to 15 days of the product being sold by those customers at their retail locations. As of February 28, 2014, three of our five largest customers conduct business with us under an SBT model. The core of this business model rests with American Greetings owning the product delivered to its retail customers until the product is sold by the retailer to the ultimate consumer, at which time we record the sale. American Greetings and many of its competitors sell seasonal greeting cards and other seasonal products with the right of return. Sales of other products are generally sold without the right of return. Sales credits for these products are issued at our discretion for damaged, obsolete and outdated products. Information regarding the return of product is included in Note 1 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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

Intellectual Property Rights

We have a number of trademarks, service marks, trade secrets, copyrights, inventions, patents, and other intellectual property, which are used in connection with our products and services. Our designs, artwork, musical compositions, photographs and editorial verse are protected by copyright. In addition, we seek to register our trademarks in the United States and elsewhere. We routinely seek protection of our inventions by filing patent applications for which patents may be granted. We also obtain license agreements for the use of intellectual property owned or controlled by others. Although the licensing of intellectual property produces additional

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revenue, we do not believe that our operations are dependent upon any individual invention, trademark, service mark, copyright, patent or other intellectual property license. Collectively, our intellectual property is an important asset to us. As a result, we follow an aggressive policy of protecting our rights in our intellectual property and intellectual property licenses.

Employees

At February 28, 2014, we employed approximately 7,200 full-time employees and approximately 22,100 part-time employees which, when jointly considered, equate to approximately 18,250 full-time equivalent employees. Approximately 800 of our employees are unionized and covered by collective bargaining agreements.

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

Union	Location	Contract Expiration Date
Unite the Union (Dewsbury)	Leeds, England	N/A
Unite the Union (Corby)	Derby, England	N/A
International Brotherhood of Teamsters	Bardstown, Kentucky	March 25, 2017
International Brotherhood of Teamsters	Cleveland, Ohio	March 31, 2018
Workers United	Greeneville, Tennessee	October 19, 2014

Supply Agreements

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

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

Environmental and Governmental Regulations

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

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

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

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

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

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

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

Federal Trade Commission Act, Title 5 - Unfair & Deceptive Acts & Practices and similar laws adopted by a number of states. These laws generally prohibit businesses from engaging in unfair or deceptive acts or practices, including by misrepresenting data privacy and security. Federal Trade Commission and state rules and guidelines also may impact online conduct, including privacy, data security and marketing.

The federal Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act), which was signed into law May 22, 2009, includes new provisions governing the use of gift cards, including specific disclosure requirements and a prohibition or limitation on the use of expiration dates and fees. Furthermore, a recent statute adopted by the State of New Jersey would enforce escheat of the entire remaining gift card balance when the card is redeemable only for goods and services and would apply to all gift cards sold after January 1, 2003.

Data privacy and security with respect to the collection use, storage, transfer and disposal of personally identifiable consumer information continues to be a focus of worldwide legislation and compliance review. Most states, as well as many regulators, have requirements for the disclosure of certain breaches of security impacting personal data, or other disclosures of personal data. The requirements currently vary by jurisdiction, and are subject to frequent changes.

In addition, many foreign jurisdictions, including those in which we do business, currently have significant limitations on the collection, use, storage, transfer and disposal of personal data of consumers and employees, and are considering additional protections that that could have an impact on our business, including, for example, the European Union s 1995 Data Protection Directive and the proposed General Data Protection Regulation.

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

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

Available Information

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

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Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

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

We may experience volatility in our cash flow as a result of investments we may make over the next several years.

We have focused and expect to continue to focus our resources on our core greeting card business, developing new, and growing existing business, including by expanding Internet and other channels of electronic distribution to make American Greetings the natural and preferred social expressions solution, as well as by capturing any shifts in consumer demand. In addition, to the extent we are successful in expanding distribution and revenue in connection with expanding our market leadership, additional capital may be deployed as we may incur incremental costs associated with this expanded distribution, including upfront costs prior to any incremental revenue being generated. If incurred, these costs may be material. We also have been allocating, and expect to continue to allocate over roughly the next five or six years, resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures, all of which are intended to drive efficiencies within the business and add new capabilities. The timing of when we spend these amounts may vary from year to year depending on the pacing of the project, but the amounts that we spend could be material in any fiscal year. We currently expect to spend at least an additional $150 million, the majority of which we expect will be capital expenditures, over the remaining life of the project. We believe these investments are important to our business, helping us drive further efficiencies and add new capabilities; however, there can be no assurance that we will not spend more or less than $150 million over the remaining life of the project, or that we will achieve the anticipated efficiencies or any cost savings.

Consumers shifting to value shopping may negatively impact our profitability.

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

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

A few of our customers are material to our business and operations. Net sales to our five largest customers, which include mass merchandisers, accounted for approximately 39% of total revenue for 2014 and 2013, and approximately 42% of total revenue for 2012. Approximately 58% of the North American Social Expression Products segment s revenue in 2014, and 55% of the North American Social Expression Products segment s revenue in each of 2013 and 2012 was attributable to its top five customers, and approximately 50% of the International Social Expression Products segment s revenue in 2014 and 48% of the International Social Expression Products segment s revenue in each of 2013 and 2012, excluding sales to the Retail Operations segment, was attributable to its top three customers. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 14% of total revenue in each of 2014, 2013 and 2012, and net sales to Target Corporation accounted for approximately 13% of total revenue in each of 2014 and 2013, and 14% of total revenue in 2012. There can be no assurance that our large customers will continue to purchase our products in the same quantities that they have in the past. The loss of sales to one of our large customers could materially and adversely affect our business, results of operations, cash flows and financial condition.

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

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

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

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

On April 17, 2009, we sold our then existing retail operations segment, including all 341 of our card and gift retail store assets, to Schurman Fine Papers (Schurman), which now operates stores under a number of brands, including the American Greetings, Carlton Cards and Papyrus brands. Although we do not control Schurman, because Schurman is licensing the Papyrus, American Greetings and Carlton Cards names from us for its retail stores, actions taken by Schurman may be seen by the public as actions

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taken by us, which, in turn, could adversely affect our reputation or brands. In addition, the failure of Schurman to operate its retail stores profitably could have a material adverse effect on us, our reputation and our brands, and could materially and adversely affect our business, financial condition and results of operations, because, under the terms of the transaction:

- we remain subject to certain store leases on a contingent basis through our subleasing of stores to Schurman (as described in Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report, as of February 28, 2014, Schurman s aggregate commitments to us under these subleases was approximately $7 million);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The financial position and results of operations of our international subsidiaries are initially recorded in various foreign currencies and then translated into United States dollars at the applicable exchange rate for inclusion in our financial statements. The strengthening of the United States dollar against these foreign currencies ordinarily has a negative impact on our reported sales and operating income (and conversely, the weakening of the United States dollar against these foreign currencies has a positive impact). For the year ended February 28, 2014, foreign currency translation unfavorably affected revenues by $16.6 million and unfavorably affected income from continuing operations before income taxes by $3.8 million compared to the year ended February 28, 2013. Certain transactions, particularly in foreign locations, are denominated in other than that location s local currency. Changes in the exchange rates between the two currencies from the original transaction date to the settlement date will result in a currency transaction gain or loss that directly impacts our reported earnings. For the year ended February 28, 2014, the impact of currency movements on these transactions favorably affected non-operating income by $0.3 million. The volatility of currency exchange rates may materially and adversely affect our results of operations.

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

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

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

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

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

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

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

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

We have been and may in the future be the subject of actions by third parties alleging infringement of proprietary rights, especially with respect to our Internet and wireless businesses.

We may be involved in various legal matters arising from the normal course of business activities. These include claims, suits and other proceedings involving alleged infringement of third-party patents and other intellectual property rights. In particular, the industry in which our Internet and wireless businesses operate is characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties, including practicing entities and non-practicing entities, claiming that we have infringed their intellectual property rights.

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

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

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

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

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

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

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

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

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

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

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

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

Our results of operations fluctuate on a seasonal basis.

The social expression industry is a seasonal business, with sales generally being higher in the second half of our fiscal year due to the concentration of major holidays during that period. Consequently, our overall results of operations in the future may fluctuate substantially based on seasonal demand for our products. Such variations in demand could have a material adverse effect on the timing of cash flow and therefore our ability to meet our obligations with respect to our debt and other financial commitments. Seasonal fluctuations also affect our inventory levels, because 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.

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

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

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

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

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

We are party to collective bargaining contracts with our labor unions, which represent a large number of our employees. In particular, approximately 800 of our employees are unionized and are covered by collective bargaining agreements. Although we believe our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work related stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business.

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

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

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

Our business is subject to numerous federal, state, provincial, local and foreign laws and regulations, including regulations with respect to chemical usage, air emissions, wastewater and storm water discharges and other releases into the environment as well as the generation, handling, storage, transportation, treatment and disposal of waste materials, including hazardous materials. Although we believe that we are in substantial compliance with all applicable laws and regulations, because legal requirements frequently change and are subject to interpretation, these laws and regulations may give rise to claims, uncertainties or possible loss contingencies for future environmental remediation liabilities for which we are unable to predict the ultimate cost, which may be significant, or the effect on our operations. We have implemented various programs designed to protect the environment and comply with applicable environmental laws and regulations. The costs associated with these compliance and remediation efforts have not had and are not expected to have a material adverse effect on our financial condition, cash flows or operating results. We cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, will not have a material and adverse effect on our business, results of operations and financial condition. The impact of increasingly stringent environmental laws and regulations, regulatory enforcement activities, the discovery of unknown conditions, and third party claims for damages to the environment, real property or persons could result in additional liabilities and costs in the future. Additionally, some state governments (for instance Washington, California and Vermont) are increasingly introducing legislation to require consumer product manufacturers to annually report whether their products contain certain chemicals which the state has determined to be of concern to the health and safety of its residents. Several of the chemicals already subject to such regulation are contained in our products and we believe we are in substantial compliance with current applicable state regulations, but we are unable to predict how many other states will implement such legislation, whether it will apply to our products, and the testing and administrative costs of compliance.

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

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

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

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, restrictions on imports and exports, customs, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property use and ownership, sales and other taxes, fraud, libel and personal privacy apply to the Internet and e-commerce as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. Those laws that do reference the Internet are only beginning to be interpreted by the courts and their applicability and reach are therefore uncertain. For example, the Digital Millennium Copyright Act, or DMCA, is intended, in part, to limit the liability of eligible online service providers for including (or for listing or linking to third-party Web sites that include) materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and CDA in conducting our online business. Any changes in these laws or judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children s Online Privacy Protection Act is intended to impose additional restrictions on the ability of online service providers to collect user information from minors. The Federal Trade Commission Act, Title 5 Unfair & Deceptive Acts & Practices prohibits businesses from engaging in unfair or deceptive acts or practices, including by misrepresenting data privacy and security. The Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. In addition, many foreign jurisdictions, including those in which we do business, currently have significant limitations on the collection, use, storage, transfer and disposal of personal data of consumers and employees, and are considering the European Union s 1995 Data Protection Directive. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on our part to comply with these regulations may subject us to significant liabilities. Those current and future laws and regulations or unfavorable resolution of these issues may substantially harm our business and results of operations.

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

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

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

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

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

Information technology infrastructure failures could significantly affect our business.

We depend heavily on our information technology infrastructure in order to achieve our business objectives. Portions of our information technology infrastructure are old and difficult to maintain. We could experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important information technology application, or an intentional disruption of our information technology systems. In addition, our information technology systems could suffer damage or interruption from human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar

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events. The disruptions caused by any such events could impede our ability to record or process orders, manufacture and ship in a timely manner, properly store consumer images, or otherwise carry on our business in the ordinary course. Any such event could cause us to lose customers or revenue, damage our reputation, and could require us to incur significant expense to eliminate these problems and address related security concerns.

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

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

Although our project to construct and relocate to a new world headquarters was put on hold in connection with the Going Private Proposal, now that the Merger has closed, we have resumed the project. Based on preliminary estimates, the gross costs associated with the new world headquarters building, before any tax credits, loans or other incentives, will be between approximately $150 million and $200 million over a number of years. Although the majority of the cost of construction of the new world headquarters is expected to be financed through H L & L, due to the inherent difficulty in estimating costs associated with projects of this scale and nature, the costs associated with this project may be higher than expected and we may have to dedicate additional funds to the project, including providing additional funds to H L & L or its direct or indirect parents. Furthermore, we may be unable to qualify for state and local incentives offered to assist in the development of the new world headquarters. In addition, the process of moving our world headquarters is inherently complex and not part of our day to day operations. Thus, that process could cause significant disruption to our operations and cause the temporary diversion of management resources, all of which could have a material adverse effect on our business.

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

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

We are indirectly owned and controlled by members of the Weiss family, and their interests as equity holders may conflict with the interest of holders of American Greetings   debt.

We are indirectly owned and controlled by the Weiss family, some of whom are executive officers and directors of American Greetings and its subsidiaries, and who have the ability to control our policy and operations. The interests of members of the Weiss family may not in all cases be aligned with interests of the holders of our debt. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of members of the Weiss family might conflict with the interests of holders of our debt. In addition, members of the Weiss family may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve heightened risks to holders of our debt.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

As of February 28, 2014, we owned or leased approximately 8.8 million square feet of plant, warehouse and office space throughout the world, of which approximately 512,600 square feet is leased space. We believe our manufacturing and distribution facilities are well maintained and are suitable and adequate, and have sufficient productive capacity to meet our current needs.

The following table summarizes, as of February 28, 2014, our principal plants and materially important physical properties and identifies as of such date the respective segments that use the properties described. In addition to the following, although we sold our Retail Operations segment in April 2009, we remain subject to certain of the Retail Operations store leases on a contingent basis through our subleasing of stores to Schurman, which operates these retail stores throughout North America. See Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report. In addition, as a result of the bankruptcy administration of a former customer, Clinton Cards, and the related acquisition of certain of its assets in June 2012, we operate approximately 400 card and gift retail stores throughout the United Kingdom, all of which operate in premises that we lease from third parties.

* Indicates calendar year

Location	Approximate Square Feet Occupied Owned	Approximate Square Feet Occupied Leased	Expiration Date of Material Leases*	Principal Activity
Cleveland, (1) (3) (5) Ohio	1,700,000			World Headquarters: General offices of North American Greeting Card Division; Plus Mark LLC; AG Interactive, Inc.; Cardstore, Inc.; AGC, LLC; Those Characters From Cleveland, Inc.; and Cloudco, Inc.; creation and design of greeting cards, gift packaging, party goods, stationery and giftware; marketing of electronic greetings; design licensing; character licensing
Bardstown, (1) Kentucky	413,500			Cutting, folding, finishing and packaging of greeting cards
Danville, (1) Kentucky	1,374,000			Distribution of everyday products including greeting cards
Osceola, (1) Arkansas	2,552,000			Cutting, folding, finishing and packaging of greeting cards and warehousing; distribution of seasonal products
Ripley, (1) Tennessee	165,000			Greeting card printing (lithography)
Forest City, (5) North Carolina	498,000			General offices of A.G. Industries, Inc.; manufacture of display fixtures and other custom display fixtures by A.G. Industries, Inc.
Forest City, (5) North Carolina		290,000	2014	Warehousing for A.G. Industries, Inc.

Greeneville, [1] Tennessee	1,044,000			Printing and packaging of seasonal greeting cards and wrapping items and order filling and shipping for Plus Mark LLC
Chicago, [1] Illinois		45,000	2018	Administrative offices of Papyrus-Recycled Greetings, Inc.
Fairfield, [1] California		34,000	2014	General offices of Papyrus-Recycled Greetings, Inc.
Mississauga, [1] Ontario, Canada		38,000	2018	General offices of Carlton Cards Limited and Papyrus-Recycled Greetings Canada Ltd.

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Location	Approximate Square Feet Occupied Owned	Approximate Square Feet Occupied Leased	Expiration Date of Material Leases*	Principal Activity
Mulgrave, (2) Australia		30,000	2021	General offices of John Sands companies
Dewsbury, (2) England (Two Locations)	430,000			General offices of UK Greetings Ltd. and manufacture and distribution of greeting cards and related products
Corby, England (2)	136,000			Distribution of greeting cards and related products
London, England (4)		75,601	2014	General offices of and warehousing for Clinton Cards

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Prior to the Merger, our Class A common shares were listed on the New York Stock Exchange under the symbol AM. As a result of the Merger, we no longer have a class of equity that is publicly traded; rather, all of our common shares are held by CIHC. Prior to the Merger, the high and low sales prices of our Class A common shares, as reported in the New York Stock Exchange listing for the year ended February 28, 2013 and the period from March 1, 2013 through August 9, 2013, were as follows:

	Year Ended February 28, 2013		Year Ended February 28, 2014	
	High	Low	High	Low
1st Quarter	$ 16.55	$ 13.96	$ 18.50	$ 15.96
2nd Quarter (through August 9, 2013)	$ 15.16	$ 12.53	$ 19.20	$ 16.95
3rd Quarter	$ 17.44	$ 13.98		
4th Quarter	$ 17.49	$ 15.06		

As of August 9, 2013, as a result of the Merger, the Corporation had one shareholder, CIHC, which held 100 common shares of the Corporation.

Dividends. Prior to the closing of the Merger, we paid quarterly dividends of $0.15 per Class A common share and Class B common share during fiscal 2013 and during the first two quarters of fiscal 2014. Following the closing of the Merger, we stopped paying a quarterly dividend, but paid one dividend in the total aggregate amount of $18,194,951.06 to our sole shareholder on September 30, 2013, paid a second dividend in the total aggregate amount of $7,225,246.10 to our sole shareholder on January 2, 2014, and paid a third dividend in the total aggregate amount of $50,000,000 to our sole shareholder on February 10, 2014.

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

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.

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Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

We did not purchase any equity securities in the three months ended February 28, 2014.

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Item 6. Selected Financial Data
Thousands of dollars

	2014 (1)	**2013** (2)	**2012** (3)	**2011**	**2010** (4)
Summary of Operations					
Net sales	$ 1,941,809	$ 1,842,544	$ 1,663,281	$ 1,565,539	$ 1,603,285
Total revenue	1,969,666	1,868,739	1,695,144	1,597,894	1,640,851
Goodwill impairment	733		27,154		
Interest expense	27,363	17,896	53,073	25,389	26,311
Net income	50,522	49,918	57,198	87,018	81,574
Financial Position					
Inventories	254,761	242,447	208,945	179,730	163,956
Working capital	194,447	293,310	331,679	380,555	331,803
Total assets	1,602,443	1,583,463	1,549,464	1,547,249	1,544,498
Property, plant and equipment additions	54,097	114,149	78,207	39,762	29,065
Long-term debt	539,114	286,381	225,181	232,688	328,723
Shareholder s equity	327,447	681,877	727,458	763,758	650,911
Net return on average shareholder s equity from continuing operations	10.0%	7.1%	7.7%	12.3%	13.7%

(1) During 2014, the Corporation incurred costs associated with Merger, which included transaction costs and incremental compensation expense related to the settlement of stock options and modification and cancellation of outstanding restricted stock units and performance shares of $28.1 million. See Note 2 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

(2) During 2013, the Corporation incurred charges of $35.7 million associated with the Clinton Cards acquisition, which includes a contract asset impairment charge, bad debt expense, legal and advisory fees and impairment of debt purchased. See Note 3 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. The Corporation also incurred expenses of $6.9 million related to the Going Private Proposal.

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

(4) During 2010, the Corporation incurred a loss of $29.3 million on the disposition of its then existing retail operations segment. The Corporation also recorded a gain of $34.2 million related to the party goods transaction and a charge of approximately $15.8 million for asset impairments and severance expense associated with a facility closure. Also in 2010, the Corporation recognized a cost of $18.2 million in connection with the shutdown of its distribution operations in Mexico.

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

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

OVERVIEW

Founded in 1906, we operate predominantly in a single industry: the design, manufacture, distribution and sale of everyday and seasonal greeting cards and other social expression products. Headquartered in Cleveland, Ohio, as of February 28, 2014, we employed approximately 29,300 associates around the world and are home to one of the world s largest creative studios.

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

Our international operations include wholly-owned subsidiaries in the United Kingdom (also referred to herein as UK), Canada, Australia and New Zealand as well as licensees in approximately 50 other countries. As of February 28, 2014, we also operated 396 card and gift retail stores throughout the UK.

Operating Results

Total revenue for 2014 was $1.97 billion, up $101 million from the prior year. This 5.4% increase was primarily related to the purchase of Clinton Cards retail operations during the prior year second quarter. The current year period includes twelve months of sales through Clinton Cards retail stores, while the prior year period includes sales for slightly less than eight months. In total, revenue related to Clinton Cards for 2014 increased approximately $91 million compared to the prior year period. Also contributing to the increase in revenue during 2014 were higher sales in our fixtures business of approximately $35 million, of which approximately $26 million was related to a significant contract with a large consumer electronics company that was obtained and completed during the year. In addition, total revenue increased due to higher sales of gift packaging and party goods. Partially offsetting these increases were reduced sales of greeting cards, lower other ancillary product sales and the unfavorable impact of scan-based trading (SBT) implementations. Foreign currency translation had an unfavorable impact on sales of approximately $17 million.

Operating income for 2014 was $136.9 million compared to $94.2 million in the prior year, an improvement of approximately $42.7 million. The current year was favorably impacted primarily by the North American Social Expression Products segment due to lower spending on marketing and the information systems refresh project, the fixtures business due to higher sales, the International Social Expression Products segment due to favorable product mix and lower supply chain and scrap expense, lower legal expenses and a gain of approximately $5 million related to the Clinton s acquisition. The current year was unfavorably impacted by approximately $28 million of costs related to the Merger, the operating results of the Retail Operations segment, and variable compensation expense. The current year operating income was also unfavorably impacted by approximately $13 million related to SBT implementations, which was approximately $5 million higher than the prior year.

Operating income in the prior year period included costs of $35.7 million related to the Clinton Cards acquisition, including approximately $17 million of bad debt expense, approximately $8 million impairment of the Clintons secured debt, approximately $7 million of legal and advisory fees, and approximately $4 million impairment for the deferred costs related to our supply agreement associated with the Clinton Cards Birthdays branded stores that were closed as part of the Clinton Cards bankruptcy administration process. The prior year also included approximately $7 million of costs related to the Merger.

Capital expenditures during the current year were approximately $54 million, a decrease of approximately $60 million from the prior period. This decrease was primarily related to lower spending on our information systems refresh project and lower spending on manufacturing equipment. We expect that capital expenditures will be generally higher than historic levels as we continue to execute our multi-year information systems refresh and other strategic projects.

RESULTS OF OPERATIONS

Comparison of the years ended February 28, 2014 and 2013

In 2014, net income was $50.5 million compared to $49.9 million in 2013.

Our results for 2014 and 2013 are summarized below:

(Dollars in thousands)	2014	% Total Revenue	2013	% Total Revenue
Net sales	$ 1,941,809	98.6%	$ 1,842,544	98.6%
Other revenue	27,857	1.4%	26,195	1.4%
Total revenue	1,969,666	100.0%	1,868,739	100.0%
Material, labor and other production costs	857,227	43.5%	817,740	43.8%
Selling, distribution and marketing expenses	685,088	34.8%	653,935	35.0%
Administrative and general expenses	297,443	15.1%	298,569	16.0%
Goodwill impairment	733	0.0%		0.0%
Other operating (income) expense net	(7,718)	(0.4%)	4,330	0.2%
Operating income	136,893	7.0%	94,165	5.0%
Interest expense	27,363	1.4%	17,896	0.9%
Interest income	(400)	(0.0%)	(471)	(0.0%)
Other non-operating income	(3,296)	(0.2%)	(9,174)	(0.5%)
Income before income tax expense	113,226	5.8%	85,914	4.6%
Income tax expense	62,704	3.2%	35,996	1.9%
Net income	$ 50,522	2.6%	$ 49,918	2.7%

Revenue Overview

During 2014, consolidated net sales were $1.94 billion, up from $1.84 billion in the prior year. This 5.4%, or $99.3 million, increase was primarily related to the purchase of Clinton Cards retail operations during the prior year second quarter. The current year period includes twelve months of sales through Clinton Cards retail stores, while the prior year period includes sales for slightly less than eight months. In total, net sales related to Clinton Cards for 2014 increased approximately $91 million compared to the prior year period. Also contributing to the increase in net sales in 2014 were higher sales in our fixtures business of approximately $35 million, of which approximately $26 million was related to a large contract obtained in the current year first quarter, as mentioned in the overview section of this Management s Discussion and Analysis of Financial Condition and Results of Operations. The remaining year-over-year improvement was due to higher sales of gift packaging and party goods of approximately $6 million and the prior year impairment of deferred costs of approximately $4 million related to the supply agreement associated with Clinton Cards Birthdays branded stores that were closed as part of the Clinton Cards bankruptcy administration process. Partially offsetting these increases were reduced greeting cards sales of approximately $5 million, lower other ancillary product sales of approximately $9 million and the unfavorable impact of foreign currency translation and SBT implementations of approximately $17 million and $5 million, respectively.

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

	2014	2013
Everyday greeting cards	47%	49%
Seasonal greeting cards	24%	25%
Gift packaging and party goods	14%	14%
All other products*	15%	12%

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

Other revenue, primarily royalty revenue from our Strawberry Shortcake and Care Bears properties, increased $1.7 million from $26.2 million during 2013 to $27.9 million in 2014.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2014 and 2013 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2014	2013	2014	2013	2014	2013
Unit volume	(2.9%)	(0.3%)	(1.9%)	1.6%	(2.6%)	0.3%
Selling prices	3.1%	0.3%	2.1%	2.3%	2.8%	1.0%
Overall increase	0.1%	0.1%	0.1%	4.0%	0.1%	1.3%

During 2014, total wholesale greeting card sales less returns increased 0.1%, compared to the prior year, with a 2.8% increase in selling prices and a 2.6% decrease in unit volume. The overall increase was primarily driven by increases in selling prices from our everyday and seasonal greeting cards in both our North American Social Expression Products and our International Social Expression Products segments, mostly offset by decreases in unit volume of everyday cards in both of our greeting card segments and seasonal greeting cards in our International Social Expression Products segment.

Everyday card sales less returns were up 0.1%, compared to the prior year, as a result of increased selling prices of 3.1% mostly offset by a decline in unit volume of 2.9%. The selling price increase was a result of general price increases outpacing the continued shift to a higher proportion of value card sales. The unit volume decline was primarily driven by generally soft unit trends across most distribution channels.

Seasonal card sales less returns increased 0.1%, with an increase in selling prices of 2.1% and a decrease in unit volume of 1.9%. The increase in selling prices was primarily driven by both our North American Social Expression Products and International Social Expression Products segments across most of our seasonal card programs. The decline in unit volume was driven by our International Social Expression Products segment and was primarily attributable to our Mother s Day and Easter programs.

Expense Overview

Material, labor and other production costs (MLOPC) for 2014 were $857.2 million, an increase of $39.5 million from $817.7 million in the prior year. As a percentage of total revenue, these costs were 43.5% in 2014 compared to 43.8% in 2013. The retail operations we purchased from Clinton Cards in the prior year second quarter caused a net increase in MLOPC of approximately $37 million during the current year compared to the prior year. In addition, the combination of higher sales volume and unfavorable product mix, partially offset by lower costs caused an increase in MLOPC of approximately $7 million. These increases were partially offset by the favorable impact of foreign currency translation of approximately $5 million.

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Selling, distribution and marketing expenses (SDM) for 2014 were $685.1 million, increasing $31.2 million from $653.9 million in the prior year. As a percentage of total revenue, these costs were 34.8% in the current year compared to 35.0% in the prior year. The dollar increase was primarily driven by higher expenses of approximately $56 million within our Retail Operations segment due to the timing of the Clinton Cards acquisition in the prior year second quarter. The current year period includes twelve months of activity related to Clinton Cards retail stores while the prior year period includes activity for slightly less than eight months. This increase was partially offset by lower sales, marketing and product management expenses of approximately $13 million, the majority of which related to Cardstore.com, lower supply chain costs of approximately $6 million and the favorable impact of foreign currency translation of approximately $6 million.

Administrative and general expenses were $297.4 million in 2014, a decrease of $1.2 million from $298.6 million in the prior year. The decrease was driven by lower bad debt expense, whereby the prior year period included approximately $17 million related to increased unsecured accounts receivable exposure as a result of Clinton Cards being placed into administration. In addition, the prior year period included transaction costs in connection with the acquisition of the Clinton Cards retail operations of approximately $7 million that did not recur in the current year. Also contributing to the decrease were lower legal related expenses of approximately $8 million, a year-over-year decrease in costs related to our information technology systems refresh project of approximately $5 million, the favorable impact of foreign currency translation of approximately $1 million and general cost savings, of which no items were individually significant, of approximately $4 million. These decreases were substantially offset by higher costs and fees related to the Merger of approximately $21 million compared to the prior year period and higher expenses of approximately $9 million within our Retail Operations segment primarily due to the timing of the Clinton Cards acquisition in the prior year second quarter. The current year also includes approximately $11 million of higher variable compensation expense primarily related to the establishment during the current year of a long-term incentive program to replace the prior stock-based compensation programs.

Other operating (income) expense net was $7.7 million of income during the current year compared to $4.3 million of expense in the prior year. The prior year included expenses of $2.1 million related to the termination of certain agency agreements associated with our licensing business and an impairment of $8.1 million related to the senior secured debt of Clinton Cards that we acquired in the prior year first quarter. In the current year, based on updated estimated recovery information provided in connection with the Clinton Cards bankruptcy administration, we recorded adjustments to the Clinton Cards debt impairment resulting in a gain totaling $4.9 million.

Interest expense was $27.4 million during the current year, up from $17.9 million in 2013. The increase of $9.5 million was primarily attributable to increased borrowings in connection with the Merger. For further information of the increased borrowings, see Note 11, Debt, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

Other non-operating income was $3.3 million during 2014 compared to $9.2 million in 2013. The current year includes a non-cash impairment of $1.9 million related to our investment in Schurman. Refer to Note 1, Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information regarding our investment in Schurman. In addition, the current and prior years included gains associated with our investment in Party City Holdings, Inc. (Party City) in the amounts of $3.3 million and $4.3 million, respectively. The remaining decrease was primarily due to a year-over-year change in foreign currency gains of $2.5 million.

The effective tax rate was 55.4% and 41.9% during 2014 and 2013, respectively. The higher than statutory tax rate in 2014 was due to an increase to the valuation allowance in the amount of $12.6 million against certain net operating loss and foreign tax credit carryforwards that we believe will expire unused and an increase in the state income tax expense due to the receipt of intercompany foreign dividends. The valuation allowance was recorded in accordance with Internal Revenue Code section 382 and 383 due to the Merger as previously disclosed. The higher than statutory tax rate in 2013 was primarily due to certain nondeductible expenses incurred as a result of the Clinton Cards acquisition as well as certain items includable as taxable income which did not have corresponding book income amounts also as a result of the Clinton Cards transaction.

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Segment Results

Our operations are organized and managed according to a number of factors, including product categories, geographic locations and channels of distribution. Our North American Social Expression Products and International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution, with mass retailers as the primary channel. As permitted under Accounting Standards Codification (ASC) Topic 280 (ASC 280), Segment Reporting, certain operating segments have been aggregated into the International Social Expression Products segment. The aggregated operating divisions have similar economic characteristics, products, production processes, types of customers and distribution methods. At February 28, 2014, we operated 396 card and gift retail stores in the UK through our Retail Operations segment. These stores sell products purchased from the International Social Expression Products segment as well as products purchased from other vendors. The AG Interactive segment distributes social expression products, including electronic greetings, and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals and electronic mobile devices. The Non-reportable segments primarily include licensing activities and the design, manufacture and sales of display fixtures.

Segment results are reported using actual foreign exchange rates for the periods presented. Refer to Note 19, Business Segment Information, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information and a reconciliation of total segment revenue to consolidated Total revenue and total segment earnings (loss) before tax to consolidated Income before income tax expense.

North American Social Expression Products Segment

(Dollars in thousands)	2014	2013	% Change
Total revenue	$ 1,253,842	$ 1,245,269	0.7%
Segment earnings	172,502	160,052	7.8%

Total revenue of our North American Social Expression Products segment increased $8.6 million compared to the prior year. The increase was primarily driven by higher sales of gift packaging and party goods of approximately $9 million, increased greeting card sales of approximately $7 million and higher sales of other ancillary products of approximately $4 million. Partially offsetting these increases were the unfavorable impact of higher SBT implementations and foreign currency translation of approximately $6 million and $5 million, respectively.

Segment earnings increased $12.5 million in 2014 compared to the prior year. The increase was driven by the impact of higher revenues which provided approximately $7 million of additional gross margin, net of the unfavorable impact of higher SBT implementations of approximately $6 million, as well as a decrease in sales, marketing and product management expenses of approximately $13 million and lower costs related to our information technology systems refresh project of approximately $5 million. These favorable items were partially offset by an increase in variable compensation expense (as noted above) of approximately $9 million and the unfavorable impact of foreign currency translation of approximately $3 million.

International Social Expression Products Segment

(Dollars in thousands)	2014	2013	% Change
Total revenue	$ 249,790	$ 275,861	(9.5%)

Segment earnings (loss)	9,270	(13,428)	N/A

Total revenue of our International Social Expression Products segment decreased $26.1 million compared to the prior year. The decrease was primarily due to lower sales of greeting cards, gift packaging and other ancillary products of approximately $12 million, $3 million and $8 million, respectively. In addition, foreign currency translation had an unfavorable impact of approximately $8 million for the current year. Partially offsetting these decreases was the prior year impairment of deferred costs of approximately $4 million related to the supply agreement associated with the Clinton Cards Birthdays stores that were closed as part of the Clinton Cards bankruptcy administration process that did not recur in the current year and the impact of lower SBT implementations in the current year compared to the prior year of approximately $1 million.

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Segment earnings increased $22.7 million compared to prior year. The improvement in earnings was primarily driven by prior year costs of approximately $21 million related to Clinton Cards that do not have comparative amounts in the current year period. In the first quarter of the prior year, Clinton Cards, a significant third-party customer at the time, was placed into administration. As a result, we incurred bad debt expense of approximately $17 million and an impairment of deferred costs related to the supply agreement associated with the Clinton Cards Birthdays stores of approximately $4 million. The prior year also included charges of approximately $3 million due to strategic business actions, including the divestiture of a small non-card product line and the closure of a small gift wrap manufacturing facility in Italy, which did not recur in the current year. In the current year, the impact on earnings from decreased revenue was substantially offset by favorable product mix as well as lower supply chain costs and scrap expenses of approximately $7 million and $2 million, respectively.

Retail Operations Segment

(Dollars in thousands)	2014	2013	% Change
Total revenue	$ 332,066	$ 244,106	36.0%
Segment (loss) earnings	(4,637)	6,581	

In the prior year second quarter, we acquired retail stores in the UK that we are operating under the Clintons brand. As of February 28, 2014, we were operating 396 stores. Total revenue in our Retail Operations segment increased approximately $88 million, which includes approximately $91 million of higher sales less the unfavorable impact from foreign exchange translation of approximately $3 million. The revenue increase was due to the timing of the Clinton Cards acquisition, whereby the operating results of the Retail Operations segment for the year ended February 28, 2013 included slightly less than eight months of activity compared to a full twelve months during the current year. During the comparable eight month period in the current year, net sales at stores open one year or more were down approximately 2.6% compared to the prior year period. Start-up and transitional costs related to the actions taken to execute our strategy to stabilize and improve the profitability of the stores acquired totaled $1.3 million and $7.7 million in the current and prior year, respectively. The retail operations are consolidated on a one-month lag corresponding with a fiscal year-end of February 1 for fiscal 2014.

AG Interactive Segment

(Dollars in thousands)	2014	2013	% Change
Total revenue	$ 61,084	$ 64,440	(5.2%)
Segment earnings	15,540	16,465	(5.6%)

Total revenue of our AG Interactive segment decreased $3.4 million compared to the prior year. The decrease in revenue was driven primarily by lower advertising revenue and lower subscription revenue related to the disposition of a minor photo sharing business in the prior fiscal year. At the end of 2014 and 2013, AG Interactive had approximately 3.7 million online paid subscriptions.

Segment earnings decreased $0.9 million compared to the prior year, primarily due to the prior year gain recognized in connection with the disposition of a minor photo sharing business that did not recur in the current period and severance expense incurred in the current year third quarter. These decreases in earnings and the impact of lower revenue were substantially offset by overall cost savings across most functional areas of the business.

Non-reportable Segments

(Dollars in thousands)	2014	2013	% Change
Total revenue	$ 72,884	$ 39,063	86.6%
Segment earnings	24,521	6,586	272.3%

Total revenue from our Non-reportable segment increased $33.8 million compared to the prior year. This increase in revenue was driven primarily by an approximately $35 million increase from our fixtures business, which obtained and completed a $26 million contract to supply fixtures to a large consumer electronics company during the year.

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Segment earnings increased $17.9 million compared to the prior year. About eighty percent of the increase was due to the impact of the higher revenue from the fixtures business. The remaining improvement was from our licensing business primarily due to cost savings initiatives during the current year.

Unallocated Items

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

(Dollars in thousands)	2014	2013
Interest expense	$ (27,363)	$ (17,896)
Profit-sharing expense	(9,149)	(7,536)
Stock-based compensation expense	(13,812)	(10,743)
Corporate overhead expense	(53,646)	(54,167)
Total Unallocated	$ (103,970)	$ (90,342)

Interest expense for the current year increased approximately $9 million, primarily due to increased borrowings in connection with the Merger. For further information, refer to the discussion of our borrowing arrangements as disclosed in Note 11, Debt, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report. In the prior year, corporate overhead expense included legal and advisory fees of approximately $7 million related to the Clinton Cards transaction, an impairment of approximately $8 million related to the senior secured debt of Clinton Cards and higher legal expenses of approximately $8 million primarily related to two class action lawsuits involving corporate-owned life insurance policies. The current year included an adjustment to the Clinton Cards debt impairment, based on current estimated recovery information provided in connection with the Clinton Cards bankruptcy administration, which resulted in a gain of approximately $5 million and higher expenses related to the Going Private Proposal and Merger of approximately $21 million. The current year also included a non-cash impairment of approximately $2 million related to our investment in Schurman and a non-cash loss of approximately $2 million in connection with the freeze to the accrued benefit of the Supplemental Executive Retirement Plan. For the current year, stock-based compensation in the table above includes stock-based compensation prior to the Merger and the impact of the settlement of stock options and the cancellation or modification of outstanding restricted stock units and performance shares concurrent with the Merger, a portion of which is non-cash. There is no stock-based compensation subsequent to the Merger, as these plans were converted into cash compensation plans at the time of the Merger. Refer to Note 2, Merger, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information.

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

In 2013, net income was $49.9 million compared to $57.2 million in 2012.

Our results for 2013 and 2012 are summarized below:

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

Revenue Overview

During 2013, consolidated net sales were $1.84 billion, up from $1.66 billion in 2012. This 10.8%, or $179.3 million, increase was primarily related to the purchase of retail stores from Clinton Cards which caused an increase in net sales of approximately $187 million compared to 2012. The increase was comprised of approximately $243 million of net sales from the new Retail Operations segment, reduced by approximately $56 million for the elimination of intersegment sales from the International Social Expression Products segment to the Retail Operations segment. For comparison purposes, the sales being eliminated in 2013 would have been third-party sales in 2012 to Clinton Cards stores that were not owned by us at that time. In addition, greeting card sales through our wholesale divisions improved approximately $17 million. More than offsetting these increases were reduced gift packaging, party goods and other ancillary product sales of approximately $11 million, lower net sales in our fixtures business of approximately $4 million and a $4 million impairment of deferred costs related to the supply agreement associated with the Birthdays stores that were closed as part of the Clinton Cards administration process. Foreign currency translation and SBT implementations unfavorably impacted net sales versus the prior year by approximately $4 million and $2 million, respectively.

The contribution of each major product category as a percentage of net sales for the fiscal years 2012 and 2013 was as follows:

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

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

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

Wholesale Unit and Pricing Analysis for Greeting Cards

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

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

During 2013, total wholesale greeting card sales less returns increased 1.3%, compared to 2012, with a 0.3% improvement in unit volume and a 1.0% increase in selling prices. The overall increase was primarily driven by increases in unit volume and selling prices from our seasonal greeting cards in our North American Social Expression Products segment.

Everyday card sales less returns were up 0.1% in 2013, compared to 2012, as a result of increased selling prices of 0.3% offset by a decline in unit volume of 0.3%. Both the selling price increase and unit volume decrease were driven by our North American Social Expression Products segment. The continued shift to a higher proportion of value cards was more than offset by general price increases. These impacts were partially offset by decreases in selling prices and unit volume improvement within our International Social Expression Products segment.

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

Expense Overview

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

SDM for 2013 were $653.9 million, increasing from $533.8 million in 2012. The increase of $120.1 million was driven by approximately $126 million of expenses within our new Retail Operations segment. Also contributing to the increase were higher marketing and product management expenses of approximately $7 million. These increases were partially offset by lower agency fees related to our licensing business of approximately $4 million and lower costs in our field service and merchandiser organization of approximately $8 million, primarily related to prior year store setup activities for the value channel, which did not recur in 2013.

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Administrative and general expenses were $298.6 million in 2013, an increase from $250.7 million in 2012. The increase of $47.9 million was driven partially by approximately $17 million of higher bad debt expense recorded in the UK. The increased bad debt expense related to unsecured accounts receivable of Clinton Cards being written off after Clintons was placed into administration during 2013. Expenses within our new Retail Operations segment added approximately $16 million. Transaction costs of approximately $7 million related to the purchase of the senior secured debt and the retail store acquisition of Clinton Cards were also recorded during 2013. Costs and fees associated with the Going Private Proposal, higher legal expense and increased costs incurred in connection with our information technology systems refresh project added approximately $7 million, $9 million and $3 million, respectively. These increases were partially offset by reduced bad debt expense primarily within our North American Social Expression Products segment, lower administrative costs within our International Social Expression Products segment due to overhead cost savings initiatives and lower profit-sharing plan expenses of approximately $5 million, $4 million and $2 million, respectively.

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

Other operating expense was $4.3 million during 2013 compared to income of $8.2 million in 2012. The increase in net expense was primarily attributable to an impairment of $8.1 million related to the senior secured debt of Clinton Cards in 2013. In addition, the prior year included a gain of $4.5 million from the sale of certain minor characters within our intellectual properties portfolio.

Interest expense was $17.9 million during 2013, down from $53.1 million in 2012. The decrease of $35.2 million was primarily attributable to the debt refinancing that occurred during the fourth quarter of 2012 that did not recur. In conjunction with the issuance of new 7.375% senior notes due 2021, we retired our 7.375% senior notes due 2016 and our 7.375% notes due 2016. As a result, we recorded $21.7 million for the write-off of the unamortized discount and deferred financing costs associated with the retired debt and a charge of $9.1 million for the consent payment, tender fees, call premiums and other fees associated with the refinancing.

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

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

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Segment Results

Segment results are reported using actual foreign exchange rates for the periods presented. Refer to Note 19, Business Segment Information, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further information and a reconciliation of total segment revenue to consolidated Total revenue and total segment earnings (loss) before tax to consolidated Income before income tax expense.

North American Social Expression Products Segment

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

Total revenue of our North American Social Expression Products segment increased $16.7 million compared to 2012. The increase was primarily driven by higher sales in seasonal greeting cards of approximately $15 million and other consumer products such as party goods, stationery and gift packaging of approximately $4 million. Partially offsetting these increases were lower sales of everyday greeting cards of approximately $3 million.

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

International Social Expression Products Segment

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

Total revenue of our International Social Expression Products segment decreased $72.0 million compared to 2012. The decrease was driven primarily by the elimination of intersegment sales to the Retail Operations segment of $55.9 million. For comparison purposes, the sales being eliminated would have been third-party sales in 2012 to Clinton Cards stores that were not owned by us at that time. The remaining decrease of approximately $16 million for 2013 was driven primarily by a combination of lower sales of both gift packaging and other ancillary products of approximately $6 million each, primarily due to the divestiture of an insignificant non-card product line. Also contributing to the lower revenue was an impairment of deferred costs of approximately $4 million related to the supply agreement associated with the Birthdays branded stores that were closed as part of the Clinton Cards administration process. Partially offsetting these decreases were higher sales of everyday greeting cards of approximately $2 million. The sales shortfall resulting from Clinton Cards retail store closings were mostly offset by higher sales to other customers. Foreign currency translation unfavorably impacted sales by approximately $3 million for 2013.

Segment earnings decreased $33.7 million compared to 2012 due to bad debt expense of approximately $17 million in connection with Clinton Cards being placed into administration and an impairment of deferred costs of approximately $4 million related to the supply agreement associated with the Birthdays stores that were closed as part of the Clinton Cards administration process. Earnings also decreased by approximately $17 million for 2013 due to a combination of lower sales volume, unfavorable mix and higher scrap expense. Also contributing to the decrease in earnings was the adjustment of approximately $3 million associated with intersegment earnings generated from sales to the Retail Operations segment. This adjustment reduced consolidated inventory for

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intercompany profit in the Retail Operations segment s inventory and deferred the recognition of this profit in the International Social Expression Products segment s earnings until the inventory is sold to the ultimate customer in the Retail Operations segment. In addition, segment earnings decreased by approximately $3 million as a result of strategic business actions, including the divestiture of a small non-card product line and the closure of a small gift wrap manufacturing facility in Italy. These decreases were partially offset by a goodwill impairment charge of approximately $6 million in 2012 that did not recur in 2013 and lower general and administrative costs of approximately $5 million primarily related to overhead cost savings initiatives.

Retail Operations Segment

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

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

AG Interactive Segment

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

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

Segment earnings for 2013 increased $2.5 million compared to 2012. The impact of decreased sales administration, product management and marketing costs is partially offset by the impact of lower sales and higher technology costs.

Unallocated Items

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

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

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Liquidity and Capital Resources

Operating Activities

During the year, cash flow from operating activities provided cash of $160.1 million compared to $162.8 million in 2013, a decrease of $2.7 million. Cash flow from operating activities for 2013 compared to 2012 resulted in an increase of $39.0 million from $123.8 million in 2012.

Accounts receivable, net of the effect of acquisitions and dispositions, was a source of cash of $8.4 million in 2014 compared to a use of cash of $9.8 million in 2013 and a source of cash of $4.5 million in 2012. As a percentage of the prior twelve months net sales, net accounts receivable was 5.0% at February 28, 2014 compared to 5.7% at February 28, 2013. The year-over-year fluctuations occurred primarily within our North American Social Expression Products and International Social Expression Products segments are primarily due to the timing of collections from, or credits issued to, certain customers occurring in a different pattern in the current period compared to the prior periods.

Inventories, net of the effect of acquisitions and dispositions, were a use of cash of $6.8 million in 2014 compared to a use of cash of $31.6 million in 2013 and a use of cash of $23.3 million in 2012. The use of cash in 2014 was primarily due to our Retail Operations segment that grew inventory by approximately $13 million. This was partially offset by lower inventory levels within our North American Social Expression Products segment. In 2013, the use of cash was driven primarily by our Retail Operations segment that grew inventory by approximately $27 million from its acquisition in June 2012 to February 2013. The use of cash in 2012 was primarily due to the inventory build of cards associated with expanded distribution.

Other current assets, net of the effect of acquisitions and dispositions, were a source of cash of $15.7 million during 2014, compared to a use of cash of $23.4 million in 2013 and a source of cash of $7.0 million in 2012. The source of cash in 2014 was primarily due to lower prepaid rents within our Retail Operations segment and lower prepaid insurance within our North American Social Expressions segment. The use of cash in 2013 was driven primarily by prepaid rents within our new Retail Operations segment that was not present in prior years. The source of cash in 2012 was primarily due to the use of trust assets to pay medical claim expenses as we terminated the active employees medical trust fund as of February 29, 2012.

Deferred costs net generally represents payments under agreements with retailers net of the related amortization of those payments. During 2014, payments exceeded amortization by $22.2 million. During 2013, amortization exceeded payments by $27.1 million. In 2012, payments exceeded amortization by $31.3 million. See Note 10, Deferred Costs, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report for further detail of deferred costs related to customer agreements.

Accounts payable and other liabilities, net of the effect of acquisitions and dispositions, were a source of cash of $2.0 million in 2014, compared to source of cash of $58.6 million in 2013 and use of cash of $13.6 million in 2012. The 2013 growth in accounts payable and other liabilities, and thus an increase in cash flow in that fiscal year, was primarily due to our new Retail Operations segment as well as activities related to our information technology systems refresh project and other strategic projects.

Investing Activities

Investing activities used $32.7 million of cash in 2014 compared to $163.2 million of cash used in 2013 and $70.3 million of cash used in 2012. The use of cash in the current year was primarily driven by $54.1 million of cash paid for capital expenditures. The decrease in capital expenditures compared to 2013 related primarily to a decrease in assets acquired in connection with our information technology systems refresh project and machinery and equipment purchased for our card-producing facilities. The current year also included the receipt of a cash distribution of $12.1 million related to our investment in Party City and proceeds of $7.6 million received from the Clinton Cards bankruptcy administration.

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

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

Financing Activities

Financing activities used $153.0 million of cash during 2014 compared to $42.0 million in 2013 and $136.9 million in 2012. The primary use of cash in the current year was in connection with activities related to the Merger. These activities included borrowings under our new credit agreement, net of repayments and debt issuance costs, which provided cash of $264.5 million, a contribution of $240.0 million from Parent and payment of cash of $568.3 million to complete the Merger and cancel outstanding shares. In addition, we paid cash dividends of $85.0 million, of which $9.6 million was paid to shareholders prior to the Merger and $75.4 million was paid to Parent after the Merger.

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

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

Credit Sources

Substantial credit sources are available to us. In total, we had available sources of credit of approximately $640 million at February 28, 2014, which included $340 million outstanding on our term loan facility, a $250 million revolving credit facility and a $50 million accounts receivable securitization facility, of which $267.8 million in the aggregate was unused as of February 28, 2014. Borrowings under the accounts receivable securitization facility are limited based on our eligible receivables outstanding. The term loan facility was fully drawn on August 9, 2013, the closing date of the Merger. At February 28, 2014, we had $4.5 million of borrowings outstanding under our revolving credit facility and we had no borrowings outstanding under the accounts receivable securitization facility. We had, in the aggregate, $27.7 million outstanding under letters of credit, which reduced the total credit availability thereunder as of February 28, 2014.

For further information, refer to the discussion of our borrowing arrangements as disclosed in Note 11, Debt, to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

Credit Facility

In connection with the closing of the Merger, on August 9, 2013, we entered into a $600 million secured credit agreement (Credit Agreement), which provides for a $350 million term loan facility (Term Loan Facility) and a $250 million revolving credit facility (Revolving Credit Facility and, together with the Term Loan Facility, the Credit Facilities). The Term Loan Facility was fully drawn on August 9, 2013, the effective date of the Merger. We issued the Term Loan Facility at a discount of $10.8 million. Installment payments are being made on the Term Loan Facility, beginning with an installment payment of $10 million made in February, 2014. Future payments are scheduled to be made quarterly in the amount of $5 million through May 31, 2019. A final payment of $235 million will be due on August 9, 2019. We may elect to increase the commitments under each of the Term Loan Facility and the Revolving Credit Facility up to an aggregate amount of $150 million. The proceeds of the term loans and the revolving loans borrowed on the Merger Date were used to fund a portion of the Merger consideration and pay fees and expenses associated therewith. After the Merger Date, revolving loans borrowed under the Credit Agreement were used for working capital and general corporate purposes.

On January 24, 2014, we amended the Credit Agreement. The amendment modifies the Credit Agreement to, among other things, permit us to: (i) convert from a C corporation to an S corporation for U.S. federal income tax purposes (the S-Corp Conversion), (ii) in connection with the S-Corp Conversion, (x) change our fiscal year to end on December 31 of each year, (y) change our inventory accounting method from last-in, first-out to first-in, first-out and (z) make S-Corp tax distributions (as defined in the amended Credit Agreement) to the holders of our capital stock while we are treated as an S corporation or disregarded entity of an S corporation, (iii) make restricted payments (as defined in the Credit Agreement) to enable the payment of current interest on certain senior unsecured notes issued by an indirect parent company of ours in a principal amount not to exceed $300 million, (iv) make a one-time restricted payment of up to $50 million to Parent, so long as on or about the date of such restricted payment Parent redeems the non-voting preferred stock of Parent held by Koch Investment in an amount of not less than such restricted payment, (v) make certain additional capital expenditures each year primarily related to our information systems refresh project and (vi) make changes to certain definitions to exclude the accounting treatment of the future lease that may be entered into in connection with the new world headquarters.

The obligations under our Credit Agreement are guaranteed by Parent and our material domestic subsidiaries and are secured by substantially all of our assets and the guarantors.

The interest rate per annum applicable to the loans under the Credit Facilities are, at our election, equal to either (i) the base rate plus the applicable margin or (ii) the relevant adjusted Eurodollar rate for an interest period of one, two, three or six months, at our election, plus the applicable margin.

The Credit Agreement contains certain customary covenants, including covenants that limit our ability and the ability of our subsidiaries and the Parent to, among other things, incur or suffer to exist certain liens; make investments; enter into consolidations, mergers, acquisitions and sales of assets; incur or guarantee additional indebtedness; make distributions; enter into agreements that restrict the ability to incur liens or make distributions; and engage in transactions with affiliates. In addition, the Credit Agreement contains financial covenants that require us to maintain a total leverage ratio and interest coverage ratio in accordance with the limits set forth therein.

Accounts Receivable Facility

We are also a party to an accounts receivable facility that provides funding of up to $50 million, under which there were no borrowings outstanding as of February 28, 2014 and 2013.

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

On August 9, 2013, we amended our accounts receivable facility. The amendment modified the accounts receivable facility by providing for a scheduled termination date that is 364 days following the date of the amendment, subject to two additional, consecutive 364-day terms with the consent of the parties thereto. The amendment also, among other things, permitted the Merger and changed the definition of the base rate to equal the higher of the prime rate as announced by the applicable purchaser financial institution, and the federal funds rate plus 0.50%.

AGC Funding Corporation pays an annual facility fee of 80 basis points on the commitment of the accounts receivable securitization facility, together with customary administrative fees on letters of credit that have been issued and on outstanding amounts funded under the facility. Funding under the facility may be used for working capital, general corporate purposes and the issuance of letters of credit.

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

7.375% Senior Notes Due 2021

On November 30, 2011, we closed a public offering of $225 million aggregate principal amount of 7.375% senior notes due 2021 (the 2021 Senior Notes). The net proceeds from this offering were used to redeem other existing debt. In connection with this transaction, we wrote off the remaining unamortized discount and deferred financing costs related to the previously existing debt, totaling $21.7 million, as well as recorded a charge of $9.1 million for the consent payments, tender fees, call premium and other fees incurred in connection with these transactions.

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

At February 28, 2014, the Corporation was in compliance with the financial covenants under its borrowing agreements described above.

Capital Deployment and Investments

In connection with the Merger, Parent issued approximately $245 million in aggregate stated value of non-voting preferred stock. Parent could elect to either accrue or pay cash for dividends on the preferred stock. The preferred stock carried a cash dividend rate of LIBOR plus 11.5%. We provided Parent with the cash flow for Parent to pay dividends on the preferred stock. During the post-merger period of 2014, we made cash dividend payments of $75.4

million to Parent of which $11.4 million was used for the payment of dividends on the preferred stock. On February 10, 2014, the preferred stock was fully redeemed by Parent.

Also on February 10, 2014, in connection with the redemption of the preferred stock, Century Intermediate Holding Company 2 (CIHC2), an indirect parent of American Greetings, issued $285 million aggregate principal amount of 9.75%/10.50% Senior PIK

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Toggle Notes due 2019 (the PIK Notes). Excluding the first and last interest payment periods, which must be paid in cash, CIHC2 may elect to either accrue or pay cash interest on the PIK Notes. The PIK Notes carry a cash interest rate of 9.75%. Prior to the payment of interest by CIHC2, it is expected that we will provide CIHC2 with the cash flow for CHIC2 to pay interest on the PIK Notes. Assuming interest is paid regularly in cash, rather than accrued, the annual cash required to pay the interest is expected to be approximately $27.8 million while the entire issuance of PIK Notes are outstanding. For further information, refer to the discussion of the PIK Notes as disclosed in *Transactions with Parent Companies and Other Affiliated Companies* in Note 18, Related Party Information, to the Consolidated Financial Statements under Part II, Item 18 of this Annual Report.

Throughout fiscal 2014 and thereafter, we will continue to consider all options for capital deployment including growth opportunities, acquisitions and other investments in third parties, expanding customer relationships, expenditures or investments related to our current product leadership initiatives or other future strategic initiatives, capital expenditures, the information technology systems refresh project, paying down debt and, as appropriate, preserving cash. Our future operating cash flow and borrowing availability under our credit agreement and our accounts receivable securitization facility are expected to meet these and other currently anticipated funding requirements. The seasonal nature of our business results in peak working capital requirements that may be financed through short-term borrowings when cash on hand is insufficient.

Over roughly the next five or six years, we expect to allocate resources, including capital, to refresh our information technology systems by modernizing our systems, redesigning and deploying new processes, and evolving new organization structures, all of which are intended to drive efficiencies within the business and add new capabilities. Amounts that we spend could be material in any fiscal year and over the life of the project. The total amount spent through fiscal 2013 on this project was approximately $84 million. During 2014, we spent approximately $25 million, including capital of approximately $21 million and expense of approximately $4 million, on these information technology systems. We currently expect to spend a total of at least an additional $150 million on these information technology systems over the remaining life of the project, the majority of which we expect will be capital expenditures. We believe these investments are important to our business, help us drive further efficiencies and add new capabilities; however, there can be no assurance that we will not spend more or less than $150 million over the remaining life of the project, or that we will achieve the anticipated efficiencies or any cost savings.

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

Contractual Obligations

The following table presents our contractual obligations and commitments to make future payments as of February 28, 2014:

	Payment Due by Period as of February 28, 2014						
(Dollars in thousands)	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Long-term debt	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 24,500	$ 465,181	$ 569,681
Operating leases (1)	71,392	66,446	59,994	50,840	37,680	102,694	389,046
Commitments under customer agreements	84,859	28,016	35,417	35,397	50,361		234,050

Commitments under royalty agreements	7,763	11,280	5,864	5,676	675	844	32,102
Interest payments	32,425	30,495	29,696	28,898	27,270	53,920	202,704
Severance	2,672	1,302					3,974
Commitments under purchase agreements	1,767						1,767
	$ 220,878	$ 157,539	$ 150,971	$ 140,811	$ 140,486	$ 622,639	$ 1,433,324

(1) Approximately $7 million of the operating lease commitments in the table above relate to retail stores acquired by Schurman that are being subleased to Schurman. The failure of Schurman to operate the retail stores successfully could have an adverse effect on us because if Schurman is not able to comply with its obligations under the subleases, we remain contractually obligated, as primary lessee, under those leases. In connection with our acquisition of Clinton Cards, the number of stores that we are operating as of February 29, 2014, is 396. The estimated future minimum rental payments for noncancelable operating leases related to these stores is approximately $360 million. Refer to Note 3, Acquisitions, to the Consolidated Financial Statements for further information.

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, 2014. Also, we provide credit support to Schurman through a liquidity guaranty of up to $10 million in favor of the lenders under Schurman s senior revolving credit facility as described in Note 1 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report, which are not included in the table as no amounts have been drawn and therefore we cannot determine the amount of usage in the future.

We expect to contribute approximately $5 million in 2015 to the defined benefit pension plan that we assumed in connection with our acquisition of Gibson Greetings, Inc. in 2001. This represents the legally required minimum contribution level. Any discretionary additional contributions we may make are not expected to exceed the deductible limits established by Internal Revenue Service regulations. Refer to Note 12 to the Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

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

Sales Returns

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

Deferred Costs

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

Although risk is inherent in the granting of advances, we subject such customers to our normal credit review. We maintain an allowance for deferred costs based on estimates developed by using standard quantitative measures incorporating historical write-offs. In instances where we are aware of a particular customer s inability to meet its performance obligation, we record a specific allowance to reduce the deferred cost asset to an estimate of its future value based upon expected recoverability. Losses attributed to these specific events have historically not been material. The aggregate average remaining life of our customer contract base is 7.2 years.

Goodwill and Other Intangible Assets

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

Deferred Income Taxes

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

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-08 (ASU 2014-08), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. Under the new guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results and is disposed of or classified as held for sale. The standard also introduces several new disclosures. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. ASU 2014-08 is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. We do not expect that the adoption of this standard will have a material effect on our financial statements.

In July 2013, the FASB issued ASU No. 2013-11 (ASU 2013-11), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. ASU 2013-11 is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. We do not expect that the adoption of this standard will have a material effect on our financial statements.

In February 2013, the FASB issued ASU No. 2013-02 (ASU 2013-02), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires entities to disclose additional information about changes in other comprehensive income (OCI) by component. In addition, an entity is required to present, either on the face of the statement where income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income and the income statement line items affected. The provisions of this guidance are effective prospectively for annual and interim periods beginning after December 15, 2012. We adopted this standard on March 1, 2013. The amended accounting standard only impacts the financial statement presentation of OCI and does not change the components that are recognized in net income or OCI. The adoption of this standard had no impact on our financial position or results of operations.

In July 2012, the FASB issued ASU No. 2012-02 (ASU 2012-02), Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. If based on its qualitative assessment an entity concludes that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this standard on March 1, 2013. The adoption of this standard did not have a material effect on our financial statements.

Factors That May Affect Future Results

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

- a weak retail environment and general economic conditions;

- the loss of one or more retail customers and/or retail consolidations, acquisitions and bankruptcies, including the possibility of resulting adverse changes to retail contract terms;

competitive terms of sale offered to customers, including costs and other terms associated with new and expanded customer relationships;

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

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

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

unanticipated expenses we may be required to incur relating to our world headquarters project;

our ability to qualify for state and local incentives offered to assist us in the development of a new world headquarters;

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

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

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

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

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

escalation in the cost of providing employee health care;

the ability to comply with our debt covenants;

risks associated with leasing substantial amounts of space;

our ability to adequately maintain the security of our electronic and other confidential information;

fluctuations in the value of currencies in major areas where we operate, including the U.S. Dollar, Euro, UK Pound Sterling and Canadian Dollar; and

the outcome of any legal claims, known or unknown.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Derivative Financial Instruments We had no derivative financial instruments as of February 28, 2014.

Interest Rate Exposure We manage interest rate exposure through a mix of fixed and floating rate debt. Currently, approximately 60% of our debt is carried at variable interest rates. We believe that our overall interest rate exposure risk is limited. Based on our interest rate exposure on our non-fixed rate debt as of and during the year ended February 28, 2014, a hypothetical 10% movement in interest rates would not have had a material impact on interest expense. Under the terms of our current Credit Agreement, we have the ability to borrow significantly more floating rate debt, which, if incurred, could have a material impact on interest expense in a fluctuating interest rate environment.

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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 36%, 35% and 28% of our 2014, 2013 and 2012 total revenue from continuing operations, respectively, were generated from operations outside the United States. Operations in Australia, New Zealand, Canada, the European Union and the UK are denominated in currencies other than U.S. dollars. No assurance can be given that future results will not be affected by significant changes in foreign currency exchange rates. However, for the year ended February 28, 2014, a hypothetical 10% weakening of the U.S. dollar would not materially affect our income before income tax expense.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholder

American Greetings Corporation

We have audited the accompanying consolidated statement of financial position of American Greetings Corporation as of February 28, 2014 and February 28, 2013, and the related consolidated statements of income, comprehensive income, shareholder s equity, and cash flows for each of the three years in the period ended February 28, 2014. 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. We were not engaged to perform an audit of the Corporation s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2014 and February 28, 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 2014, 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.

/s/ Ernst & Young LLP

Cleveland, Ohio

June 2, 2014

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CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 2014, February 28, 2013 and February 29, 2012

Thousands of dollars

	2014	2013	2012
Net sales	$ 1,941,809	$ 1,842,544	$ 1,663,281
Other revenue	27,857	26,195	31,863
Total revenue	1,969,666	1,868,739	1,695,144
Material, labor and other production costs	857,227	817,740	741,645
Selling, distribution and marketing expenses	685,088	653,935	533,827
Administrative and general expenses	297,443	298,569	250,691
Goodwill impairment	733		27,154
Other operating (income) expense net	(7,718)	4,330	(8,200)
Operating income	136,893	94,165	150,027
Interest expense	27,363	17,896	53,073
Interest income	(400)	(471)	(982)
Other non-operating (income) expense net	(3,296)	(9,174)	121
Income before income tax expense	113,226	85,914	97,815
Income tax expense	62,704	35,996	40,617
Net income	$ 50,522	$ 49,918	$ 57,198

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended February 28, 2014, February 28, 2013 and February 29, 2012

Thousands of dollars

	2014	2013	2012
Net income	$ 50,522	$ 49,918	$ 57,198
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	12,545	(11,015)	(2,412)
Pension and postretirement benefit adjustments	5,344	5,712	(7,074)
Unrealized (loss) gain on securities	(4)		2
Other comprehensive income (loss), net of tax	17,885	(5,303)	(9,484)
Comprehensive income	$ 68,407	$ 44,615	$ 47,714

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 2014 and 2013

Thousands of dollars except share and per share amounts

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 63,963	$ 86,059
Trade accounts receivable, net	97,925	105,497
Inventories	254,761	242,447
Deferred and refundable income taxes	46,996	72,560
Prepaid expenses and other	146,164	155,343
Total current assets	609,809	661,906
OTHER ASSETS	542,766	456,751
DEFERRED AND REFUNDABLE INCOME TAXES	74,103	92,354
PROPERTY, PLANT AND EQUIPMENT NET	375,765	372,452
	$ 1,602,443	$ 1,583,463
LIABILITIES AND SHAREHOLDER S EQUITY		
CURRENT LIABILITIES		
Debt due within one year	$ 20,000	$
Accounts payable	120,568	119,777
Accrued liabilities	68,838	80,098
Accrued compensation and benefits	74,017	69,309
Income taxes payable	14,866	4,968
Deferred revenue	31,288	31,851
Other current liabilities	85,785	62,593
Total current liabilities	415,362	368,596
LONG-TERM DEBT	539,114	286,381
OTHER LIABILITIES	301,815	225,044
DEFERRED INCOME TAXES AND NONCURRENT INCOME TAXES PAYABLE	18,705	21,565
SHAREHOLDER S EQUITY		
Common shares par value $.01 per share: 100 shares issued in 2014 and zero shares issued in 2013		
Common shares - Class A - par value $1 per share: zero shares issued less zero treasury shares in 2014 and 83,935,490 shares issued less 54,847,733 treasury shares in 2013		29,088
Common shares - Class B - par value $1 per share: zero shares issued less zero treasury shares in 2014 and 6,057,116 shares issued less 3,174,032 treasury shares in 2013		2,883
Capital in excess of par value	240,000	522,425

Treasury stock		(1,093,782)
Accumulated other comprehensive income (loss)	752	(17,133)
Retained earnings	86,695	1,238,396
Total shareholder s equity	327,447	681,877
	$ 1,602,443	$ 1,583,463

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 28, 2014, February 28, 2013 and February 29, 2012

Thousands of dollars

	2014	2013	2012
OPERATING ACTIVITIES:			
Net income	$ 50,522	$ 49,918	$ 57,198
Adjustments to reconcile net income to cash flows from operating activities:			
Goodwill impairment	733		27,154
Stock-based compensation	8,091	10,743	10,982
Net gain on dispositions			(4,500)
Net loss (gain) on disposal of fixed assets	560	631	(461)
Loss on extinguishment of debt			30,812
Depreciation and intangible assets amortization	55,283	49,405	43,666
Provision for doubtful accounts	368	16,064	4,776
Clinton Cards secured debt (recovery) impairment	(4,910)	8,106	
Deferred income taxes	22,615	27,530	15,391
Gain related to Party City investment	(3,262)	(4,293)	
Other non-cash charges	6,783	1,198	3,034
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Trade accounts receivable	8,359	(9,820)	4,495
Inventories	(6,761)	(31,558)	(23,321)
Other current assets	15,691	(23,404)	7,004
Income taxes	21,151	(18,607)	(11,411)
Deferred costs net	(22,209)	27,069	(31,254)
Accounts payable and other liabilities	2,046	58,586	(13,560)
Other net	5,014	1,196	3,797
Total Cash Flows From Operating Activities	160,074	162,764	123,802
INVESTING ACTIVITIES:			
Property, plant and equipment additions	(54,097)	(114,149)	(78,207)
Cash payments for business acquisitions, net of cash acquired		621	(5,899)
Proceeds from sale of fixed assets	1,652	853	9,310
Proceeds related to Party City investment	12,105	6,061	
Proceeds from Clinton Cards administration	7,644		
Purchase of Clinton Cards debt		(56,560)	
Proceeds from sale of intellectual properties			4,500
Total Cash Flows From Investing Activities	(32,696)	(163,174)	(70,296)
FINANCING ACTIVITIES:			
Proceeds from revolving line of credit and long-term borrowings	385,736	543,150	225,000

Repayments on revolving line of credit and long-term borrowings	(442,436)	(481,950)	(263,787)
Proceeds from term loan	339,250		
Repayments on term loan	(10,000)		
Issuance, exercise or settlement of share-based payment awards	(4,487)	(2,648)	10,153
Tax benefit from share-based payment awards	279	364	3,468
Contribution from parent	240,000		
Purchase of treasury shares		(80,991)	(82,459)
Payments to shareholders to effect merger	(568,303)		
Dividends to shareholders	(85,034)	(19,927)	(23,893)
Financing fees	(8,045)		(5,391)
Total Cash Flows From Financing Activities	(153,040)	(42,002)	(136,909)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	3,566	(3,967)	3
DECREASE IN CASH AND CASH EQUIVALENTS	(22,096)	(46,379)	(83,400)
Cash and Cash Equivalents at Beginning of Year	86,059	132,438	215,838
Cash and Cash Equivalents at End of Year	$ 63,963	$ 86,059	$ 132,438

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF SHAREHOLDER S EQUITY

Years ended February 28, 2014, February 28, 2013 and February 29, 2012

Thousands of dollars except per share amounts